



**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2010 and June 30, 2009

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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, 2010 and 2009, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 report dated November 16, 2009, we expressed an opinion that the 2009 financial statements did not fairly present financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America because the Foundation had elected to treat its interest in one of its subsidiaries as an investment carried at fair market value, rather than consolidating its assets and liabilities at book value. As described in Note 19, the Foundation has changed its method of accounting for that item and has restated its 2009 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the 2009 financial statements, as presented herein is different from that expressed in our previous report.

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 subsidiaries as of June 30, 2010 and 2009, 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  
October 11, 2010

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
 June 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 424,288	\$ 363,572
Receivables:		
Promises to give, net	1,784,418	2,269,497
Notes receivable	36,998	10,890
Other receivables	<u>2,824,928</u>	<u>2,818,226</u>
	<u>4,646,344</u>	<u>5,098,613</u>
Investments:		
Pooled investments	105,737,759	93,639,704
Real estate	1,700,550	1,700,550
Other investments	<u>9,297,134</u>	<u>8,323,468</u>
	<u>116,735,443</u>	<u>103,663,722</u>
Property and equipment, net	<u>4,294,851</u>	<u>4,495,579</u>
Other assets	<u>105,551</u>	<u>103,219</u>
 Total assets	 <u>\$ 126,206,477</u>	 <u>\$ 113,724,705</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 256,085	\$ 168,155
Accrued liabilities	252,782	263,002
Deposits	23,735	19,401
Trust and annuity obligations	3,472,690	3,639,430
Agency funds held for others	11,156,736	8,443,914
Notes payable	2,175,650	2,201,689
Other liabilities	<u>568,159</u>	<u>315,000</u>
	<u>17,905,837</u>	<u>15,050,591</u>
Net assets:		
Unrestricted	598,660	(2,967,777)
Temporarily restricted	30,759,207	27,184,091
Permanently restricted	<u>76,942,773</u>	<u>74,457,800</u>
	<u>108,300,640</u>	<u>98,674,114</u>
 Total liabilities and net assets	 <u>\$ 126,206,477</u>	 <u>\$ 113,724,705</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	3,149	256,182	23,041	282,372
	<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>	3,566,437	3,575,116	2,484,973	9,626,526
NET ASSETS, beginning of year	<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 this statement.

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>2009 TOTALS</u>
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 104,010	\$ 4,982,615	\$ 3,633,608	\$ 8,720,233
Decline in fair value of promise to give equity securities	(251,528)	-	-	(251,528)
Market loss	(7,414,948)	(12,219,590)	(129,440)	(19,763,978)
Interest and dividends	371,338	1,053,516	693	1,425,547
Administrative fees	1,373,176	(1,249,259)	-	123,917
Rental income	734,264	4,960	-	739,224
Contract for services	553,137	-	-	553,137
Sales, services and other, net	5,956	386,420	-	392,376
	<u>(4,524,595)</u>	<u>(7,041,338)</u>	<u>3,504,861</u>	<u>(8,061,072)</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Satisfaction of MSU support program restrictions	-	(3,666,082)	-	(3,666,082)
Satisfaction of scholarship restrictions	-	(2,379,867)	-	(2,379,867)
Acquisition and operation of facilities	-	(1,049,236)	-	(1,049,236)
Expiration of time/purpose of restrictions	-	(312,431)	(10,000)	(322,431)
Net assets permanently restricted	-	(15,676)	15,676	-
Net assets released from restrictions	<u>7,417,616</u>	<u>-</u>	<u>-</u>	<u>7,417,616</u>
	<u>7,417,616</u>	<u>(7,423,292)</u>	<u>5,676</u>	<u>-</u>
<b>EXPENSES</b>				
Program expenses:				
MSU support	4,801,336	-	-	4,801,336
Scholarships	2,387,867	-	-	2,387,867
Support expenses:				
Fundraising	2,270,629	-	-	2,270,629
Administration and general	1,153,776	-	-	1,153,776
Subsidiary operations	661,722	-	-	661,722
	<u>11,275,330</u>	<u>-</u>	<u>-</u>	<u>11,275,330</u>
<b>OTHER INCREASES (DECREASES) IN NET ASSETS</b>				
Change in value of split interest agreements and payments to beneficiaries	(14,607)	(80,832)	(781,796)	(877,235)
Cumulative effect of change in accounting principle	(5,242)	(7,854)	(305,339)	(318,435)
	<u>(19,849)</u>	<u>(88,686)</u>	<u>(1,087,135)</u>	<u>(1,195,670)</u>
<b>CHANGE IN NET ASSETS</b>	(8,402,158)	(14,553,316)	2,423,402	(20,532,072)
<b>NET ASSETS, beginning of year, as originally reported</b>	<u>5,434,381</u>	<u>41,721,581</u>	<u>72,034,398</u>	<u>119,190,360</u>
Change in accounting principle	-	15,826	-	15,826
<b>NET ASSETS, beginning of year, as restated</b>	5,434,381	41,737,407	72,034,398	119,206,186
<b>NET ASSETS, end of year</b>	<u>\$ (2,967,777)</u>	<u>\$ 27,184,091</u>	<u>\$ 74,457,800</u>	<u>\$ 98,674,114</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 9,626,526	\$ (20,532,072)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	202,072	212,201
Loss on disposal of assets	-	13,721
Non-cash contributions	(886,404)	(3,581,295)
Unrealized loss (gain) on investments	(10,381,356)	23,656,948
Permanently restricted contributions	(1,741,343)	(3,633,608)
Change in:		
Notes receivable	(26,108)	(3,456)
Promises to give, net	485,079	36,566
Other receivables	(6,702)	1,189,772
Other assets	(2,332)	19,374
Accounts payable	87,930	(237,550)
Accrued liabilities	(10,220)	48,240
Deposits	4,334	1,621
Other liabilities	253,159	(17,500)
Annuity obligations	(166,740)	268,485
Agency funds held for others	<u>2,712,822</u>	<u>(2,296,148)</u>
Cash provided provided by (used in) operating activities	<u>150,717</u>	<u>(4,854,701)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(1,344)	(246,435)
Amounts withdrawn from investments for operations	1,137,115	8,877,579
Purchases of investments	<u>(2,941,076)</u>	<u>(7,532,808)</u>
Cash provided by (used in) investing activities	<u>(1,805,305)</u>	<u>1,098,336</u>

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	(26,039)	(17,592)
Payments on bonds payable	-	(105,000)
Permanently restricted contributions	<u>1,741,343</u>	<u>3,633,608</u>
Cash provided by financing activities	<u>1,715,304</u>	<u>3,511,016</u>
Net increase (decrease) in cash and cash equivalents	60,716	(245,349)
CASH AND CASH EQUIVALENTS, beginning of year	<u>363,572</u>	<u>608,921</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 424,288</u>	<u>\$ 363,572</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS</b>		
Cash paid for interest	<u>\$ 135,509</u>	<u>\$ 143,397</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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 for sale. JFF owns a 5,576-acre 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 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.

**Basis of Accounting**

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, 2010 and 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. Promises to give that are scheduled to be received more than one year after the statement of financial position date are shown as increases in temporarily or permanently restricted net assets and are reclassified to unrestricted net assets when the cash is received and any purpose restrictions are met. 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 held for sale), 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, 2010 and 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

**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. 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 “Investment income” in the statement of activities. Though the market values of the investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

Investments are stated at fair value, determined based on quoted market prices, if available, or estimated using quoted market prices for similar securities. 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, 2010 and 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 market value. Market values are based upon third party valuations. Realized gains or losses on sales of real estate are recognized upon disposition based 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, 2010 and 2009 amounted to \$202,072 and \$199,141, 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 annually on average cash balances by the unrestricted fund to the agency and temporarily restricted funds, at an annual rate of 1.75%. Administrative fees are charged quarterly by the unrestricted fund to the endowment and quasi-endowment funds, at an annual rate of 1.5%. 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, 2010 and 2009

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.

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, 2010 and 2009

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 generally accepted accounting principles. 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.

**Subsequent Events**

Management has evaluated subsequent events through October 11, 2010, the date which the financial statements were available for issue.

NOTE 2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
MSU Support	\$ 18,468,018	\$ 16,789,324
Student aid	5,643,410	3,853,295
Facilities operations and acquisition	3,880,904	3,867,306
Charitable trusts and gift annuities	<u>2,766,875</u>	<u>2,674,166</u>
Total temporarily restricted net assets	<u>\$ 30,759,207</u>	<u>\$ 27,184,091</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 3. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2010 and 2009 are restricted for:

	<u>2010</u>	<u>2009</u>
Investments held in perpetuity, the income from which is expendable to support:		
MSU support	\$ 30,427,174	\$ 30,281,287
Student aid	41,615,946	40,121,440
Facilities operations and acquisition	<u>1,307,347</u>	<u>1,290,547</u>
	73,350,467	71,693,274
Charitable trusts and gift annuities	3,531,256	2,703,476
Land required to be used as a recreation area	<u>61,050</u>	<u>61,050</u>
	<u>\$ 76,942,773</u>	<u>\$ 74,457,800</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, 2010 and 2009

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. There were total deficiencies as of June 30, 2010 and 2009 of \$2,879,433 and \$6,411,787, 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 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, 2010 and 2009

NOTE 4. ENDOWMENT (CONTINUED)

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	\$ 72,657,949	\$ 74,991,557
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>\$ 72,657,949</u>	<u>\$ 75,995,387</u>

Endowment net asset composition by type of fund as of June 30, 2009, is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted	\$ (6,411,787)	\$ 2,549,969	\$ 71,013,852	\$ 67,152,034
Board-designated	<u>1,003,830</u>	<u>-</u>	<u>-</u>	<u>1,003,830</u>
	<u>\$ (5,407,957)</u>	<u>\$ 2,549,969</u>	<u>\$ 71,013,852</u>	<u>\$ 68,155,864</u>

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (5,407,957)	\$ 2,549,969	\$ 71,013,852	\$ 68,155,864
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	-	-	1,658,447	1,658,447
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	<u>(44,709)</u>	<u>(1,072,253)</u>	<u>-</u>	<u>(1,116,962)</u>
Endowment net assets, end of year	<u>\$ (1,875,603)</u>	<u>\$ 5,213,041</u>	<u>\$ 72,657,949</u>	<u>\$ 75,995,387</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 4. ENDOWMENT (CONTINUED)

Changes in endowment net asset composition by type of fund for the year ended June 30, 2009, are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,716,817	\$15,826,242	\$ 68,288,658	\$ 85,831,717
Investment return:				
Net depreciation (realized and unrealized), net of interest and dividends	(722,183)	(9,244,562)	-	(9,966,745)
Net depreciation in excess of original gift value on permanently restricted funds	(6,213,015)	-	-	(6,213,015)
Contributions	-	-	2,719,518	2,719,518
Other Changes				
Transfers to create board- designated endowment funds	-	110,486	-	110,486
Reclassification of assets	-	(5,676)	5,676	-
Appropriation of endowment assets for expenditures	(145,250)	(3,164,609)	-	(3,309,859)
Fees	(44,326)	(971,912)	-	(1,016,238)
Endowment net assets, end of year	<u>\$ (5,407,957)</u>	<u>\$ 2,549,969</u>	<u>\$ 71,013,852</u>	<u>\$ 68,155,864</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 1.79% at June 30, 2010 and 2.54% at June 30, 2009, 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, 2010 and 2009

NOTE 5. PROMISES TO GIVE (CONTINUED)

Promises to give, net of present value discounts and allowance for uncollectible promises, at June 30, 2010 and 2009 are scheduled to be received as follows:

	<u>2010</u>	<u>2009</u>
In less than one year	\$ 1,034,253	\$ 1,133,314
In one to five years	872,863	1,349,923
Thereafter	<u>19,489</u>	<u>6,000</u>
	1,926,605	2,489,237
Unamortized discount	(45,856)	(95,278)
Allowance for uncollectible promises	<u>(96,331)</u>	<u>(124,462)</u>
Promises to give, net	<u>\$ 1,784,418</u>	<u>\$ 2,269,497</u>

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

New unconditional promises to give	\$ 527,549
Change in unamortized discount	(49,421)
Change in uncollectible pledges	<u>(28,131)</u>
Net effect on net assets	<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, 2010:

Promises to give, net, beginning of the year	\$ 2,269,497
New unconditional promises to give	527,549
Amounts received from promises to give	(935,076)
Change in unamortized discount	(49,421)
Change in uncollectible promises	<u>(28,131)</u>
Promises to give, net, end of the year	<u>\$ 1,784,418</u>

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, 2010 and 2009, these amounts total \$2,783,950 and \$2,771,122, respectively, and have been presented on the accompanying statement of financial position in the line item titled, "Other receivables".

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2010 and 2009

**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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
<u>Short Term Investment Pool</u>		
Equity securities	\$ -	\$ 2,497
Mutual funds	4,479,216	4,292,489
Debt securities	5,019,688	4,994,890
Cash equivalents	<u>27,233</u>	<u>160,810</u>
Total Short Term Investment Pool	<u>9,526,137</u>	<u>9,450,686</u>
<u>Long Term Investment Pool</u>		
Equity securities	177,326	-
Mutual funds	25,859,727	25,886,941
Real estate	6,450,000	6,246,790
Alternative investments	63,570,999	51,606,104
Cash equivalents	<u>153,570</u>	<u>449,183</u>
Total Long Term Investment Pool	<u>96,211,622</u>	<u>84,189,018</u>
Total Pooled Investments	<u>\$ 105,737,759</u>	<u>\$ 93,639,704</u>

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

	<u>Fair Value as of June 30, 2010</u>			<u>Total</u>
	<u>Cost</u>	<u>Level 1</u>	<u>Level 3</u>	
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	-	-	<u>63,570,999</u>	<u>63,570,999</u>
	<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, 2010 and 2009

**NOTE 7. INVESTMENTS (CONTINUED)**

	Cost	Fair Value as of June 30, 2009		Total
		Level 1	Level 3	
Cash and Cash Equivalents	\$ 609,993	\$ -	\$ -	\$ 609,993
Equity Securities				
Technology industry	-	2,497	-	2,497
Mutual Funds				
International equity	-	9,081,144	-	9,081,144
Small Cap Value equity	-	6,200,547	-	6,200,547
Total Return bond	-	10,605,251	-	10,605,251
Low duration bond	-	4,292,488	-	4,292,488
US Agency Debt Securities	-	4,994,890	-	4,994,890
Real Estate	-	-	6,246,790	6,246,790
Alternative investments	-	-	51,606,104	51,606,104
	<u>\$ 609,993</u>	<u>\$ 35,176,817</u>	<u>\$ 57,852,894</u>	<u>\$ 93,639,704</u>

**Other Investments**

The components of other investments at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Certificate of deposit	\$ 43,298	\$ 43,231
Equity securities	6,300	6,300
Mutual funds	2,736,957	2,464,634
Investments held in trusts for split interest agreements	<u>6,510,579</u>	<u>5,809,303</u>
	<u>\$ 9,297,134</u>	<u>\$ 8,323,468</u>

Other 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, 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
	<u>\$ 43,298</u>	<u>\$ 9,247,536</u>	<u>\$ 6,300</u>	<u>\$ 9,297,134</u>

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2010 and 2009

**NOTE 7. INVESTMENTS (CONTINUED)**

	Cost	Fair Value as of June 30, 2009		Total
		Level 1	Level 3	
Certificate of deposit	\$ 43,231	\$ -	\$ -	\$ 43,231
Equity Securities				
S&P Indexed	-	2,464,634	-	2,464,634
Pharmaceutical industry	-	-	6,300	6,300
Mutual Funds				
Short term	-	116,167		116,167
Mutual Funds for split interest agreements				
Bond		2,006,354		2,006,354
High Yield	-	404,578	-	404,578
International equity	-	543,627	-	543,627
Money Market	-	232,628	-	232,628
Real estate securities	-	246,342	-	246,342
S&P Indexed fund	-	2,027,148	-	2,027,148
Small Cap equity	-	232,459	-	232,459
	<u>\$ 43,231</u>	<u>\$ 8,273,937</u>	<u>\$ 6,300</u>	<u>\$ 8,323,468</u>

**Real Estate**

Investments in real estate are stated at fair value. Their value is determined based on Level 3 inputs.

Investment activity specific to investments valued with Level 3 inputs for the years ended June 30, 2009 and June 30, 2010 is reflected in the table below.

	<u>Alternative</u> <u>Investments</u>	<u>Equities</u>	<u>Real Estate</u>	<u>Total</u>
June 30, 2008	\$ 57,865,003	\$ 6,300	\$ 7,125,340	\$ 64,996,643
Total gains or losses (realized/unrealized)	(15,152,749)	-	(78,000)	(15,230,749)
Purchases, issuance, and settlements	8,893,850	-	900,000	9,793,850
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	(177,325)	-	-	(177,325)
June 30, 2010	<u>\$ 63,570,999</u>	<u>\$ 6,300</u>	<u>\$ 8,150,550</u>	<u>\$ 71,727,849</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 7. INVESTMENTS (CONTINUED)

Investment activity for the years ended June 30, 2010 and 2009 is reflected in the tables below:

	2010			
	Pooled Investments	Real Estate	Other Investments	Total Investments
Investments at beginning of year	<u>\$ 93,639,704</u>	<u>\$ 1,700,550</u>	<u>\$ 8,323,468</u>	<u>\$ 103,663,722</u>
Gifts available for investment:				
Gifts and agency deposits	4,604,105	-	-	4,604,105
Gifts creating annuity trusts	-	-	<u>346,056</u>	<u>346,056</u>
	<u>4,604,105</u>	-	<u>346,056</u>	<u>4,950,161</u>
Investment returns (net of expenses):				
Dividends and interest	736,752	-	48,861	785,613
Realized gains (losses)	1,042,134	-	50,028	1,092,162
Unrealized gains (losses)	<u>10,163,658</u>	-	<u>217,698</u>	<u>10,381,356</u>
Total return on investments	<u>11,942,544</u>	-	<u>316,587</u>	<u>12,259,131</u>
Change in value of split interest assets:				
Dividends and interest	-	-	186,396	186,396
Realized gains	-	-	(26,379)	(26,379)
Unrealized gains	-	-	664,950	664,950
Payments to annuitants	-	-	<u>(349,853)</u>	<u>(349,853)</u>
Total change in value of split interest assets:	-	-	<u>475,114</u>	<u>475,114</u>
Transfers of investments	-	-	-	-
Net amounts withdrawn for current operations and other purposes	<u>(4,448,594)</u>	-	<u>(164,091)</u>	<u>(4,612,685)</u>
Investments at end of year	<u>\$ 105,737,759</u>	<u>\$ 1,700,550</u>	<u>\$ 9,297,134</u>	<u>\$ 116,735,443</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 7. INVESTMENTS (CONTINUED)

	2009			
	Pooled Investments	Real Estate	Other Investments	Total Investments
Investments at beginning of year	<u>\$ 112,657,522</u>	<u>\$ 878,550</u>	<u>\$ 11,543,885</u>	<u>\$ 125,079,957</u>
Gifts available for investment:				
Gifts and agency deposits	7,536,308	900,000	-	8,436,308
Gifts creating annuity trusts	<u>-</u>	<u>-</u>	<u>730,121</u>	<u>730,121</u>
	<u>7,536,308</u>	<u>900,000</u>	<u>730,121</u>	<u>9,166,429</u>
Investment returns (net of expenses):				
Dividends and interest	1,325,215	-	116,892	1,442,107
Realized gains	844,350	-	(157,278)	687,072
Unrealized gains	<u>(21,792,061)</u>	<u>(78,000)</u>	<u>(649,772)</u>	<u>(22,519,833)</u>
Total return on investments	<u>(19,622,496)</u>	<u>(78,000)</u>	<u>(690,158)</u>	<u>(20,390,654)</u>
Change in value of split interest assets:				
Dividends and interest	-	-	204,663	204,663
Realized gains	-	-	(35,618)	(35,618)
Unrealized gains	-	-	(1,137,115)	(1,137,115)
Payments to annuitants	<u>-</u>	<u>-</u>	<u>(346,362)</u>	<u>(346,362)</u>
Total change in value of split interest assets:	<u>-</u>	<u>-</u>	<u>(1,314,432)</u>	<u>(1,314,432)</u>
Transfer of investments	1,271,307	-	(1,271,307)	-
Net amounts withdrawn for current operations and other purposes	<u>(8,202,937)</u>	<u>-</u>	<u>(674,641)</u>	<u>(8,877,578)</u>
Investments at end of year	<u>\$ 93,639,704</u>	<u>\$ 1,700,550</u>	<u>\$ 8,323,468</u>	<u>\$ 103,663,722</u>

Investment income is recorded net of fees charged by the third-party asset managers of approximately \$1,025,000 and \$824,000 for 2010 and 2009, respectively.

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 840,984	\$ 840,984
Buildings	6,016,284	6,014,939
Computers and related equipment and software	340,599	340,599
Equipment	<u>17,505</u>	<u>37,083</u>
	7,215,372	7,233,605
Less accumulated depreciation	<u>(2,920,521)</u>	<u>(2,738,026)</u>
	<u>\$ 4,294,851</u>	<u>\$ 4,495,579</u>

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

	<u>2010</u>	<u>2009</u>
Cost	\$ 4,576,558	\$ 4,575,212
Less accumulated depreciation	<u>(2,431,566)</u>	<u>(2,291,389)</u>
	<u>\$ 2,144,992</u>	<u>\$ 2,283,823</u>

NOTE 9. TRANSACTIONS BETWEEN UNRESTRICTED AND TEMPORARILY  
 RESTRICTED NET ASSETS

Unrestricted funds have borrowed \$2,026,547 at June 30, 2010 and 2009, respectively from the Short Term Investment Pool. This long term loan was used to invest in ATI and bears no interest.

Temporarily restricted funds borrowed \$227,310 and \$367,784 at June 30, 2010 and 2009 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 \$12,212 and \$17,751 at June 30, 2010 and 2009, 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.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 10. AGENCY FUNDS HELD FOR OTHERS

The Foundation held the following amounts as of June 30, 2010 and 2009 for the named organizations:

<u>Organization</u>	<u>2010</u>	<u>2009</u>
Museum of the Rockies	\$ 383,104	\$ 363,699
Montana State University Alumni Association	2,683,852	1,699,693
Montana State University	7,037,928	6,297,978
Montana State University Bobcat Club	<u>1,051,852</u>	<u>82,544</u>
Agency accounts held for others	<u>\$ 11,156,736</u>	<u>\$ 8,443,914</u>

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

Assets held on behalf of these organizations as of June 30, 2010 and 2009 are included in the Foundation's consolidated statement of financial position as follows:

	<u>2010</u>	<u>2009</u>
Cash	\$ 3,083	\$ 2,111
Short Term Investment Pool	656,467	678,983
Long Term Investment Pool	<u>10,497,186</u>	<u>7,762,820</u>
Agency accounts held for others	<u>\$ 11,156,736</u>	<u>\$ 8,443,914</u>

NOTE 11. NOTES PAYABLE

Notes payable at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
ATI fixed rate 6.04% note payable, due in monthly installments of \$13,346, including principal and interest with a balloon payment of \$1,928,302 due November 2017; secured 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>2,175,650</u>	<u>2,201,689</u>
	<u>\$ 2,175,650</u>	<u>\$ 2,201,689</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 11. NOTES PAYABLE (CONTINUED)

Maturities of notes payable subsequent to June 30, 2010 are scheduled as follows:

Years Ending <u>June 30</u>	Notes <u>Payable</u>
2011	\$ 27,679
2012	29,060
2013	31,253
2014	33,222
2015	35,314
2016-2017	<u>2,019,122</u>
	<u>\$ 2,175,650</u>

Interest expense incurred during the years ended June 30, 2010 and 2009 amounted to \$153,480 and \$147,978, respectively.

NOTE 12. OTHER LIABILITIES

The components of other liabilities are as follows as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Deferred rent	\$ 297,500	\$ 315,000
Liability to MSU for deferred compensation	<u>270,659</u>	<u>-</u>
	<u>\$ 568,159</u>	<u>\$ 315,000</u>

In 2007, MSU paid the Foundation \$350,000 as part of a lease agreement for office space jointly occupied by the MSU Department of Alumni Affairs and the MSU Alumni Association. The leased office space is located in the Foundation building. The lease ends on June 30, 2027, and may be renewed for two additional 20 year terms. The deferred rent is being amortized over 20 years, with annual revenue of \$17,500 recognized in the accompanying financial statements.

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.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 13. INCOME TAXES

Income tax expense for ATI, the Foundation's for-profit subsidiary, for the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Deferred income tax benefit:		
Federal	\$ 1,101	\$ 4,308
State	<u>495</u>	<u>1,938</u>
	<u>\$ 1,596</u>	<u>\$ 6,246</u>

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>2010</u>	<u>2009</u>
Statutory federal rate	15.00%	15.00%
Statutory state rate	6.75%	6.75%
Permanent differences	<u>0.02%</u>	<u>3.74%</u>
Total effective income tax rate	<u>21.77%</u>	<u>25.49%</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, 2010 and 2009 related to the following:

	<u>2010</u>	<u>2009</u>
Current deferred income tax assets, net of liabilities:		
Cash to accrual liabilities	\$ 4,420	\$ 5,740
Cash to accrual assets	(8,314)	(8,113)
Accelerated depreciation and amortization	(92)	(1,282)
Other		
Net operating loss carryforward	<u>15,327</u>	<u>13,400</u>
Net deferred income tax asset	<u>\$ 11,341</u>	<u>\$ 9,745</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 carryforwards are deductible. Based on available evidence, ATI believes it is more likely than not all of the deferred income tax assets will be realized. Accordingly, ATI has not established a valuation allowance for the deferred income tax assets.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 13. INCOME TAXES (CONTINUED)

ATI has \$61,612 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 2028.

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

	<u>2010</u>	<u>2009</u>
Pre-tax income (loss)	\$ (7,331)	\$ 24,500
Permanent differences	-	1,719
Accounts receivable	(4,942)	36,655
Accounts payable	(5,939)	(5,295)
Accrued liabilities and prepaid rents	(131)	(74)
Other cash to accrual differences, net	4,015	5,083
Depreciation	5,470	(6,030)
Net operating loss carryforward created (utilized)	<u>8,858</u>	<u>(56,558)</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 \$128,845 and \$141,922 for the years ended June 30, 2010 and 2009, respectively.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

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 \$501,685 and \$596,387 for the years ended June 30, 2010 and 2009, respectively. Future lease revenues to be received from unrelated and related parties under non-cancelable leases at June 30, 2010 are as follows:

2011	\$ 222,308
2012	156,464
2013	58,148
2014	<u>22,132</u>
	<u>\$ 459,052</u>

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. Revenues were \$93,900 during the years ended June 30, 2010 and 2009.

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, 2010 and 2009. 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 \$48,540 and \$51,662 for the years ended June 30, 2010 and 2009, respectively. Future lease revenue under non-cancelable leases at June 30, 2010 is \$14,000 receivable in 2011.

NOTE 16. NON CASH ACTIVITY

During the years ended June 30, 2010 and 2009, the Foundation received insurance, securities, and land contributions of \$886,404 and \$3,581,295, respectively. The Foundation also received in-kind contributions of \$54,681 and \$137,533 for the years ended June 30, 2010 and 2009, respectively.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

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 described in Note 1. As part of these agreements, the Foundation has made a commitment to fund a total of \$70,500,000 to these various funds. At June 30, 2010, the Foundation had invested approximately \$62,420,000, leaving a remaining commitment to be satisfied of \$8,080,000.

NOTE 18. SPLIT INTEREST AGREEMENTS

As described in Note 1, 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 year ended June 30, 2009 amounted to \$211,965.

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 3.2% for the year ended June 30, 2010.

Annuity obligations are measured using the fair value hierarchy as described in Note 1 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, 2009	\$ 3,639,430
New agreements	134,091
Annuitant distributions	(353,265)
Matured agreements	(19,311)
Actuarial changes	<u>71,745</u>
Trust and annuity obligations, June 30, 2009	<u>\$ 3,472,690</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2010 and 2009

NOTE 19. CHANGE IN ACCOUNTING PRINCIPLE

In prior years, the Foundation had elected to treat its interest in the Johnson Family Foundation (“JFF”) as an investment. As such, it presented its investment in this wholly owned subsidiary at the fair value of the underlying assets and liabilities. Proper presentation, in accordance with GAAP, requires the consolidation of JFF into the financials of the Foundation. JFF has since elected the fair value option to measure its investment in land and buildings. The first re-measurement to fair value was implemented retroactively to June 30, 2008. Accordingly, the Foundation’s financial statements for the year ended June 30, 2009 have been restated as follows:

	<u>As Originally Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
<u>Statement of Financial Position</u>			
Assets	\$ 113,702,519	\$ 113,724,705	\$ 22,186
Liabilities	\$ 15,049,191	\$ 15,050,591	\$ 1,400
Net assets	\$ 98,653,328	\$ 98,674,114	\$ 20,786
<u>Statement of Activities</u>			
Support and revenue	\$ (8,066,032)	\$ (8,061,072)	\$ 4,960
Expenses	11,275,330	11,275,330	-
Other changes	(1,195,670)	(1,195,670)	-
Change in net assets	\$ (20,537,032)	\$ (20,532,072)	\$ 4,960
<u>Statement of Cash Flows</u>			
Net cash used by operating activities	\$ (4,841,174)	\$ (4,854,701)	\$ (13,527)
Net cash provided by investing activities	1,098,336	1,098,336	-
Net cash used by financing activities	3,511,016	3,511,016	-
Net decrease in cash and cash equivalents	(231,822)	(245,349)	(13,527)
Cash and cash equivalents, beginning of year	573,208	608,921	35,713
Cash and cash equivalents, end of year	\$ 341,386	\$ 363,572	\$ 22,186

## 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, 2010 and 2009 and for the years then ended appears on page 1. Those audits were performed for the purpose of forming an opinion on the 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

Bozeman, Montana  
October 11, 2010

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED SCHEDULE OF BALANCES – BY FUND GROUPS**  
For the Year Ended June 30, 2010

	UN- RESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	JOHNSON FAMILY FOUNDATION	ATI	AGENCY	TOTALS
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ (13,338,696)	\$ 8,235,856	\$ 4,757,760	\$ 35,713	\$ 74,105	\$ 659,550	\$ 424,288
Pooled Investments	13,983,176	1,931,724	72,875,673	6,450,000	-	10,497,186	105,737,759
Promises Receivable, Net	58,978	1,365,980	359,460	-	-	-	1,784,418
Notes Receivable	-	36,998	-	-	-	-	36,998
Other Receivables	12,505	2,703,066	84,218	-	25,139	41,304	2,866,232
Real Estate	-	437,500	1,263,050	-	-	-	1,700,550
Other Investments	33,703	203,757	8,996,850	-	62,824	500	9,297,634
Due From Other Funds	4,266,069	13,547	-	-	-	-	4,279,616
Property and Equipment	1,457,375	-	-	-	2,837,476	6,422	4,301,273
Other Assets	23,944	-	-	-	81,607	4,343	109,894
<b>Total assets</b>	<b>6,497,054</b>	<b>14,928,428</b>	<b>88,337,011</b>	<b>6,485,713</b>	<b>3,081,151</b>	<b>11,209,305</b>	<b>130,538,662</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Accounts Payable	31,118	181,706	32,492	1,400	9,369	33,421	289,506
Accrued Liabilities	205,117	36,714	-	-	10,951	8,528	261,310
Annuity Obligations	56,768	136,882	3,279,040	-	-	-	3,472,690
Other Liabilities	568,159	-	-	-	23,735	28,260	620,154
Notes Payable	-	-	-	-	2,175,650	-	2,175,650
Due To Other Funds	4,026,547	253,069	-	-	-	-	4,279,616
Agency Funds	-	-	-	-	-	11,139,096	11,139,096
<b>Total Liabilities</b>	<b>4,887,709</b>	<b>608,371</b>	<b>3,311,532</b>	<b>1,400</b>	<b>2,219,705</b>	<b>11,209,305</b>	<b>22,238,022</b>
<b>Fund Equity</b>	<b>1,609,345</b>	<b>14,320,057</b>	<b>85,025,479</b>	<b>6,484,313</b>	<b>861,446</b>	<b>-</b>	<b>108,300,640</b>
<b>Total liabilities and fund equity</b>	<b>\$ 6,497,054</b>	<b>\$ 14,928,428</b>	<b>\$ 88,337,011</b>	<b>\$ 6,485,713</b>	<b>\$ 3,081,151</b>	<b>\$ 11,209,305</b>	<b>\$ 130,538,662</b>

Refer to Independent Auditor's Report on Supplemental Information.

**MONTANA STATE UNIVERSITY FOUNDATION, INC.**  
**CONSOLIDATED SCHEDULE OF BALANCES – BY FUND GROUPS**  
For the Year Ended June 30, 2010

	UN- RESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	JOHNSON FAMILY FOUNDATION	ATI	TOTALS
<b>REVENUES</b>						
Contributions	\$ 202,225	\$ 3,044,264	\$ 2,023,583	\$ -	\$ -	\$ 5,270,072
Interest and Dividend Income	298,097	73,143	675,962	-	(100,000)	947,202
Market Gain/(Loss)	737,999	769,771	9,379,355	213,463	-	11,100,588
Development Fee	147,759	-	-	-	-	147,759
Administration Fee	1,412,891	-	-	-	-	1,412,891
Contract for Services	362,364	-	-	-	-	362,364
Rental Income	52,724	-	-	50,440	590,141	693,305
Sales Services and Other, Net	3,149	258,992	45,811	-	-	307,952
Other Revenues	-	65	500	-	-	565
Transfers Net	160,539	21,485	(182,024)	-	-	-
Total Revenues	<u>3,377,747</u>	<u>4,167,720</u>	<u>11,943,187</u>	<u>263,903</u>	<u>490,141</u>	<u>20,242,698</u>
<b>EXPENSES</b>						
Salaries, Wages and Benefits	2,406,301	633,336	155,774	-	-	3,195,411
Professional Services and Fees	123,817	173,150	66,624	-	-	363,591
MSU Support	271,659	1,019,981	1,507,141	-	-	2,798,781
Office Expense	169,369	952,586	49,696	-	-	1,171,651
Depreciation and Amortization Expense	61,896	-	-	-	-	61,896
Printing, Postage and Public Relations	28,968	83,470	5,670	-	-	118,108
Annuity Payments and Actuarial change	8,839	(66,475)	110,703	-	-	53,067
Travel, Professional Development and						
Special Event	170,615	511,687	110,316	-	-	792,618
MSU Foundation Fees	-	258,793	1,159,213	-	-	1,418,006
Subsidiary operations	-	-	-	47,167	595,876	643,043
Total Expenses	<u>3,241,464</u>	<u>3,566,528</u>	<u>3,165,137</u>	<u>47,167</u>	<u>595,876</u>	<u>10,616,172</u>
<b>NET REVENUES OVER EXPENSES</b>	136,283	601,192	8,778,050	216,736	(105,735)	9,626,526
<b>FUND BALANCE, Beginning of Year</b>	1,473,062	13,698,079	76,247,429	6,267,577	967,181	98,653,328
Prior period adjustment		20,786				20,786
<b>FUND BALANCE, Beginning of Year</b>	1,473,062	13,718,865	76,247,429	6,267,577	967,181	98,674,114
<b>FUND BALANCE, End of Year</b>	<u>\$ 1,609,345</u>	<u>\$ 14,320,057</u>	<u>\$ 85,025,479</u>	<u>\$ 6,484,313</u>	<u>\$ 861,446</u>	<u>\$ 108,300,640</u>

Refer to Independent Auditor's Report on Supplemental Information.