The University of Montana Foundation

FINANCIAL REPORT

June 30, 2012 and 2011

CONTENTS

anderson ZURMUEHLEN

ANDERSON ZURMUEHLEN & CO., P.C. · CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS · MSI GLOBAL ALLIANCE INDEPENDENT MEMBER FIRM

1821 SOUTH AVENUE WEST · FIFTH FLOOR · P.O. BOX 2368 · MISSOULA, MT 59806-2368
TEL: 406.721.7800 · FAX: 406.721.4155 · WEB: WWW.AZWORLD.COM

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of The University of Montana Foundation as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 audit 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 opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana Foundation at June 30, 2012 and 2011, and the changes in its net assets and its 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.

Missoula, Montana
September 14, 2012

F I N A N C I A L   S T A T E M E N T S

THE UNIVERSITY OF MONTANA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

ASSETS	2012	2011
Cash and Cash Equivalents	**$ 5,866,019**	$ 5,102,237
Short-Term Investments	**4,323,242**	4,023,659
Accrued Dividends and Interest	**122,718**	112,137
Investments	**149,089,320**	151,399,581
Contributions Receivable, Net	**5,634,604**	6,146,006
Student Loans and Other Receivables	**248,558**	296,260
Beneficial Interests in Trusts Held by Others	**626,829**	602,612
Property, Building and Equipment, Net of Accumulated Depreciation	**3,850,105**	3,857,132
Other Assets	**1,771,559**	823,642
Total assets	**$ 171,532,954**	$ 172,363,266

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

LIABILITIES AND NET ASSETS	**2012**	2011
Accounts Payable	**$ 316,585**	$ 290,584
Accrued Expenses	**114,828**	104,966
Compensated Absences	**248,055**	241,466
Liabilities to External Beneficiaries	**2,837,425**	2,914,112
Deferred Revenue	**-**	108,525
Custodial Funds	**20,509,718**	21,409,363
Total liabilities	**24,026,611**	25,069,016
NET ASSETS		
Unrestricted		
Undesignated	**5,143,513**	6,444,330
	5,143,513	6,444,330
Restricted		
Temporarily restricted	**45,568,965**	48,409,866
Permanently restricted	**96,793,865**	92,440,054
	142,362,830	140,849,920
Total net assets	**147,506,343**	147,294,250
Total liabilities and net assets	**$ 171,532,954**	$ 172,363,266

THE UNIVERSITY OF MONTANA FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2012 and 2011

	2012			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Revenues, Gains and Other Support				
Contributions	$ 485,204	$ 8,893,022	$ 4,369,587	$ 13,747,813
Interest and dividend income	494,738	2,391,470	-	2,886,208
Net realized and unrealized losses on investments	(1,435,607)	(2,937,545)	-	(4,373,152)
Development & Administrative fees	479,272	-	-	479,272
Contract for services	425,000	-	-	425,000
Other	181,189	1,607,791	-	1,788,980
Net assets released from restrictions - satisfaction of program restrictions	12,293,186	(12,293,186)	-	-
Total revenues, gains and other support	12,922,982	(2,338,448)	4,369,587	14,954,121
Expenses				
Program services				
University support				
Academics and institutional	5,412,735	-	-	5,412,735
Capital expenses	785,726	-	-	785,726
Scholarships and awards	3,161,763	-	-	3,161,763
Pledge adjustments	16	94,830	15,776	110,622
Supporting services				
Fund-raising	2,307,352	-	-	2,307,352
Administrative and general	2,594,949	-	-	2,594,949
Payments to beneficiaries and change in liabilities to external beneficiaries	(38,742)	407,623	-	368,881
Total expenses	14,223,799	502,453	15,776	14,742,028
Change in net assets	(1,300,817)	(2,840,901)	4,353,811	212,093
Net Assets				
Beginning of year	6,444,330	48,409,866	92,440,054	147,294,250
End of year	$ 5,143,513	$ 45,568,965	$ 96,793,865	$ 147,506,343

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

	2011			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Revenues, Gains and Other Support				
Contributions	$ 128,381	$ 6,940,914	$ 1,285,093	$ 8,354,388
Interest and dividend income	453,654	2,561,286	-	3,014,940
Net realized and unrealized gains on investments	6,038,728	15,050,979	-	21,089,707
Administrative fees	437,477	-	-	437,477
Contract for services	425,000	-	-	425,000
Other	54,569	1,619,127	-	1,673,696
Net assets released from restrictions - satisfaction of program restrictions	14,948,158	(14,948,158)	-	-
Total revenues, gains and other support	22,485,967	11,224,148	1,285,093	34,995,208
Expenses				
Program services				
University support				
Academics and institutional	4,982,662	-	-	4,982,662
Capital expenses	3,369,845	-	-	3,369,845
Scholarships and awards	3,318,191	-	-	3,318,191
Pledge adjustments	(677)	603,309	34,496	637,128
Supporting services				
Fund-raising	2,114,343	-	-	2,114,343
Administrative and general	2,428,068	-	-	2,428,068
Payments to beneficiaries and change in liabilities to external beneficiaries	(9,424)	348,575	-	339,151
Total expenses	16,203,008	951,884	34,496	17,189,388
Change in net assets before reclassification items	6,282,959	10,272,264	1,250,597	17,805,820
Reclassification of Net Assets	-	166,450	(166,450)	-
Change in net assets	6,282,959	10,438,714	1,084,147	17,805,820
Net Assets				
Beginning of year	161,371	37,971,152	91,355,907	129,488,430
End of year	$ 6,444,330	$ 48,409,866	$ 92,440,054	$ 147,294,250

THE UNIVERSITY OF MONTANA FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions received	**$ 7,630,907**	$ 9,887,171
Loss (return) on investments	**457,116**	(3,304,677)
Other operating receipts and payments	**2,632,429**	2,615,744
Cash paid for University support	**(9,470,846)**	(12,307,826)
Cash paid for support services	**(4,770,629)**	(4,308,562)
Nonoperating payments	**(445,568)**	(334,830)
Net custodial funds activity	**(899,645)**	3,513,165
Net cash flows from operating activities	**(4,866,236)**	(4,239,815)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of short-term investments, net	**907,003**	(223,369)
Purchases	**(17,172,310)**	(16,813,645)
Withdrawals	**17,527,931**	20,965,381
Purchase of depreciable assets and real property	**(2,193)**	(2,007)
Net cash flows from investing activities	**1,260,431**	3,926,360
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions to permanently restricted endowments	**4,369,587**	1,285,093
Net cash flows from financing activities	**4,369,587**	1,285,093
Net change in cash and cash equivalents	**763,782**	971,638
Cash and cash equivalents		
Beginning of year	**5,102,237**	4,130,599
End of year	**$ 5,866,019**	$ 5,102,237

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

	2012	2011
RECONCILIATION OF CHANGES IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ 212,093**	$ 17,805,820
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	**89,220**	94,703
Undistributed interest and dividends	**(2,733,457)**	(2,904,432)
Net (gain) loss on investments	**4,688,098**	(24,527,329)
Permanently restricted contributions	**(4,369,587)**	(1,285,093)
Noncash contributions	**(2,140,670)**	(623,538)
Contributions receivable	**511,402**	3,521,715
Other receivables	**37,121**	(6,517)
Beneficial interests in trusts held by others	**(24,217)**	(58,410)
Other assets, net	**(93,834)**	(21,891)
Accounts payable, accrued expenses, compensated absences and other liabilities	**(66,073)**	247,671
Liabilities to external beneficiaries	**(76,687)**	4,321
Custodial funds	**(899,645)**	3,513,165
Net cash flows from operating activities	**$ (4,866,236)**	$ (4,239,815)

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Contribution of real property	**$ 80,000**	$ -
Contribution of notes receivable	**$ 393,784**	$ -
Contribution of equity interest in corporation	**$ 307,166**	$ -
Contribution of cash surrender value of life insurance	**$ 153,134**	$ -
Contribution of marketable securities	**$ 1,206,586**	$ 623,538

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:
The University of Montana Foundation (the Foundation) is a nonprofit corporation incorporated under the laws of Montana. The purpose of the Foundation is to promote and support The University of Montana. The activities of the Foundation include fund-raising and administration of donated assets.

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

Cash and Cash Equivalents:
For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash funds on deposit with investment managers are excluded from cash and cash equivalents since they are restricted for investment use.

Short-Term Investments:
Short-term investments consist of certificates of deposit, U.S. Treasury securities, and obligations of federal agencies or affiliates. Short-term investments are carried at fair value, which approximates cost.

Classification of Net Assets:
The Foundation classifies contributions as unrestricted, temporarily restricted, and permanently restricted net assets in accordance with donor stipulations. Permanently restricted net assets consist primarily of endowment gifts where donors have specified investment in perpetuity to generate returns for specified restricted or unrestricted purposes. Temporarily restricted net assets include term endowments, quasi-endowments (managed as endowments by directive of the Foundation's Board of Trustees), and other gifts restricted as to purpose or time.

When a donor restriction expires (time restriction ends or purpose restriction accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All expenses are reported in unrestricted net assets, after applicable restrictions have been satisfied.

The Foundation reports gifts of land or other real or personal property as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Unrestricted resources are used for internal operations and administration and to benefit the University at the discretion of the Foundation's Board of Trustees.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Custodial Funds:
Net assets where the Foundation acts only as a custodian or agent are excluded from the statement of activities and reported as a liability on the statement of financial position.

Investments:
The Foundation has significant investments in stocks, bonds and alternative investments, and is therefore subject to the impact of material fluctuations on the market value of these investments. Investments are made primarily by investment managers engaged by the Foundation with the guidance of an investment consultant and the investments are monitored by management and the Investment Committee of the Board of Trustees. Though the market values of the investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

Investments consist primarily of marketable debt and equity securities purchased through institutional mutual funds. Investments in marketable debt and equity securities are carried at fair value, determined primarily by quoted market prices. Increases or decreases in fair value are recognized in the current period as investment gains or losses.

The fair values of alternative investments publicly traded on national security exchanges are stated at their closing market prices as of June 30, 2012 and 2011. The fair values of alternative investments not publicly traded on national security exchanges represent the Foundation's pro-rata interest in the net assets of each investment partnership as provided by its managing partner. Because of inherent uncertainties in the valuation of these non-publicly traded alternative investments, those estimated fair values may differ materially from the values that might ultimately be realized.

Investment Pool:
Most permanently restricted net assets and certain temporarily restricted net assets participate in an investment pool that operates under the "market value unit method." Under this method, each account is assigned a number of units based on the relationship of the fair value of all investments at the time of entry into the pool. Quarterly, the pooled assets are valued and new unit values are calculated. The new unit value is used to determine the number of units allocated to new accounts entering the pool or to calculate the equity of accounts withdrawing from the pool. Investment pool income, gains, and losses are allocated quarterly to participating accounts based on the number of units held during the period.

In order to maintain the real value of permanently restricted net assets, the Foundation has adopted a policy whereby a portion of pooled investment return in excess of the spending rate is classified as temporarily restricted net assets. During 2012 and 2011, the annual spending rate was 4.25% of the average of the fair value of the preceding twelve quarter-ends, with the average of the most recent four quarter-ends weighted at 70%, and the average of the previous eight quarter-ends weighted at 30%.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fees:
The Foundation assesses an administrative fee on the pooled investments based on the market value of the pool at the end of each calendar quarter. The annual administrative fee was 2% for the years ended
June 30, 2012 and 2011. The Foundation also assesses a one-time operating fee on current non-scholarship gifts. The amount of the fee is determined by the size of the gift, ranging from 2.5% to 5.0%. Total Foundation fees in 2012 and 2011 were $2,895,355 and $2,808,682, respectively.

Contributions:
Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenue in accordance with donor stipulations. The estimated allowance for uncollectible promises to give is based on the Foundation's historical collection percentages. Unconditional promises to give are valued using discount rates as of the date of gift.

Deferred Revenue:
Funds received in advance of services rendered are reported as deferred revenue.

Split-Interest Agreements:
Some donors enter into trust or other arrangements under which the Foundation has a beneficial interest. The Foundation has either a remainder interest or a lead interest, where distributions are received during the term of the agreement. Frequently, the term of the agreement is for the remaining life of the individual(s) designated by the donor. For irrevocable agreements where the Foundation has control of the assets, assets are recorded at their estimated fair market value upon notification of the beneficial interest, provided that reliable information is available. A liability for payments to other beneficiaries is estimated at the present value of the expected future payments to those beneficiaries. For irrevocable agreements where the Foundation does not have control over the assets (generally held in an outside trust), the present value of the Foundation's beneficial interest is recorded as beneficial interests in trusts held by others, provided that reliable information is available. For revocable agreements where the Foundation has control over the assets, the assets are recorded as a refundable advance and included in the liability to external beneficiaries. Revocable interests where the Foundation does not have control over the assets are considered conditional promises to give, and, accordingly, are not recorded. For fiscal years 2012 and 2011, present value calculations used discount rates as of the date of gift and standard actuarial tables for estimating remaining lives of donors and beneficiaries.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements:
GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels, as described below:

- Level 1—Quoted prices in active markets as of the measurement date;
- Level 2—Quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3—Significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date.

There are three general valuation techniques that may be used to measure fair value, as described below:

- Market Approach—Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- Cost Approach—Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- Income Approach—Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Contributed Assets and Donated Services:
Assets donated to the Foundation are recorded at fair value as of the date of the gift. No amounts have been reflected in the statements for donated services because no objective basis is available to measure the value of such services.

Supporting Services:
Certain personnel and other costs are allocated to administrative and fund-raising services on the basis of estimated time identifiable with such services.

Scholarships:
The Foundation provides scholarships to University of Montana students. The University awards these scholarships under an agreement with the Foundation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets:
Real property investments and other assets are reported at the lower of the appraised value at the time of donation or the estimated fair value.

Depreciable Assets:
Depreciable assets consist of office furniture and equipment, computer equipment, and buildings. Items are stated at cost (or original fair value if contributed) and depreciation is charged on a straight-line basis over estimated useful lives of five to forty years. Capital assets purchased on behalf of University of Montana departments are classified as an expense by the Foundation since the University assumes control immediately after purchase. Repair and maintenance costs are expensed as incurred and betterments in excess of $1,500 are capitalized.

Advertising Costs:
Advertising costs, which relate principally to fund-raising activities, are expensed as incurred and totaled $67,594 and $55,760, respectively, for 2012 and 2011.

Estimates:
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Income Taxes:
The Foundation is exempt from state and federal income taxes under Internal Revenue Code Section 501(c)(3).

With few exceptions, the Foundation is no longer subject to examinations by federal tax authorities for years before 2009.

Reclassifications:
Certain reclassifications have been made to the prior financial statements to conform to the current presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets

Subsequent Events:
Management has evaluated subsequent events though September 14, 2012, the date which the financial statements were available for issue.

NOTE 2. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash	**$ 4,893,943**	$ 4,320,335
Money market funds	**972,076**	781,902
Total	**$ 5,866,019**	$ 5,102,237

The Foundation's non-interest bearing accounts are subject to unlimited coverage by the FDIC. From time to time certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. At June 30, 2012 and 2011, bank balances for these accounts exceeded insured limits by $5,475,605 and $3,656,645, respectively. The Foundation invests available cash in bank repurchase agreements, which are backed by U.S. Government and U.S. Government Agency Securities.

NOTE 3. SHORT-TERM INVESTMENTS

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

	2012	
	Cost	**Fair Value**
Certificates of Deposit	**$ 1,100,000**	**$ 1,108,552**
U.S. Treasury and Federal Agency Obligations	**1,926,326**	**1,926,862**
Mutual Funds – Fixed Income	**1,280,588**	**1,287,828**
Total	**$ 4,306,914**	**$ 4,323,242**

	2011	
	Cost	Fair Value
Certificates of Deposit	$ 500,000	$ 500,000
U.S. Treasury and Federal Agency Obligations	2,000,436	2,007,791
Mutual Funds – Fixed Income	1,495,188	1,494,398
Marketable Securities	21,470	21,470
Total	$ 4,017,094	$ 4,023,659

Under GAAP, U.S. Treasury and Federal Agency Obligations are valued using Level 2 inputs which are quoted prices for similar assets in active markets (market approach). The mutual funds and marketable securities are valued using Level 1 inputs which are quoted prices for identical assets in active markets (market approach).

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable in excess of one year are discounted to their net present value using a discount rate based on the three-year U.S. Treasury note rate at the time of contribution (the discount rate used varied between 0.8% and 6.3%). The unamortized discount at June 30, 2012 and 2011 was $736,593 and $869,862, respectively. A schedule of maturities for contributions receivable at June 30, 2012, follows:

Year Ending June 30,	Gross	Net Realizable Value (Discounted)
2013	$ 1,969,044	$ 1,969,044
2014	945,824	847,145
2015	844,839	473,793
2016	2,032,380	1,931,756
2017	572,602	435,509
Later years	121,500	92,349
	6,486,189	5,749,596
Less allowance for uncollectible contributions	(114,992)	(114,992)
	$ 6,371,197	$ 5,634,604

At June 30, 2012, the Foundation had contributions receivable from two donors which represented 33% of total contributions receivable. The pledges were recorded and recognized in fiscal year 2008; therefore, no revenue was recorded in the current fiscal year. At June 30, 2011, the Foundation had contributions receivable from two donors which represented 35% of total contributions receivable. The pledges were recorded and recognized in fiscal year 2008; therefore, no revenue was recorded in the current fiscal year.

Conditional promises to give are not presented in the financial statements and represent bequests and other revocable gifts. As of June 30, 2012 and 2011, conditional promises to give were valued at approximately $27,700,000 and $26,600,000, respectively.

NOTE 5. INVESTMENTS

Investments are stated at fair value, determined based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Cost is determined using the specific identification method. The Foundation determined the fair value of its marketable securities through the application of GAAP.

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

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices with active markets (market approach). Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets (market approach). Financial assets valued using Level 3 inputs are based on significant unobservable prices or inputs where there is little or no market activity for the asset at the measurement date. Level 3 assets include: hedge funds, alternative investments, real estate and equities. Fair value for the hedge funds aggregate values reported by each underlying fund as reported to the Foundation on a monthly basis. Alternative investments at June 30, 2012 include holdings in ten "funds of funds." Each funds of funds is structured as a limited partnership that in turn invests in a portfolio of underlying partnerships most of which make and hold investments in privately owned companies. These underlying investments as well as the limited partnerships holding them are illiquid investments with values periodically determined by each managing partner using the market approach. Fair value for the equities is based on an independent appraised value of the shares held each quarter using the market approach. Fair value for the real estate is based on an independent appraisal of the real estate at the date contributed to the Foundation.

NOTE 5. INVESTMENTS (CONTINUED)

Investments itemized below were measured at fair value using the market approach.

Investments	**2012** Cost	**2012** Fair Value	2011 Cost	2011 Fair Value
Cash and Cash Equivalents Restricted for Investment	**$ 691,718**	**$ 691,718**	$ 578,730	$ 578,730
Level 1				
Equities				
Consumer Discretionary	**81,549**	**108,283**	59,667	69,780
Consumer Staples	**44,343**	**59,142**	38,398	56,134
Energy	**184,572**	**271,659**	194,743	325,500
Financials	**937,806**	**808,324**	914,018	814,778
Health Care	**81,532**	**109,638**	72,581	94,786
Industrials	**78,680**	**108,574**	76,429	116,947
Information Technology	**186,814**	**326,032**	182,668	289,117
Materials	**20,154**	**22,874**	21,084	23,576
Utility	**11,679**	**17,516**	13,249	20,513
International Equities	**148,812**	**155,729**	127,263	136,554
Other	**49,464**	**58,312**	45,085	55,778
Mutual Funds				
Fixed Income	**13,229,685**	**13,256,713**	12,245,356	12,509,888
International Equities	**32,673,770**	**29,098,669**	31,002,219	33,074,244
Domestic Equities	**28,559,703**	**35,577,938**	31,592,693	38,872,117
REITS	**907,578**	**1,023,589**	5,299,841	4,220,884
Hybrid	**11,693,445**	**11,439,411**	13,917,388	14,138,827
Other	**1,322,329**	**1,715,496**	1,135,714	1,364,145
Level 2				
Government Obligations	**3,633,445**	**3,711,469**	5,906,562	5,990,070
Agencies	**3,334,903**	**3,365,669**	2,179,290	2,198,550
Corporate Obligations				
AAA rated bond	**533,965**	**622,954**	529,674	565,147
AA rated bond	**1,128,939**	**1,251,696**	1,177,961	1,240,380
A rated bond	**2,692,878**	**2,870,715**	2,182,461	2,311,743
BBB rated bond	**395,935**	**430,442**	201,275	204,926
BB rated bond	**-**	**-**	194,660	197,112
B rated bond	**924,033**	**989,939**	215,757	220,413
Mortgage Security Bonds	**1,198,725**	**1,344,677**	176,836	176,718

NOTE 5. INVESTMENTS (CONTINUED)

Investments	2012 Cost	2012 Fair Value	2011 Cost	2011 Fair Value
Level 3				
Investment Partnerships				
Equities	**13,881,043**	**16,292,700**	7,706,039	9,992,831
Fixed Income	**2,930,487**	**3,704,705**	2,730,487	3,727,415
Hedge Fund of Funds	**13,872,892**	**16,827,567**	13,872,892	16,801,232
Real Estate	**2,374,635**	**2,593,765**	1,884,442	1,818,468
Alternative Investments				
Managed Futures	**-**	**-**	14,776	20,408
Real Estate	**80,020**	**80,020**	80,020	80,020
Total	**137,885,534**	**148,935,935**	136,570,258	152,307,731
Due to (from) managers	**153,385**	**153,385**	(908,150)	(908,150)
Total Net Investments	**$ 138,038,919**	**$ 149,089,320**	$ 135,662,108	$ 151,399,581

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Limited Partnership: Equities	Limited Partnership: Fixed Income	Limited Partnership: Hedge fund of funds	Investment Partnership: Real Estate	Managed Futures	Real Estate	Total
July 1, 2010	$ 6,306,565	$ 3,303,534	$ 14,641,982	$ 600,000	$ 35,170	$ 80,020	$ 24,967,271
Total gains or losses (realized/unrealized)	2,095,693	476,439	1,159,252	(43,514)	2,721	-	3,690,591
Purchases, issuance, and settlements	1,590,574	(52,558)	999,998	1,261,982	(17,483)	-	3,782,513
June 30, 2011	9,992,832	3,727,415	16,801,232	1,818,468	20,408	80,020	32,440,375
Total gains or losses (realized/unrealized)	944,838	35,535	26,335	317,394	(5,632)	-	1,318,470
Purchases, issuance, and settlements	5,355,030	(58,245)	-	457,903	(14,776)	-	5,739,912
June 30, 2012	**$ 16,292,700**	**$ 3,704,705**	**$ 16,827,567**	**$ 2,593,765**	**$ -**	**$ 80,020**	**$ 39,498,757**

NOTE 5. INVESTMENTS (CONTINUED)

	Limited Partnership: Equities	Limited Partnership: Fixed Income	Limited Partnership: Hedge fund of funds	Investment Partnership: Real Estate	Managed Futures	Real Estate	Total
The amount of gains or losses for the year ended June 30, 2012, included in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	**$ 944,838**	**$ 35,535**	**$ 26,335**	**$ 317,394**	**$ (5,632)**	**$ -**	**$ 1,318,470**
The amount of gains or losses for the year ended June 30, 2011, included in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 2,095,693	$ 476,439	$ 1,159,252	$ (43,514)	$ 2,721	$ -	$ 3,690,591

The Foundation's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

At June 30, 2012 and 2011, investments totaling $7,569,081 and $7,846,288, respectively, relate to split-interest agreements.

The total return (loss) on investments was approximately (1.3%) and 21.1% in 2012 and 2011, respectively. The total return (loss) on long-term pooled investments only was approximately (1.9%) and 23.4% in 2012 and 2011, respectively.

At June 30, 2012, the Foundation was obligated to fund up to $12.2 million in future investment partnership commitments.

Investment income is reported net of investment manager fees, which range from .1% to 1.2% of investment value.

NOTE 6. ENDOWMENT

The Foundation's endowment consists of numerous individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

NOTE 6. ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were total deficiencies as of June 30, 2012 and 2011 of $1,566,406 and $294,964, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well certain unrestricted funds, as well as a portion of its restricted current funds. Accordingly the Foundation's investment policy is designed to produce investment returns that exceed the sum of its spending policy, investment fees, and estimated long-term inflation.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.25% of the average fair value of its endowment fund's average fair value at the end of the preceding twelve quarters. The average is weighted, with the average of the past four quarter-ends receiving a 70% weight, and the average of remaining eight quarter-ends receiving a 30% weight. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow.

NOTE 6. ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2012, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,571,506)	$ 13,387,316	$ 96,793,865	$ 108,609,675
Board-designated endowment funds	476,453	-	-	476,453
	$ (1,095,053)	$ 13,387,316	$ 96,793,865	$ 109,086,128

Changes in net assets composition by type of fund for the year ended June 30, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 209,747	$ 18,903,662	$ 92,440,054	$ 111,553,463
Investment return				
Appreciation (realized and unrealized), net of interest and dividends	(1,294,939)	(317,565)	-	(1,612,504)
Contributions	-	-	4,369,587	4,369,587
Other Changes				
Pledge adjustment	-	-	(15,776)	(15,776)
Appropriation of endowment assets for expenditures	(9,861)	(3,333,987)	-	(3,343,848)
Fees	-	(1,864,794)	-	(1,864,794)
Endowment net assets, end of year	$ (1,095,053)	$ 13,387,316	$ 96,793,865	$ 109,086,128

NOTE 6. ENDOWMENT (CONTINUED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ (295,964)	$ 18,903,662	$ 92,440,054	$ 111,047,752
Board-designated endowment funds	505,711	-	-	505,711
	$ 209,747	$ 18,903,662	$ 92,440,054	$ 111,553,463

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,882,417)	$ 8,287,021	$ 91,355,907	$ 94,760,511
Investment return				
Appreciation (realized and unrealized), net of interest and dividends	5,105,999	15,727,804	-	20,833,803
Contributions	-	-	1,285,093	1,285,093
Other Changes				
Reclassification of assets	-	166,450	(166,450)	-
Pledge adjustment	-	-	(34,496)	(34,496)
Appropriation of endowment assets for expenditures	(13,835)	(3,450,405)	-	(3,464,240)
Fees	-	(1,827,208)	-	(1,827,208)
Endowment net assets, end of year	$ 209,747	$ 18,903,662	$ 92,440,054	$ 111,553,463

NOTE 7. PROPERTY, BUILDING, AND EQUIPMENT

At June 30, property, building and equipment consisted of:

	2012	2011
Land	**$ 1,177,609**	$ 1,097,609
Building	**3,852,000**	3,852,000
Computer equipment and software	**192,667**	190,474
Office furniture and fixtures	**131,999**	131,999
	5,354,275	5,272,082
Less accumulated depreciation	**(1,504,170)**	(1,414,950)
	$ 3,850,105	$ 3,857,132

Depreciation expense was $89,220 and $94,703 in 2012 and 2011, respectively.

Sourdough Island accounts for $963,000 of the land and $3,852,000 of the building in the above totals. Depreciation expense relating to this property was $77,040 in 2012 and 2011, and accumulated depreciation at June 30, 2012 and 2011, was $1,194,120 and $1,117,080, respectively.

NOTE 8. OTHER ASSETS

At June 30, other assets consisted of:

	2012	2011
Cash surrender value of life insurance	**$ 545,318**	$ 436,424
Investment in UM buildings	**439,259**	319,229
Equity investment in Stone Mountain LTD	**307,166**	-
Note receivable from Stone Mountain LTD	**393,784**	-
Prepaid expenses	**32,396**	11,425
Other	**53,636**	56,564
	$ 1,771,559	$ 823,642

In previous years under the Montana Endowment Tax Credit, donors were allowed to designate their endowed annuity gift for building construction purposes. Donors gave under this tax credit to the Law School, and the Phyllis J. Washington Education Center. As a result the Foundation holds a small interest in both buildings.

NOTE 8. OTHER ASSETS (CONTINUED)

In June 2012, the Foundation acquired through an estate gift, a 31.67% interest in Stone Mountain Ltd., an S corporation owning undeveloped real estate in Missoula, Montana. The Foundation has the ability to exercise significant influence as a result of the acquired interest, and therefore accounts for this interest in Stone Mountain using the equity method for investments. At June 30, 2012, the carrying amount of the investment was $307,166.

In fiscal year 2012, the Foundation was assigned rights to two promissory notes held by an estate. The notes receivable relate to the corresponding allocation of an equity interest in Stone Mountain Ltd. The Foundation's interest in the first note is $337,899, and the note has a stated interest rate of 1% over prime, with an interest rate floor of 7%. The Foundation's interest in the second note is $55,885, and the note has a stated interest rate of 6%. Payments on both notes will be received once sufficient income is generated by Stone Mountain Ltd.

NOTE 9. LIABILITIES TO EXTERNAL BENEFICIARIES

Some donors enter into trust or other arrangements under which the Foundation has a beneficial interest. For irrevocable agreements where the Foundation has control of the assets, assets are recorded at their estimated fair value upon notification of the beneficial interest, provided that reliable information is available. A liability for payments to other beneficiaries is estimated at the present value of the expected future payments to the beneficiaries using an income approach, calculated by using an IRS life expectancy table and the discount rate determined at the date of the gift. For fiscal year 2012 and 2011 the liability was calculated using IRS table 2000CM. Discount rates used in the calculation range from 1.4% to 10.6%.

At June 30, 2012 and 2011, the liability due to external beneficiaries was $2,837,425 and $2,914,112 respectively. Changes in the liability from year to year occur when the present value calculation is updated.

NOTE 10. RESTRICTED NET ASSETS

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

	2012	2011
Temporarily Restricted		
Scholarships	**$ 12,138,221**	$ 12,842,033
Academics and institutional support	**22,497,108**	22,271,278
Capital additions	**10,933,636**	13,296,555
Total temporarily restricted net assets	**$ 45,568,965**	$ 48,409,866
Permanently Restricted		
Scholarships	**$ 44,928,819**	$ 42,208,860
Academics and institutional support	**51,390,753**	49,756,132
Capital additions	**474,293**	475,062
Total permanently restricted net assets	**$ 96,793,865**	$ 92,440,054

NOTE 11. RETIREMENT PLAN

The Foundation has a qualified tax deferred annuity plan, which covers substantially all permanent employees. Employer contributions to the plan are eleven percent of eligible employees' salaries beginning after six months of service. Each employee allocates contributions to one or more investment funds sponsored by the custodial agent. The annuity payments under the plan depend on the amounts contributed by the Foundation, and the investment performance of invested contributions. Foundation contributions to the plan amounted to $262,319 and $243,040 for 2012 and 2011, respectively.

NOTE 12. RELATED PARTY TRANSACTIONS

The relationship between the Foundation and The University of Montana is governed by a biannual operating agreement. Under the terms of that agreement, the University paid $425,000 during 2012 and 2011 for services provided by the Foundation. Additionally, as part of the agreement for performing fund-raising services, the University provided the Foundation with certain information technology services, and other related items in 2012 and 2011.

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

In fiscal year 2008, the Foundation entered into an operating lease with The University of Montana for office space. Terms of the lease include annual rent of $140,940 with the lease commencing on July 1, 2008 through June 30, 2013. Rent expense for 2012 and 2011 was $140,940.

The Foundation receives cash and non-cash donations to support the programs, faculty and staff of The University of Montana. In fiscal year 2012 and 2011, the Foundation provided $7,447,159 and $9,459,011, respectively of direct support to the University. The Foundation also transferred $395,184 and $398,484 of non-cash donations to the University in fiscal year 2012 and 2011, respectively.

NOTE 13. COMMITMENTS AND CONTINGENCIES

During 1996, the Foundation received a real property contribution (Sourdough Island) valued at $4,815,000. Upon eventual sale of the property, the donor agreement provides for allocation of the net sales proceeds to all campuses under the jurisdiction of The University of Montana. Under the terms of the lease agreement, the University agrees to pay all taxes, utilities, insurance, and maintenance expenses and to hold the Foundation harmless for any and all liability and damage. The Foundation leases the facility to the University for a nominal annual fee. The lease agreement continues indefinitely unless the University or the Foundation elects to terminate the agreement.