



**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2011 and 2010

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of Montana State University Foundation, Inc., and its wholly owned subsidiaries, (collectively referred to as the Foundation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. 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 the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Montana State University Foundation, Inc. and its wholly owned subsidiaries as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Bozeman, Montana  
November 11, 2011

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
June 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 425,474	\$ 424,288
Receivables:		
Promises to give, net	5,093,802	1,784,418
Notes receivable	21,869	36,998
Other receivables	<u>3,751,539</u>	<u>2,824,928</u>
	<u>8,867,210</u>	<u>4,646,344</u>
Investments:		
Pooled investments	123,525,479	105,737,759
Real estate	1,036,250	1,100,550
Other investments	<u>10,698,706</u>	<u>9,897,134</u>
	<u>135,260,435</u>	<u>116,735,443</u>
Property and equipment, net	<u>4,237,493</u>	<u>4,294,851</u>
Construction in process	<u>1,789,580</u>	<u>-</u>
Other assets	<u>137,179</u>	<u>105,551</u>
Total assets	<u>\$ 150,717,371</u>	<u>\$ 126,206,477</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 1,418,425	\$ 256,085
Accrued liabilities	194,901	252,782
Deposits	22,276	23,735
Trust and annuity obligations	3,703,256	3,472,690
Agency funds held for others	13,037,147	11,156,736
Notes payable	2,202,971	2,175,650
Other liabilities	<u>559,588</u>	<u>568,159</u>
	<u>21,138,564</u>	<u>17,905,837</u>
Net assets:		
Unrestricted	4,477,298	598,660
Temporarily restricted	45,857,689	30,759,207
Permanently restricted	<u>79,243,820</u>	<u>76,942,773</u>
	<u>129,578,807</u>	<u>108,300,640</u>
Total liabilities and net assets	<u>\$ 150,717,371</u>	<u>\$ 126,206,477</u>

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

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>2011 TOTALS</u>
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 386,462	\$ 11,981,929	\$ 1,669,948	\$ 14,038,339
Market gain	3,781,393	10,440,565	(1,601)	14,220,357
Interest and dividends	301,600	294,244	332	596,176
Administrative fees	2,234,010	(1,954,313)	-	279,697
Rental income	550,665	3,247	-	553,912
Contract for services	470,242	-	-	470,242
Sales, services and other, net	<u>3,913</u>	<u>189,257</u>	<u>4,273</u>	<u>197,443</u>
	<u>7,728,285</u>	<u>20,954,929</u>	<u>1,672,952</u>	<u>30,356,166</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Satisfaction of MSU support program restrictions	-	(3,031,848)	-	(3,031,848)
Satisfaction of scholarship restrictions	-	(2,031,151)	-	(2,031,151)
Acquisition and operation of facilities	-	(819,406)	-	(819,406)
Expiration of time/purpose of restrictions	-	22,006	-	22,006
Net assets permanently restricted	-	(13,744)	13,744	-
Net assets released from restrictions	<u>5,860,399</u>	<u>-</u>	<u>-</u>	<u>5,860,399</u>
	<u>5,860,399</u>	<u>(5,874,143)</u>	<u>13,744</u>	<u>-</u>
<b>EXPENSES</b>				
Program expenses:				
MSU support	3,863,581	-	-	3,863,581
Scholarships	2,032,551	-	-	2,032,551
Support expenses:				
Fundraising	2,042,982	-	-	2,042,982
Administration and general	1,290,028	-	-	1,290,028
Subsidiary operations	<u>511,579</u>	<u>-</u>	<u>-</u>	<u>511,579</u>
	<u>9,740,721</u>	<u>-</u>	<u>-</u>	<u>9,740,721</u>
<b>OTHER INCREASES (DECREASES) IN NET ASSETS</b>				
Change in value of split interest agreements and payments to beneficiaries	<u>30,675</u>	<u>17,696</u>	<u>614,351</u>	<u>662,722</u>
<b>CHANGE IN NET ASSETS</b>	<u>3,878,638</u>	<u>15,098,482</u>	<u>2,301,047</u>	<u>21,278,167</u>
<b>NET ASSETS, beginning of year</b>	<u>598,660</u>	<u>30,759,207</u>	<u>76,942,773</u>	<u>108,300,640</u>
<b>NET ASSETS, end of year</b>	<u>\$ 4,477,298</u>	<u>\$ 45,857,689</u>	<u>\$ 79,243,820</u>	<u>\$ 129,578,807</u>

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

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2010

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>2010 TOTALS</u>
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 202,225	\$ 3,334,031	\$ 1,741,343	\$ 5,277,599
Market gain	4,426,909	6,004,662	14,196	10,445,767
Interest and dividends	215,011	545,197	664	760,872
Administrative fees	1,515,875	(1,368,515)	-	147,360
Rental income	642,865	3,273	-	646,138
Contract for services	362,364	-	-	362,364
Sales, services and other, net	<u>3,149</u>	<u>256,182</u>	<u>23,041</u>	<u>282,372</u>
	<u>7,368,398</u>	<u>8,774,830</u>	<u>1,779,244</u>	<u>17,922,472</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Satisfaction of MSU support program restrictions	-	(2,906,636)	-	(2,906,636)
Satisfaction of scholarship restrictions	-	(1,805,738)	-	(1,805,738)
Acquisition and operation of facilities	-	(533,189)	-	(533,189)
Expiration of time/purpose of restrictions	-	(18,010)	(14,500)	(32,510)
Net assets permanently restricted	-	(28,850)	28,850	-
Net assets released from restrictions	<u>5,278,073</u>	<u>-</u>	<u>-</u>	<u>5,278,073</u>
	<u>5,278,073</u>	<u>(5,292,423)</u>	<u>14,350</u>	<u>-</u>
<b>EXPENSES</b>				
Program expenses:				
MSU support	3,710,025	-	-	3,710,025
Scholarships	1,806,738	-	-	1,806,738
Support expenses:				
Fundraising	1,976,195	-	-	1,976,195
Administration and general	984,772	-	-	984,772
Subsidiary operations	<u>595,876</u>	<u>-</u>	<u>-</u>	<u>595,876</u>
	<u>9,073,606</u>	<u>-</u>	<u>-</u>	<u>9,073,606</u>
<b>OTHER INCREASES (DECREASES) IN NET ASSETS</b>				
Change in value of split interest agreements and payments to beneficiaries	<u>(6,428)</u>	<u>92,709</u>	<u>691,379</u>	<u>777,660</u>
<b>CHANGE IN NET ASSETS</b>	<u>3,566,437</u>	<u>3,575,116</u>	<u>2,484,973</u>	<u>9,626,526</u>
<b>NET ASSETS, beginning of year</b>	<u>(2,967,777)</u>	<u>27,184,091</u>	<u>74,457,800</u>	<u>98,674,114</u>
<b>NET ASSETS, end of year</b>	<u>\$ 598,660</u>	<u>\$ 30,759,207</u>	<u>\$ 76,942,773</u>	<u>\$ 108,300,640</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 21,278,167	\$ 9,626,526
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	44,466	202,072
Loss on disposal of assets	65,739	-
Non-cash contributions	(1,335,741)	(886,404)
Unrealized gain on investments	(12,811,736)	(10,381,356)
Permanently restricted contributions	(1,669,948)	(1,741,343)
Change in:		
Notes receivable	15,129	(26,108)
Promises to give, net	(3,309,384)	485,079
Other receivables	(926,611)	(6,702)
Other assets	(31,628)	(2,332)
Accounts payable	1,162,340	87,930
Accrued liabilities	(57,881)	(10,220)
Deposits	(1,459)	4,334
Other liabilities	(8,571)	253,159
Annuity obligations	230,566	(166,740)
Agency funds held for others	<u>1,880,411</u>	<u>2,712,822</u>
Cash provided provided by operating activities	<u>4,523,859</u>	<u>150,717</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(176,579)	(1,344)
Capital outlay for stadium end zone project	(4,847,198)	-
Proceeds from MSU for stadium end zone project	3,057,618	-
Insurance proceeds from damage to property and equipment	123,732	-
Amounts withdrawn from investments for operations	(664,950)	1,137,115
Purchases of investments	<u>(3,712,565)</u>	<u>(2,941,076)</u>
Cash used in investing activities	<u>(6,219,942)</u>	<u>(1,805,305)</u>

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

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	27,321	(26,039)
Permanently restricted contributions	<u>1,669,948</u>	<u>1,741,343</u>
Cash provided by financing activities	<u>1,697,269</u>	<u>1,715,304</u>
 Net increase in cash and cash equivalents	 1,186	 60,716
 CASH AND CASH EQUIVALENTS, beginning of year	 <u>424,288</u>	 <u>363,572</u>
 CASH AND CASH EQUIVALENTS, end of year	 <u>\$ 425,474</u>	 <u>\$ 424,288</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS</b>		
Cash paid for interest	<u>\$ 141,146</u>	<u>\$ 135,509</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations**

Montana State University Foundation, Inc. (the Foundation) was incorporated in 1946 in the State of Montana as a not-for-profit corporation to promote and support the instructional, research and public service missions of Montana State University (MSU) located in Bozeman, Montana. Accordingly, the primary activities of the Foundation include fundraising and asset management in support of MSU.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Foundation and its wholly-owned subsidiaries, Advanced Technology, Inc. (ATI) and Johnson Family Foundation (JFF). ATI owns and operates a real estate development in Bozeman engaged in leasing office and production facilities to various businesses, with an emphasis on leasing to high technology enterprises, and in developing real estate. JFF owns a ranch in Stillwater County, Montana. The ranch generates an insignificant amount of pasture rental income and is held for investment purposes as a component of pooled investments. All significant intercompany transactions have been eliminated in consolidation.

**Basis of Presentation**

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

**Classification of Net Assets**

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

- *Unrestricted Net Assets*—Net assets that are not subject to donor-imposed stipulations and donor restricted contributions whose restrictions are met in the same reporting period.
- *Temporarily Restricted Net Assets*—Net assets subject to donor-imposed stipulations that may or 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, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Classification of Net Assets (continued)**

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

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.

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

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.

**Fair Value**

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair Value (continued)**

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 and 2 is at the end of the reporting period.

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

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 fair value of shares held at year end.

Debt securities: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

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, 2011 and 2010

NOTE 1. SUMMARY OF 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 statement of cash flows, the Foundation considers 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. Effective December 31, 2010, non-interest bearing accounts are subject to unlimited coverage by the FDIC. At times throughout the year, the Foundation may maintain deposits with certain bank accounts in excess of the FDIC 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 Directors. The Pool invests in equity and debt securities and alternative investments. Annual changes in market value are recorded as Market gain or loss in the statement of activities. Though the fair values of the investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Investments (continued)**

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

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

**Property and Equipment**

Buildings, land improvements and equipment are stated at cost. The Foundation capitalizes all property and equipment with original cost of \$2,500 or more and more than 2 years of useful life. Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$202,682 and \$202,072, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

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

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

**Administrative Fees**

Administrative fees are charged quarterly by the unrestricted fund to the endowment and quasi-endowment funds, at an annual rate of 2% in 2011 and 1.5% in 2010. These fees are shown as a separate unrestricted revenue line item in the statement of activities.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

NOTE 1. SUMMARY OF 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 a specified period of time to the donor or other beneficiaries. Distributions are based on the value of the assets contributed and terms specified in the agreement. At the end of the specified time, the remaining assets are available for the Foundation's use.

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

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

The difference between the fair value of the assets received and the liability to the donor is recognized as contribution revenue. During the term of the arrangement, annuity benefits, amortizations and revaluations in the assets and liabilities are recognized in the accompanying statement of activities as "Changes in value of split interest agreements and payments to beneficiaries." These changes are classified as permanently restricted, temporarily restricted or unrestricted net assets, depending on the classification used when the contribution was recognized initially.

**Income Taxes**

The Foundation is exempt from Federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and has been ruled by the Internal Revenue Service not to be a private foundation.

The Foundation and its subsidiaries are no longer subject to examinations by federal tax authorities for years before 2007 and state authorities before 2005.

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.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Use of Estimates**

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

**Reclassifications**

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

**Subsequent Events**

Management has evaluated subsequent events through November 11, 2011, the date which the financial statements were available for issue.

NOTE 2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
MSU Support	\$ 25,424,306	\$ 18,468,018
Student aid	9,028,707	5,643,410
Facilities operations and acquisition	8,646,282	3,880,904
Charitable trusts and gift annuities	<u>2,758,394</u>	<u>2,766,875</u>
Total temporarily restricted net assets	<u>\$ 45,857,689</u>	<u>\$ 30,759,207</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 3. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets as of June 30, 2011 and 2010 are restricted for:

	<u>2011</u>	<u>2010</u>
Investments held in perpetuity, the income from which is expendable to support:		
MSU support	\$ 31,042,155	\$ 30,427,174
Student aid	43,266,284	41,615,946
Facilities operations and acquisition	<u>1,450,636</u>	<u>1,307,347</u>
	75,759,075	73,350,467
Charitable trusts and gift annuities	3,423,695	3,531,256
Land required to be used as a recreation area	<u>61,050</u>	<u>61,050</u>
	<u>\$ 79,243,820</u>	<u>\$ 76,942,773</u>

**NOTE 4. ENDOWMENT**

The Foundation's endowment consists of numerous individual funds. The endowment includes donor-restricted endowment funds and quasi-endowment funds designated by the Board of Directors (often as recommended by University administration). 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 Trustees has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as allowing the prudent spending of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations made to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

NOTE 4. ENDOWMENT (CONTINUED)

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

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution value. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. Total funds with deficiencies amounted to \$243,633 as of June 30, 2011 and \$2,885,005 as of June 30, 2010.

**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 expenditure policy is a weighted average of 80 percent of the previous year's expenditure amount, plus an inflation factor, plus 20 percent 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 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 or below the original contribution amount. The distribution is limited to the earnings on the fund. 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.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 4. ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2011, is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted	\$ 50,017	\$ 10,527,606	\$ 75,690,681	\$ 86,268,304
Board-designated	<u>1,003,830</u>	<u>-</u>	<u>-</u>	<u>1,003,830</u>
	<u>\$ 1,053,847</u>	<u>\$ 10,527,606</u>	<u>\$ 75,690,681</u>	<u>\$ 87,272,134</u>

Endowment net asset composition by type of fund as of June 30, 2010, is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted	\$ (2,879,433)	\$ 5,213,041	\$ 73,143,517	\$ 75,477,125
Board-designated	<u>1,003,830</u>	<u>-</u>	<u>-</u>	<u>1,003,830</u>
	<u>\$ (1,875,603)</u>	<u>\$ 5,213,041</u>	<u>\$ 73,143,517</u>	<u>\$ 76,480,955</u>

Changes in endowment net asset composition by type of fund for the year ended June 30, 2011, are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (1,875,603)	\$ 5,213,041	\$ 73,143,517	\$ 76,480,955
Investment return:				
Net appreciation (realized and unrealized), net of interest and dividends	487,151	9,189,665	-	9,676,816
Net appreciation in excess of original gift value on permanently restricted funds	2,641,372	-	-	2,641,372
Contributions	-	-	2,557,830	2,557,830
Other Changes				
Transfers to create board- designated endowment funds	-	(56,915)	-	(56,915)
Reclassification of assets	-	10,666	(10,666)	-
Appropriation of endowment assets for expenditures	(135,484)	(2,307,335)	-	(2,442,819)
Fees	<u>(63,589)</u>	<u>(1,521,516)</u>	<u>-</u>	<u>(1,585,105)</u>
Endowment net assets, end of year	<u>\$ 1,053,847</u>	<u>\$ 10,527,606</u>	<u>\$ 75,690,681</u>	<u>\$ 87,272,134</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 4. ENDOWMENT (CONTINUED)

Changes in endowment net asset composition by type of fund for the year ended June 30, 2010, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (5,407,957)	\$ 2,549,969	\$ 71,499,152	\$ 68,641,164
Investment return:				
Net appreciation (realized and unrealized), net of interest and dividends	380,158	5,439,399	-	5,819,557
Net appreciation in excess of original gift value on permanently restricted funds	3,328,010	-	-	3,328,010
Contributions	-	-	1,658,715	1,658,715
Other Changes				
Transfers to create board- designated endowment funds	-	15,116	-	15,116
Reclassification of assets	-	14,350	(14,350)	-
Appropriation of endowment assets for expenditures	(131,105)	(1,733,540)	-	(1,864,645)
Fees	(44,709)	(1,072,253)	-	(1,116,962)
Endowment net assets, end of year	<u>\$ (1,875,603)</u>	<u>\$ 5,213,041</u>	<u>\$ 73,143,517</u>	<u>\$ 76,480,955</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 1.76% at June 30, 2011 and 1.79% at June 30, 2010, 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, 2011 and 2010

NOTE 5. PROMISES TO GIVE (CONTINUED)

Promises to give, net of present value discounts and allowance for uncollectible promises, at June 30, 2011 and 2010 are scheduled to be received as follows:

	<u>2011</u>	<u>2010</u>
In less than one year	\$ 1,615,171	\$ 1,034,253
In one to five years	3,836,642	872,863
Thereafter	<u>164,450</u>	<u>19,489</u>
	5,616,263	1,926,605
Unamortized discount	(241,648)	(45,856)
Allowance for uncollectible promises	<u>(280,813)</u>	<u>(96,331)</u>
Promises to give, net	<u>\$ 5,093,802</u>	<u>\$ 1,784,418</u>

The following table demonstrates the effect of the fair value measurements on the 2011 and 2010 change in net assets:

	<u>2011</u>	<u>2010</u>
New unconditional promises to give	\$ 5,524,114	\$ 527,549
Change in unamortized discount	(195,791)	(49,421)
Change in uncollectible pledges	<u>(184,483)</u>	<u>(28,131)</u>
Net effect on net assets	<u>\$ 5,143,840</u>	<u>\$ 449,997</u>

The following table represents a reconciliation of the beginning and ending balances of promises receivable for the year ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Promises to give, net, beginning of the year	\$ 1,784,418	\$ 2,269,497
New unconditional promises to give	5,524,114	527,549
Amounts received from promises to give	(1,834,456)	(935,076)
Change in unamortized discount	(195,791)	(49,421)
Change in uncollectible promises	<u>(184,483)</u>	<u>(28,131)</u>
Promises to give, net, end of the year	<u>\$ 5,093,802</u>	<u>\$ 1,784,418</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 6. OTHER RECEIVABLES**

The Foundation is the named beneficiary of two charitable remainder trusts held by third parties. The estimated benefit of these trusts has been recorded at the present value of the future interest. As of June 30, 2011 and 2010, these amounts total \$2,803,695 and \$2,783,950, respectively.

As of June 30, 2011, the Foundation has a \$828,264 receivable from MSU in connection with the project described in Note 19.

**NOTE 7. INVESTMENTS**

**Pooled Investments**

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

The components of the pooled investments at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
<u>Short Term Investment Pool</u>		
Mutual funds	\$ 6,062,854	\$ 4,479,216
Debt securities	5,020,744	5,019,688
Cash equivalents	<u>130,840</u>	<u>27,233</u>
Total Short Term Investment Pool	<u>11,214,438</u>	<u>9,526,137</u>
<u>Long Term Investment Pool</u>		
Equity securities	-	177,326
Mutual funds	26,917,441	25,859,727
Real estate	3,915,000	6,450,000
Alternative investments	77,149,869	63,570,999
Cash equivalents	<u>4,328,731</u>	<u>153,570</u>
Total Long Term Investment Pool	<u>112,311,041</u>	<u>96,211,622</u>
Total Pooled Investments	<u>\$ 123,525,479</u>	<u>\$ 105,737,759</u>

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011 and 2010

**NOTE 7. INVESTMENTS (CONTINUED)**

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

	Cost	Fair Value as of June 30, 2011		Total
		Level 1	Level 3	
Cash and Cash Equivalents	\$ 4,459,571	\$ -	\$ -	\$ 4,459,571
Mutual Funds				
International equity	-	11,107,387	-	11,107,387
Small Cap Value equity	-	6,775,112	-	6,775,112
Total Return bond	-	9,034,942	-	9,034,942
Low duration bond	-	6,062,854	-	6,062,854
US Agency Debt Securities	-	5,020,744	-	5,020,744
Real Estate	-	-	3,915,000	3,915,000
Alternative investments				
Absolute Return	-	-	20,962,371	20,962,371
Domestic Equities	-	-	17,520,839	17,520,839
International Equity	-	-	11,997,306	11,997,306
Liquidating Hedge Funds	-	-	273,503	273,503
Private Equity	-	-	15,552,025	15,552,025
Real Assets	-	-	10,843,825	10,843,825
	<u>\$ 4,459,571</u>	<u>\$ 38,001,039</u>	<u>\$ 81,064,869</u>	<u>\$ 123,525,479</u>

	Cost	Fair Value as of June 30, 2010		Total
		Level 1	Level 3	
Cash and Cash Equivalents	\$ 180,803	\$ -	\$ -	\$ 180,803
Equity Securities				
Energy industry	-	106,211	-	106,211
Technology industry	-	71,115	-	71,115
Mutual Funds				
International equity	-	8,455,315	-	8,455,315
Small Cap Value equity	-	4,830,057	-	4,830,057
Total Return bond	-	12,574,355	-	12,574,355
Low duration bond	-	4,479,216	-	4,479,216
US Agency Debt Securities	-	5,019,688	-	5,019,688
Real Estate	-	-	6,450,000	6,450,000
Alternative investments				
Absolute Return	-	-	19,171,105	19,171,105
Domestic Equities	-	-	15,995,428	15,995,428
International Equity	-	-	9,854,234	9,854,234
Liquidating Hedge Funds	-	-	399,779	399,779
Private Equity	-	-	10,662,026	10,662,026
Real Assets	-	-	7,488,427	7,488,427
	<u>\$ 180,803</u>	<u>\$ 35,535,957</u>	<u>\$ 70,020,999</u>	<u>\$ 105,737,759</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 7. INVESTMENTS (CONTINUED)**

**Other Investments**

The components of other investments at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Certificate of deposit	\$ 43,315	\$ 43,298
Equity securities	6,300	2,743,257
Mutual funds	3,388,934	62,823
Investments held in trusts for split interest agreements	<u>7,260,157</u>	<u>7,047,756</u>
	<u>\$ 10,698,706</u>	<u>\$ 9,897,134</u>

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

	Cost	<u>Fair Value as of June 30, 2011</u>		Total
		Level 1	Level 3	
Certificate of deposit	\$ 43,315	\$ -	\$ -	\$ 43,315
Equity Securities				
S&P Indexed	-	3,324,813	-	3,324,813
Pharmaceutical industry	-	-	6,300	6,300
Mutual Funds				
Short term	-	64,121	-	64,121
Mutual Funds for split interest agreements				
Bond	-	1,900,556	-	1,900,556
High Yield	-	511,334	-	511,334
International equity	-	795,921	-	795,921
Money Market	-	44,432	-	44,432
Real estate securities	-	514,211	-	514,211
S&P Indexed fund	-	2,498,120	-	2,498,120
Small Cap equity	-	324,783	-	324,783
Real estate for split interest agreements	-	-	670,800	670,800
	<u>\$ 43,315</u>	<u>\$ 9,978,291</u>	<u>\$ 677,100</u>	<u>\$ 10,698,706</u>

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011 and 2010

**NOTE 7. INVESTMENTS (CONTINUED)**

	Cost	Fair Value as of June 30, 2010		Total
		Level 1	Level 3	
Certificate of deposit	\$ 43,298	\$ -	\$ -	\$ 43,298
Equity Securities				
S&P Indexed	-	2,736,957	-	2,736,957
Pharmaceutical industry	-	-	6,300	6,300
Mutual Funds				
Short term	-	62,823	-	62,823
Mutual Funds for split interest agreements				
Bond	-	2,269,824	-	2,269,824
High Yield	-	476,375	-	476,375
International equity	-	694,424	-	694,424
Money Market	-	79,767	-	79,767
Real estate securities	-	376,584	-	376,584
S&P Indexed fund	-	2,264,654	-	2,264,654
Small Cap equity	-	286,128	-	286,128
Real estate for split interest agreements	-	-	600,000	600,000
	<u>\$ 43,298</u>	<u>\$ 9,247,536</u>	<u>\$ 606,300</u>	<u>\$ 9,897,134</u>

**Real Estate**

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

	<u>2011</u>	<u>2010</u>
Pooled investments	\$ 3,915,000	\$ 6,450,000
Real Estate	1,036,250	1,100,550
Other investments - split interest agreements	<u>670,800</u>	<u>600,000</u>
	<u>\$ 5,622,050</u>	<u>\$ 8,150,550</u>

**Level 3 Fair Value Investments**

Investment activity specific to investments valued with Level 3 inputs for the years ended June 30, 2011 and 2010 are reflected in the table below.

	<u>Alternative</u>			
	<u>Investments</u>	<u>Equities</u>	<u>Real Estate</u>	<u>Total</u>
June 30, 2009	\$ 51,606,104	\$ 6,300	\$ 7,947,340	\$ 59,559,744
Total gains or losses (realized/unrealized)	7,065,973	-	203,210	7,269,183
Purchases, issuance, and settlements	5,076,247	-	-	5,076,247
Transfer to another level	<u>(177,325)</u>	-	-	<u>(177,325)</u>
June 30, 2010	63,570,999	6,300	8,150,550	71,727,849
Total gains or losses (realized/unrealized)	11,205,105	-	(1,305,512)	9,899,593
Purchases, issuance, and settlements	<u>2,373,765</u>	-	<u>(1,222,988)</u>	<u>1,150,777</u>
June 30, 2011	<u>\$ 77,149,869</u>	<u>\$ 6,300</u>	<u>\$ 5,622,050</u>	<u>\$ 82,778,219</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 7. INVESTMENTS (CONTINUED)

Investment income is recorded net of fees charged by the third-party asset managers of approximately \$1,290,000 and \$1,025,000 for 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Market gain	\$ 14,220,357	\$ 10,445,767
Interest and dividends	<u>596,176</u>	<u>760,872</u>
	<u>\$ 14,816,533</u>	<u>\$ 11,206,639</u>

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 840,984	\$ 840,984
Buildings	5,979,915	6,016,284
Computers and related equipment and software	337,607	340,599
Equipment	<u>58,091</u>	<u>17,505</u>
	7,216,597	7,215,372
Less accumulated depreciation	<u>(2,979,104)</u>	<u>(2,920,521)</u>
	<u>\$ 4,237,493</u>	<u>\$ 4,294,851</u>

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

Cost	\$ 4,576,558	\$ 4,576,558
Less accumulated depreciation	<u>(2,478,114)</u>	<u>(2,431,566)</u>
	<u>\$ 2,098,444</u>	<u>\$ 2,144,992</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 9. TRANSACTIONS BETWEEN UNRESTRICTED AND TEMPORARILY  
 RESTRICTED NET ASSETS

Unrestricted funds have borrowed \$2,026,547 at June 30, 2011 and 2010, from the Short Term Investment Pool. This long term loan was used to invest in ATI and bears no interest.

Temporarily restricted funds borrowed \$199,276 and \$227,310 at June 30, 2011 and 2010 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 \$11,178 and \$12,212 at June 30, 2011 and 2010, respectively. These are short term operational balances.

The Foundation has invested \$2,000,000 of the temporarily restricted funds, typically invested in the short term pool, in the long term pool effective April 1, 2010. This was done to maximize the returns on investments for the short term investments.

NOTE 10. AGENCY FUNDS HELD FOR OTHERS

The Foundation held the following amounts as of June 30, 2011 and 2010 for the following named organizations:

<u>Organization</u>	<u>2011</u>	<u>2010</u>
Museum of the Rockies	\$ 425,124	\$ 383,104
Montana State University Alumni Association	3,096,355	2,683,852
Montana State University	7,882,149	7,037,928
Montana State University Bobcat Club	<u>1,633,519</u>	<u>1,051,852</u>
Agency funds held for others	<u>\$ 13,037,147</u>	<u>\$ 11,156,736</u>

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

Assets held on behalf of these organizations as of June 30, 2011 and 2010 are included in the Foundation's consolidated statement of financial position as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 3,055	\$ 3,083
Short Term Investment Pool	1,223,107	656,467
Long Term Investment Pool	<u>11,810,985</u>	<u>10,497,186</u>
Agency funds held for others	<u>\$ 13,037,147</u>	<u>\$ 11,156,736</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 11. NOTES PAYABLE

Notes payable at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Interest free term note payable to Walter Hollensteiner; due as a lump sum of \$55,000 upon satisfying the obligations of the gift agreement and purchasing Simulation Audio Visual equipment for the College of Nursing on January 1, 2012, whichever occurs first; secured by a pledge and gift agreement from Mr. Hollensteiner.	\$ 55,000	\$ -
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 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.	<u>2,147,971</u>	<u>2,175,650</u>
	<u>\$ 2,202,971</u>	<u>\$ 2,175,650</u>

Maturities of notes payable subsequent to June 30, 2011 are scheduled as follows:

Years Ending <u>June 30</u>	Notes <u>Payable</u>
2012	\$ 84,061
2013	31,253
2014	33,222
2015	35,314
2016	37,199
2017-2018	<u>1,981,922</u>
	<u>\$ 2,202,971</u>

Interest expense incurred during the years ended June 30, 2011 and 2010 amounted to \$147,793 and \$153,480, respectively.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 12. OTHER LIABILITIES

The components of other liabilities are as follows as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deferred rent	\$ 280,000	\$ 297,500
Liability to MSU for deferred compensation	<u>279,588</u>	<u>270,659</u>
	<u>\$ 559,588</u>	<u>\$ 568,159</u>

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

NOTE 13. INCOME TAXES

Income tax expense for ATI, the Foundation's for-profit subsidiary, for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Deferred income tax benefit:		
Federal	\$ 1,932	\$ 1,101
State	<u>828</u>	<u>495</u>
	<u>\$ 2,760</u>	<u>\$ 1,596</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 13. INCOME TAXES (CONTINUED)

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

	<u>2011</u>	<u>2010</u>
Statutory federal rate	15.00%	15.00%
Statutory state rate	6.75%	6.75%
Permanent differences	<u>0.01%</u>	<u>0.02%</u>
Total effective income tax rate	<u>21.76%</u>	<u>21.77%</u>

Deferred income tax assets and liabilities are classified as current or non-current, depending on the classification of the assets and liabilities to which they relate. Deferred income taxes arising from timing differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the timing differences are expected to reverse. The components of the net deferred tax assets on the accompanying statement of financial position as of June 30, 2011 and 2010 related to the following:

	<u>2011</u>	<u>2010</u>
Current deferred income tax assets, net of liabilities:		
Cash to accrual liabilities	\$ (13,854)	\$ 4,420
Cash to accrual assets	5,841	(8,314)
Accelerated depreciation and amortization	(1,348)	(92)
Net operating loss carryforward	<u>23,462</u>	<u>15,327</u>
Net deferred income tax asset	<u>\$ 14,101</u>	<u>\$ 11,341</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.

ATI has \$107,872 of unused net operating losses for income tax reporting purposes which may be used to offset future taxable income of the Company. The unused net operating loss will expire in 2029.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 13. INCOME TAXES (CONTINUED)

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

	<u>2011</u>	<u>2010</u>
Pre-tax income (loss)	\$ (12,694)	\$ (7,331)
Permanent differences	(3,928)	-
Accounts receivable	(17,768)	(4,942)
Accounts payable	6,677	(5,939)
Accrued liabilities and prepaid rents	(140)	(131)
Other cash to accrual differences, net	(7,701)	4,015
Depreciation	(1,848)	5,470
Net operating loss carryforward created (utilized)	<u>37,402</u>	<u>8,858</u>
Federal taxable income	<u>\$ -</u>	<u>\$ -</u>

NOTE 14. RETIREMENT PLAN

The Foundation administers a defined contribution retirement plan through TIAA-CREF covering all employees that meet eligibility requirements. Participation by eligible employees is mandatory. Participants defer 5% of their salary. The Plan requires matching contributions by the Foundation of 7% of a participant's regular salary. Expenses related to the Plan amounted to \$134,516 and \$126,845 for the years ended June 30, 2011 and 2010, respectively.

NOTE 15. LEASING ARRANGEMENTS

ATI leases office and parking space to both unrelated and related parties. Total rental income from unrelated and related parties amounted to \$402,822 and \$501,685 for the years ended June 30, 2011 and 2010, respectively. Future lease revenues to be received from unrelated and related parties under non-cancelable leases at June 30, 2011 are as follows:

2012	\$ 240,060
2013	141,048
2014	124,177
2015	<u>30,800</u>
	<u>\$ 536,085</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

NOTE 15. LEASING ARRANGEMENTS (CONTINUED)

ATI leases a building to MSU. The lease term is ten years and annual lease revenues are \$93,900, net of taxes, insurance, and other annual operating expenses.

Effective July 1, 2007, the Foundation entered into a lease agreement with MSU. The lease is for office space located in the Foundation's building which will be used for MSU's Alumni Affairs Office. Under this agreement, MSU paid a total of \$350,000. The lease term of 20 years began July 1, 2007 and ends June 30, 2027. MSU has the option to renew the lease for two additional twenty year periods on the same terms and conditions with no additional rental payments. The Foundation recognized \$17,500 of rental revenue in connection with this agreement for the year ended June 30, 2011 and 2010. The remaining unamortized rent payment is presented under other liabilities on the accompanying statement of financial position.

Johnson Family Foundation leases a house and pasture to unrelated parties. Total rental income amounted to \$53,342 and \$48,540 for the years ended June 30, 2011 and 2010, respectively. Future lease revenue under non-cancelable leases at June 30, 2011 is \$14,000 receivable in 2012.

NOTE 16. NON CASH ACTIVITY

During the years ended June 30, 2011 and 2010, the Foundation received insurance, securities, and land contributions of \$1,335,741 and \$886,404, respectively. The Foundation also received in-kind contributions of \$72,107 and \$54,681 for the years ended June 30, 2011 and 2010, respectively.

NOTE 17. 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 \$75,500,000 to these various funds. At June 30, 2011, the Foundation had invested approximately \$62,717,000, leaving a remaining commitment to be satisfied of \$12,783,000.

NOTE 18. 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, 2011 and 2010 amounted to \$254,762 and \$211,965

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

NOTE 18. SPLIT INTEREST AGREEMENTS (CONTINUED)

Assets held under these agreements are disclosed in Note 7. Liabilities are presented separately in the accompanying statement of financial position, and are recorded at fair value, calculated as the present value of the expected future payments to beneficiaries. The terms vary depending on life expectancy, and the discount rate used in the calculation was 2.8% for the year ended June 30, 2011.

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:

Trust and annuity obligations, June 30, 2010	\$	3,472,690
New agreements		368,824
Annuitant distributions		(324,705)
Matured agreements		(355,505)
Actuarial changes		<u>541,952</u>
Trust and annuity obligations, June 30, 2011	\$	<u><u>3,703,256</u></u>

NOTE 19. CONSTRUCTION IN PROGRESS – STADIUM END ZONE PROJECT

In October 2010, the Foundation entered into an agreement with MSU in relation to capital improvements to be made to the University’s football stadium. Under this agreement, the Foundation leased a portion of the stadium to construct new end zone seating and other related improvements. The Foundation managed all contributions and funds for the improvement project and entered into contracts with third parties for the construction. Construction was funded by private donations raised by the Foundation and \$4 million of funds available from MSU. As of June 30, 2011, construction in process of \$1,789,580 has been recorded in the accompanying financial statements. This amount represents total construction costs of \$4,847,198 less MSU’s portion of the costs totaling \$3,057,618, of which MSU owes the Foundation \$878,264 as of June 30, 2011.

NOTE 20. SUBSEQUENT EVENT

On September 9, 2011, the Foundation Board of Directors approved the transfer of governance authority to the Board of Governors of the Montana State University Alumni Foundation, Inc. This transfer of governance was also approved by Montana State University Alumni Association (the “Association”). Based on these two acts, the two organizations are governed by a joint Board of Governors. The Foundation and Association are working together as one joint organization and legal combination of the entities will be finalized during 2012.

## SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTAL INFORMATION

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

Our report on the audits of the financial statements of Montana State University Foundation, Inc., and its wholly owned subsidiaries, as of June 30, 2011 and 2010 and for the years then ended appears on page 1. Those audits were performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Consolidated Schedule of Balances-By Fund Groups and the Consolidated Schedule of Activities-By Fund Groups are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we express no opinion on it.

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

Bozeman, Montana  
November 11, 2011

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION– BY FUND GROUPS**  
For the Year Ended June 30, 2011

	UN- RESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	JOHNSON FAMILY FOUNDATION	ATI	AGENCY	2011 TOTALS
<b>ASSETS</b>							
Cash and Cash Equivalents	(14,057,093)	8,102,013	5,055,697	45,849	52,848	1,226,160	425,474
Pooled Investments	15,701,394	9,142,733	82,955,365	3,915,000	-	11,810,987	123,525,479
Promises Receivable, Net	56,282	4,416,147	621,373	-	-	-	5,093,802
Notes Receivable	-	21,869	-	-	-	-	21,869
Other Receivables	26,405	3,578,264	103,963	-	42,907	-	3,751,539
Real Estate	-	609,000	1,098,050	-	-	-	1,707,050
Other Investments	21,660	225,635	9,716,490	-	64,121	-	10,027,906
Property and Equipment	1,457,934	1,814,580	-	-	2,754,559	-	6,027,073
Other Assets	52,998	-	-	-	84,181	-	137,179
Total assets	<u>3,259,580</u>	<u>27,910,241</u>	<u>99,550,938</u>	<u>3,960,849</u>	<u>2,998,616</u>	<u>13,037,147</u>	<u>150,717,371</u>
<b>LIABILITIES AND FUND EQUITY</b>							
Accounts Payable	138,546	1,224,243	31,979	1,400	22,257	-	1,418,425
Accrued Liabilities	101,026	39,275	-	-	54,600	-	194,901
Deposits	-	-	-	-	22,276	-	22,276
Annuity Obligations	24,347	167,241	3,511,668	-	-	-	3,703,256
Other Liabilities	559,588	-	-	-	-	-	559,588
Notes Payable	-	55,000	-	-	2,147,971	-	2,202,971
Net Due From (To) Other Funds	(210,454)	210,454	-	-	-	-	-
Agency Funds	-	-	-	-	-	13,037,147	13,037,147
Total Liabilities	<u>613,053</u>	<u>1,696,213</u>	<u>3,543,647</u>	<u>1,400</u>	<u>2,247,104</u>	<u>13,037,147</u>	<u>21,138,564</u>
Fund Balance	<u>2,646,527</u>	<u>26,214,028</u>	<u>96,007,291</u>	<u>3,959,449</u>	<u>751,512</u>	<u>-</u>	<u>129,578,807</u>
Total liabilities and fund equity	<u>3,259,580</u>	<u>27,910,241</u>	<u>99,550,938</u>	<u>3,960,849</u>	<u>2,998,616</u>	<u>13,037,147</u>	<u>150,717,371</u>

Refer to Independent Auditor's Report on Supplemental Information.

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF BALANCES – BY FUND GROUPS**  
For the Year Ended June 30, 2011

	UN- RESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	JOHNSON FAMILY FOUNDATION	ATI	2011 TOTALS
<b>REVENUES</b>						
Contributions	386,462	11,510,301	2,156,839		-	14,053,602
Interest and Dividend Income*	374,048	31,738	438,907	-	(100,000)	744,693
Market Gain/(Loss)	666,524	4,036,830	12,832,588	(2,433,489)	-	15,102,453
Development Fee	278,184	-	-		-	278,184
Administration Fee	2,019,931	-	-	-	-	2,019,931
Rental Income	49,021	2,492	9,968	72,905	501,645	636,031
Sales Services and Other, Net	140,976	206,086	12,421		-	359,483
Other Revenues	333,191	34	294		-	333,519
Transfers Net	108,005	72,087	(180,092)		-	-
Total Revenues	<u>4,356,342</u>	<u>15,859,568</u>	<u>15,270,925</u>	<u>(2,360,584)</u>	<u>401,645</u>	<u>33,527,896</u>
<b>EXPENSES</b>						
Salaries, Wages and Benefits	2,633,229	663,739	302,034		-	3,599,002
Professional Services and Fees	200,654	185,362	153,987		-	540,003
MSU Support	10,329	775,284	1,778,018		-	2,563,631
Office Expense	261,206	1,359,998	108,710		-	1,729,914
Depreciation and Amortization Expense	63,657	-	-		-	63,657
Printing, Postage and Public Relations	30,067	70,209	6,136		-	106,412
Annuity Payments and Actuarial change	(24,916)	15,350	201,543		-	191,977
Travel, Professional Development and Special Event	144,419	465,118	99,892		-	709,429
MSU Foundation Fees	515	430,537	1,638,793			2,069,845
Subsidiary operations	-	-	-	164,280	511,579	675,859
Total Expenses	<u>3,319,160</u>	<u>3,965,597</u>	<u>4,289,113</u>	<u>164,280</u>	<u>511,579</u>	<u>12,249,729</u>
<b>NET REVENUES OVER EXPENSES</b>	1,037,182	11,893,971	10,981,812	(2,524,864)	(109,934)	21,278,167
FUND BALANCE, Beginning of Year	1,609,345	14,320,057	85,025,479	6,484,313	861,446	108,300,640
FUND BALANCE, End of Year	<u>\$ 2,646,527</u>	<u>\$ 26,214,028</u>	<u>\$ 96,007,291</u>	<u>\$ 3,959,449</u>	<u>\$ 751,512</u>	<u>\$ 129,578,807</u>

\* Note: The ATI dividend paid to MSUF is eliminated for consolidation.