

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





FINANCIAL REPORT

June 30, 2019



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montana Tech Foundation
Butte, Montana

We have audited the accompanying financial statements of the Montana Tech Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana Tech Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Montana Tech Foundation's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2018, except as to Note 2 to the 2018 financial statements, which was dated December 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Foundation adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) 2016-14, *Not-for-Profit (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Anderson ZurMuehlen & Co., P.C.

Butte, Montana
October 12, 2019

FINANCIAL STATEMENTS

MONTANA TECH FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Comparative Totals as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 3,664,885	\$ 2,474,106
Certificate of deposit	333,619	657,088
Pledge receivables net of allowance of \$2,281 and \$8,522	1,140,766	2,085,493
Other receivables	-	99,224
Prepaid expense	7,751	-
Investments		
Investments, at fair value	40,328,753	38,696,678
Trust held by third parties	1,870,230	1,886,885
Cash value life insurance	173,034	180,158
Other	<u>33,751</u>	<u>33,751</u>
Total investments	<u>42,405,768</u>	<u>40,797,472</u>
Property and equipment, net of accumulated depreciation	<u>2,057,959</u>	<u>2,114,390</u>
Total assets	<u>\$ 49,610,748</u>	<u>\$ 48,227,773</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 101,431	\$ 32,494
Accrued expenses	23,183	21,876
Long-term charitable gift annuities	<u>222,995</u>	<u>199,474</u>
Total liabilities	<u>347,609</u>	<u>253,844</u>
Net assets		
Without donor restrictions		
Designated by the Board	644,335	676,056
Undesignated	<u>1,660,485</u>	<u>1,835,710</u>
Total net assets without donor restrictions	<u>2,304,820</u>	<u>2,511,766</u>
With donor restrictions		
Purpose Restrictions	10,374,673	9,853,674
Perpetual in nature	<u>36,583,646</u>	<u>35,608,489</u>
Total with donor restrictions	<u>46,958,319</u>	<u>45,462,163</u>
Total net assets	<u>49,263,139</u>	<u>47,973,929</u>
Total liabilities and net assets	<u>\$ 49,610,748</u>	<u>\$ 48,227,773</u>

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

MONTANA TECH FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u> <u>2019</u>	<u>Total</u> <u>2018</u>
REVENUE AND SUPPORT				
Contributions	\$ 423,584	\$ 4,508,021	\$ 4,931,605	\$ 5,911,802
Investment income, net	22,449	2,774,817	2,797,266	3,404,152
Unrealized gain (loss) on trusts held by third parties	-	(16,655)	(16,655)	90,399
Miscellaneous (loss)	(7,123)	(23,765)	(30,888)	(146,570)
Net assets released from program and time restrictions	<u>5,746,262</u>	<u>(5,746,262)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>6,185,172</u>	<u>1,496,156</u>	<u>7,681,328</u>	<u>9,259,783</u>
EXPENSES				
University Support				
Educational program services	593,135	-	593,135	606,345
Equipment distribution	2,334,424	-	2,334,424	4,816,906
Professorship distributions	417,845	-	417,845	375,906
Scholarship distributions	1,496,639	-	1,496,639	1,367,517
Direct college support	<u>40,956</u>	<u>-</u>	<u>40,956</u>	<u>26,000</u>
Total University support	<u>4,882,999</u>	<u>-</u>	<u>4,882,999</u>	<u>7,192,674</u>
Supporting services				
Fundraising	994,783	-	994,783	1,000,567
General and administrative	<u>514,336</u>	<u>-</u>	<u>514,336</u>	<u>444,563</u>
Total supporting services	<u>1,509,119</u>	<u>-</u>	<u>1,509,119</u>	<u>1,445,130</u>
Total expenses	<u>6,392,118</u>	<u>-</u>	<u>6,392,118</u>	<u>8,637,804</u>
Change in net assets	(206,946)	1,496,156	1,289,210	621,979
Net assets, beginning of year	<u>2,511,766</u>	<u>45,462,163</u>	<u>47,973,929</u>	<u>47,351,950</u>
Net assets, end of year	<u>\$ 2,304,820</u>	<u>\$ 46,958,319</u>	<u>\$ 49,263,139</u>	<u>\$ 47,973,929</u>

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

MONTANA TECH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Program	Supporting Activities		Total 2019	Total 2018
	University Support	Fundraising	Administrative and general		
Direct University Support	\$ 4,278,931	\$ -	\$ 17,222	\$ 4,296,153	\$ 6,583,052
Accounting and auditing	-	-	62,410	62,410	19,865
Advertising and promotion	2,544	104,160	-	106,704	57,803
Bank and credit card fees	-	-	17,749	17,749	-
Contracted services	24,429	82,395	14,218	121,042	163,115
Depreciation	33,693	14,003	11,218	58,914	60,967
Dues and subscriptions	8,067	1,394	7,631	17,092	15,877
Entertainment	145,908	67,626	5,775	219,309	194,398
Gifts	83,639	28,726	986	113,351	153,482
Insurance	-	-	26,126	26,126	27,433
Interest expense	276	-	-	276	288
Legal fees	-	-	14,029	14,029	-
Licenses and taxes	-	-	4,074	4,074	2,716
Minor equipment	7,844	-	-	7,844	13,514
Miscellaneous	5,675	2,988	3,326	11,989	3,039
Office supplies, printing and postage	25,708	18,586	5,212	49,506	76,411
Prizes and awards	23,223	-	-	23,223	14,000
Professional development	25,133	2,430	2,819	30,382	34,211
Repairs and maintenance	3,817	29,723	12,173	45,713	1,625
Salaries and fringe benefits	-	468,439	286,520	754,959	787,583
Software acquisition and maintenance	4,660	53,020	8,619	66,299	97,362
Supplies	69,130	-	-	69,130	44,756
Telephone	458	5,436	2,784	8,678	8,948
Travel, lodging, and relocation	139,864	115,857	11,445	267,166	277,359
Total	<u>\$ 4,882,999</u>	<u>\$ 994,783</u>	<u>\$ 514,336</u>	<u>\$ 6,392,118</u>	<u>\$ 8,637,804</u>

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

MONTANA TECH FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,289,210	\$ 621,979
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation	58,914	60,967
Net realized and unrealized gain on investments	(2,483,876)	(2,939,700)
Proceeds from sale of gifts of stock	1,321,752	183,548
Unrealized gain on trust held by third parties	16,655	(90,399)
Change in value of split-interest agreements	23,765	158,865
Loss on sale of property	-	51,435
Changes in operating assets and liabilities:		
Pledge receivables	944,727	(266,629)
Other receivables	99,224	(99,224)
Other assets	6,497	-
Accounts payable	68,937	(40,930)
Accrued expenses	1,307	246
Contributions and investment earnings restricted for long-term investment	<u>(975,158)</u>	<u>(2,345,408)</u>
Net cash from operating activities	<u>371,954</u>	<u>(4,705,250)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in cash surrender value of life insurance	(7,124)	(5,617)
Proceeds from sale of property and equipment	-	49,224
Purchase of property and equipment	(2,483)	(3,356)
Purchase of investments	(23,260,761)	(9,963,891)
Proceeds from sale of investments	<u>23,114,279</u>	<u>10,485,143</u>
Net cash from investing activities	<u>(156,089)</u>	<u>561,503</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on charitable gift annuities	(244)	(232)
Collections from contributions and investment earnings restricted for long-term investment	<u>975,158</u>	<u>2,345,408</u>
Net cash from financing activities	<u>974,914</u>	<u>2,345,176</u>
Net change in cash and cash equivalents	1,190,779	(1,798,571)
Beginning cash and cash equivalents	<u>2,474,106</u>	<u>4,272,677</u>
Ending cash and cash equivalents	<u>\$ 3,664,885</u>	<u>\$ 2,474,106</u>

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

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Montana Tech Foundation (the Foundation) was organized and incorporated December 7, 1967 as a non-profit organization. The Foundation's purpose is to conduct and carry out research, to seek and invite bequests, contributions, gifts and grants for the purpose of aiding and assisting Montana Technological University (the University) in providing education opportunities for its faculty, students and employees. All of the program service expenditures are for the benefit of the University. Because of this relationship, the Foundation is considered to be a component unit of Montana Technological University.

The Foundation is exempt from Federal and State income taxes under Code §501(c)(3) of the Internal Revenue Code as amended. The Internal Revenue Service has ruled that the Foundation is not a private foundation as defined in §509(a) of the Internal Revenue Code. Business income unrelated to the purpose of the organization is reported in a Form 990-T and income taxes are paid on unrelated business income.

Basis of Accounting

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

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation of these statements accordingly. The changes required by ASU have been retrospectively applied to all periods presented, which had no effect on the total change in net assets or total assets previously reported.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets

In accordance with GAAP, the Foundation reports information regarding its financial position and activities according to two classes of net assets:

- *Net assets without donor restrictions* – Those resources not subject to donor-imposed restrictions. The Board of Directors has discretionary control over these resources. Designated amounts represent those net assets that the board has set aside for a particular purpose and shall be segregated in the accounting records as "board-designated" funds.
- *Net assets with donor restrictions* – Those resources subject to donor-imposed restrictions that will be satisfied by action of the Foundation or by the passage of time.

Expenses are reported as decreases in without donor restriction net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in without donor restriction net assets, unless their use is restricted by explicit donor stipulation or state law.

Restricted and Undesignated Revenues and Support

Contributions received are recorded as without donor restricted support or with donor restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in without donor restricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in with donor restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Foundation records contributions, including contributions of fixed assets and investment income, whose restrictions are met in the same reporting period as without donor restrictions support.

Comparative Financial Information

The financial information shown for 2018 in the accompanying financial statements is included to provide a basis for comparison with 2019 and presents summarized totals only.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Cash and Cash Equivalents

For the purpose of the cash flow statement, management generally considers all checking and investment cash accounts with an original maturity of three months or less to be cash equivalents. The Foundation maintains its cash deposits at various financial institutions whose cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250,000. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits.

Investments

Third-party investment managers engaged by the Foundation, and monitored by management and the Finance Committee of the Board manage investments. Annual changes in market values to the equity, fixed income and alternative investments are recorded as market gains or losses in the statement of activities, net of the investment fee. The fair values of the investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation. Investments are stated at fair value. Investments are classified within the level of lowest significant input considered in determining fair value.

Alternative investments include private equity funds, real assets and private natural resources. The fair value of alternative investments publicly traded on national security exchanges are stated at their closing market prices as of June 30, 2019. The fair values of alternative investments not publicly traded on national security exchanges represent the Foundation's pro-rata interest in the funds. 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.

Depreciation

Depreciation is computed using straight-line and accelerated methods over estimated useful lives ranging from three to fifty years. The Foundation generally capitalizes assets with an original cost or fair market value of \$1,000 or more. The Foundation recognized depreciation expense of \$58,914 during the year ended June 30, 2019.

Promises to Give and Other Receivables

Unconditional promises to give (pledges receivable) are recognized at fair value in the period received. Unconditional promises to give that will be collected beyond one year are reported at the present value of the anticipated cash flows. An allowance for uncollectible amounts of \$2,281 has been recorded. Pledges that have not performed in accordance with their gift agreement for more than one year are considered uncollectable.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. It is the Foundation's policy to liquidate donated securities upon receipt.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of receipt. Gifts are recorded as revenue when received. Such donations are reported as without donor restrictions support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassified with donor restricted net assets to without donor restricted net assets at that time.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Foundation pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific programs, campaign solicitations, and various committee assignments.

Allocation of Earnings

The Foundation's policy is to allocate all earnings and losses to each participating fund established in the Foundation. The allocation is based on assigned unit values. Unit values are periodically adjusted based on market performance.

Earnings subject to donor restrictions or restrictions based on state law are reported as increases in temporary restricted net assets. When the restriction is met or earnings appropriated by the Board, the earnings are reclassified to undesignated net assets.

Fundraising

The Foundation classifies all expenditures directly attributable to fundraising activities. These expenses include, but are not limited to, travel, labor and overhead, entertainment, gifts, printing and supplies.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis on the statement of activities. Directly identifiable expenses are charged to University support and fundraising. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

General and administrative expenses for common space expenses are allocated based upon square footage of the University Relations Center. Other general and administrative expenses that support more than one function are allocated based on management's analysis of staff time and effort.

Income Taxes

The Foundation is a nonprofit organization exempt from income taxes under §501(c)(3) of the U.S. Internal Revenue Code. As a result, no provision for income tax is included in the financial statements.

Advertising

Advertising costs, which relate principally to fundraising activities, are expensed as incurred and totaled \$106,704.

Subsequent Events

Management has evaluated subsequent events through October 12, 2019, the date which the financial statements were available for issue.

NOTE 2. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

Receivable in one year or less	\$ 425,312
Receivable in one to five years	<u>774,981</u>
	1,200,293
Less discount	<u>(57,246)</u>
	1,143,047
Less allowance	<u>(2,281)</u>
Net unconditional promises to give	<u>\$ 1,140,766</u>

The discount is calculated using the IRS discount rate in effect during the month that the pledge is made. Rates used for the discounts range from 1.0%-3.4%.

At June 30, 2019, the Foundation had pledges receivable from three donors which represented 66% of the total pledges receivable. The pledges were recorded during fiscal year 2019.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 2. PLEDGES RECEIVABLE (CONTINUED)

Pledges receivable have been designated by donors for the following purposes:

Digger Turf	\$ 6,751
Endowment	147,636
Scholarships	431,217
Departmental	4,891
Student Success Center	<u>552,552</u>
	<u>\$ 1,143,047</u>

Conditional Promises to Give

Conditional promises to give include gifts to which the donor has included certain conditions that must be met prior to recognizing the underlying pledge. At June 30, 2019, conditional promises to give totaled approximately \$1,648,227.

NOTE 3. LIQUIDITY

The Foundation's financial assets available within one year of the statement of financial position for general expenditures are as follows:

Cash and cash equivalents	\$ 3,998,504
Pledges receivables, net	1,140,766
Prepaid expense	<u>7,751</u>
Total current assets	5,147,021
Investments	40,328,753
Other investments	2,077,015
Property and equipment	<u>2,057,959</u>
Total assets	<u>49,610,748</u>
Property and equipment	(2,057,959)
Prepaid expense	(7,751)
Other illiquid assets*	(175,945)
Appropriations from long-term portfolio	<u>756,780</u>
Financial assets	48,125,873
Board designated	(644,335)
Endowment principal	(36,583,646)
Donor restricted net assets	<u>(10,374,673)</u>
Financial Assets Available within 1 year	<u>\$ 523,219</u>

*(Includes life insurance policies)

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 3. LIQUIDITY (CONTINUED)

The Foundation's endowment funds consist of donor-restricted endowments. As described in Note 15, the endowment has a spending rate of 4 percent restricted for specific purposes, therefore, is not available for general expenditures. \$12,000 of appropriations from the endowment will be available within the next 12 months. As described in Note 15, the endowment has an administrative fee which is considered undesignated and budgeted for annually. The Foundation will also receive a fee for all new gifts received during the year ended June 30, 2020.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Foundation has a committed line of credit in the amount of \$150,000, which it could draw upon. Additionally, Foundation has a board designated endowment of \$631,761. Although the Foundation does not intend to spend from its board designated endowment, amounts from could be made available if necessary. However, both the endowment and donor-restricted endowment contain investments with lock-up provisions that would reduce the total investments that could be made available.

NOTE 4. INVESTMENTS

Marketable Debt and Equity Securities

The Foundation has determined the fair value of its investments through the application of accounting standards for *Fair Value Measurements*. This standard establishes a fair value hierarchy, which prioritizes the valuation into three broad levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Observable inputs other than Level 1 prices, 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Foundation's policy for determining the timing of significant transfers between Levels 1 and 2 is at the end of the reporting period.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. INVESTMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

Collective Trust Funds (Private and Public Equities and Bond Funds) and Real Estate Funds: Valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund, less its liabilities. Various redemption restrictions are described on the following page.

The following tables present by level, within the fair value hierarchy, the Foundation's investment assets at fair value, as of June 30, 2019. Investment assets are classified in their entirety based upon the lowest level of input that is significant at the fair value measurement.

	Fair Value at June 30, 2019	Fair Value		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trust held by third party	\$ 1,870,230	\$ -	\$ -	\$ 1,870,230
Funds at NAV (A)	<u>40,328,753</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 42,198,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,870,230</u>

(A) In accordance with FASB Accounting Standards Codification Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient to fair value measurement have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net assets available for benefits.

Fair Value of Investments in Entities that use NAV

The following table summarizes investments measured at fair valued based on NAV per share as of June 30, 2019.

Security Type	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Common Collective Funds:				
Public Equity Funds	\$ 26,337,720	\$ -	Daily	30 days
Private Equity Funds	3,919,800	5,613,731	Not Liquid	N/A
Bond Funds	5,420,519	-	Daily	30 days
Real Asset Funds	<u>4,650,714</u>	<u>2,616,134</u>	Not Liquid	N/A
	<u>\$ 40,328,753</u>	<u>\$ 8,229,865</u>		

MONTANA TECH FOUNDATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2019

NOTE 4. INVESTMENTS (CONTINUED)

The following reconciles Level 3 inputs for the year ended June 30, 2019:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
July 1, 2018	\$ 1,886,885
Investment income	(16,655)
June 30, 2019	\$ 1,870,230

One investments was in continuous loss positions for twelve months or more as of June 30, 2019. The total amount of unrealized losses associated with the securities approximates \$3,400. Management has evaluated the securities and believes the loss position to be temporary.

Investment fees totaled \$90,999 for the year ended June 30, 2019. Net investment income at June 30, 2019 consisted of the following:

Interest and dividend income	\$ 412,889
Unrealized gain on investments	1,893,723
Realized gain on investments	590,153
Unrealized gain (loss) on trust held by third party	(16,655)
Investment fees	(99,499)
Investment income, net	\$ 2,780,611

Cash Surrender Value of Life Insurance

The Foundation's intent is to continue the life insurance policies in force. A summary of the terms of the policies are as follows:

Cash surrender value	\$ 173,034
Death benefit	\$ 267,234
Beneficiary	Foundation

NOTE 5. PLANNED GIFT LIABILITIES

The liability for each type of planned gift changes each year with receipt of new gifts, payments under contracts, change in trust asset values, and the change in present value of required payments to beneficiaries. The present value of the future payments over the beneficiaries' estimated remaining lives was calculated using the original discount rates at the date of the gift and applicable mortality tables. Discount rates used in the calculation range from 1.80% to 7.80%.

MONTANA TECH FOUNDATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2019

NOTE 5. PLANNED GIFT LIABILITIES (CONTINUED)

The following summarizes the change in planned gift liabilities for the year ended June 30, 2019:

	Charitable and Deferred Gift Annuities
Estimated present value of liability at July 1, 2018	\$ 199,474
Increase in estimated present value of liability from contributions	23,765
Decrease in estimated present value due to payments to beneficiaries	(244)
Estimated present value of liability at June 30, 2019	\$ 222,995

NOTE 6. RELATED PARTY TRANSACTIONS

The Foundation has executed an Operating Agreement with the University for the purpose of establishing the relationships between the entities and facilitating the accomplishment of their mutual goals. Pursuant to the contract terms, the Foundation agrees to: 1) handle the fundraising activities for the University; 2) disburse the funds raised for its own operating costs and to benefit the University's programs in accordance with the donors' wishes and; 3) participate in University functions at the request of its Chancellor. Under the terms of that agreement, the University paid \$200,000 for services provided by the Foundation. The President of the Foundation is also a Vice-Chancellor with the University. During the fiscal year ended June 30, 2019, the University paid \$188,005 for compensation and benefits for the President of the Foundation. The Foundation transferred \$111,958 to the University for the Vice Chancellor compensation.

In consideration for the assumption of the enumerated responsibilities, the University agrees to provide the Foundation with various support services, including office space and equipment, utilities and maintenance and other facilities or services as reasonably required. The University also agrees to transfer funds to the Foundation at such times and in such amounts as may be mutually agreeable.

The Foundation receives cash and non-cash donations to support the programs, faculty, staff and students of the University. During the fiscal year ended June 30, 2019, the Foundation transferred a total of \$4,882,998 to the University. At June 30, 2019 there was a payable of \$41,055 owing to the University.

At June 30, 2019, the Board of Directors of the Foundation included seven nonmembers of the faculty and administration.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 7. LEGACIES IN PROCESS

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts will be recorded when clear title is established and the proceeds are measurable.

NOTE 8. PENSION PLAN

The Foundation contributes to a 403(b) defined contribution plan (plan) on behalf of its regular employees. Employees are eligible to participate immediately upon employment unless they are a student or temporary employee. Upon completion of 6 consecutive months of employment, the Foundation matches qualified employee contributions at 11% of the employees' adjusted gross salary. For fiscal year 2019, the Foundation contributed \$47,962 to the Plan.

The Foundation's eligible employees can contribute to the Foundation's 403(b) tax deferred annuity plan. Students and temporary employees who work less than twenty hours per week are not eligible to participate in the plan. As of June 30, 2019, the Foundation has not contributed to the 403(b) plan.

NOTE 9. TRUST FUNDS HELD BY THIRD PARTIES

The Foundation is a beneficiary of the earnings from the Ewing Trust which is administered by an outside management trust company. The University is the beneficiary of the corpus. Earnings are transmitted to the Foundation quarterly. During the year ended June 30, 2019, the Foundation received \$23,000 of investment earnings from this Trust. These earnings are included in contributions in the accompanying financial statements. At June 30, 2019, the market value of the Ewing Trust amounted to \$645,682.

The Foundation is a beneficiary of the earnings and corpus from the Davis Trust, a perpetual trust held by a third party, which is administered by an outside management trust company. Earnings are transmitted to the University annually to cover scholarships for students of the University.

Unrealized gains (losses) are reinvested in with donor restricted net assets. The financial statements reflect the fair value of the Davis Trust assets in the amount of \$1,870,230. The Davis Trust generated an unrealized loss of \$16,655 for the year ended June 30, 2019.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 10. CONCENTRATION OF CREDIT RISK DUE TO TEMPORARY CASH INVESTMENTS AND PROMISES TO GIVE

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments and promises to give. The Foundation places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution.

Concentrations of credit risk with respect to promises to give are limited due to several contributors comprising the Foundation's contributor base and their dispersion across different industries and geographic areas. As of June 30, 2019, the Foundation had no significant concentrations of credit risk.

The Foundation maintains its cash balances at several financial institutions whose customer deposits are insured by FDIC up to \$250,000. Deposits in excess of insurance limits approximated \$2,000,000 at June 30, 2019.

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

The Foundation is subject to certain provisions of the Montana Code Annotated which specify that a charitable organization may only issue a "qualified charitable gift annuity" if it meets the following statutory requirements on the date of the annuity agreement:

- Has a minimum of \$300,000 net worth or has a minimum of \$100,000 in undesignated cash, cash equivalents, or publicly traded securities, exclusive of the assets funding the annuity agreement;
- Has been in continuous operation for at least three years or is a successor or affiliate of a charitable organization that has been in continuous operation for at least three years; and
- Maintains a separate annuity fund with at least one-half the value of the initial amount transferred for outstanding annuities.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

For the year ended June 30, 2019, the Foundation met the requirements to issue qualified charitable gift annuities.

Donor restricted net assets exist for the following purposes as of June 30, 2019:

Subject to expenditure for specified purpose:

Scholarships	\$ 4,802,628
Professorships	1,652,950
Excellence in Engineering	395,171
Miscellaneous Departments	<u>3,523,924</u>
	<u>10,374,673</u>

Subject to the Foundation's spending policy and appropriation:

Investment in perpetuity

Scholarships	\$ 27,057,388
Professorships	6,537,210
Excellence in Engineering	621,451
Miscellaneous Departments	<u>2,367,597</u>
	<u>36,583,646</u>

Total net assets with donor restrictions \$ 46,958,319

NOTE 12. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following:

Appleman, Waring, James Environmental Endowed Scholarship	\$ 1,522
Rae Farrell Memorial Endowed Nursing Scholarship	6,460
40th Anniversary Environmental Engineering Endowed Scholarship	2,589
Kirsten Knudsen Memorial Endowed Scholarship	2,002
Legacy Endowment	<u>631,762</u>
	<u>\$ 644,335</u>

The Legacy Endowment was established by the Board in 2008 to support future operations of the Foundation.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 13. RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

NOTE 14. LINE OF CREDIT

The Foundation has an unsecured line of credit with Glacier Bank valued at \$150,000. The line of credit bears interest at 6%. There was no outstanding balance as of June 30, 2019. The line of credit is subject to renewal on November 6, 2019.

NOTE 15. ENDOWMENT NET ASSETS

The State of Montana adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective May 31, 2007. The Foundation accounts for the endowment in accordance with the U.S. GAAP. This provides guidance on the net assets classification of donor-restricted endowment funds for a not-for-profit organization that is subject to UPMIFA.

The Foundation's endowment consists of one fund managed by CommonFund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation Board has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value 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 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.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 15. ENDOWMENT NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

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 and 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.

Endowment net asset compensation by type of fund as of June 30 are as follows:

	<u>Undesignated*</u>	<u>Purpose Restricted</u>	<u>Perpetually Restricted</u>	<u>Total</u>
Donor restricted endowment	\$ -	\$ 10,374,673	\$ 34,713,416	\$ 45,088,089
Board restricted endowment	<u>644,335</u>	<u>-</u>	<u>-</u>	<u>644,335</u>
Total funds	<u>\$ 644,335</u>	<u>\$ 10,374,673</u>	<u>\$ 34,713,416</u>	<u>\$ 45,732,424</u>

Changes in net asset composition by type of fund for the year ended June 30, 2019 are as follows:

	<u>Undesignated*</u>	<u>Purpose Restricted</u>	<u>Perpetually Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ 676,056	\$ 9,853,674	\$ 33,721,604	\$ 44,251,334
Investment return:				
Appreciation (depreciation) (realized and unrealized), net of interest and dividends	(36,296)	2,755,893	16,654	2,736,251
Contributions (sales)	4,575	3,527,384	975,158	4,507,117
Appropriation for expenditure	<u>-</u>	<u>(5,762,278)</u>	<u>-</u>	<u>(5,762,278)</u>
Endowment net assets, June 30, 2019	644,335	10,374,673	34,713,416	45,732,424
Trust held by third party	<u>-</u>	<u>-</u>	<u>1,870,230</u>	<u>1,870,230</u>
Total net assets	<u>\$ 644,335</u>	<u>\$ 10,374,673</u>	<u>\$ 36,583,646</u>	<u>\$ 47,602,654</u>

*Undesignated consists of funds that are restricted by the board.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 15. ENDOWMENT NET ASSETS (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. There were total deficiencies as of June 30, 2019 of \$1,421.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets invested with CommonFund to achieve growth in principal value while seeking to maintain the purchasing power of the endowment assets. These assets include donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The absolute objective of the pool is to earn a return sufficient to preserve the purchasing power of the pool for generations to come, as well as to provide for the current spending needs. The objective is to seek an average total annual return that exceeds the spending/payout rate plus fees and inflation.

The relative objective of the pool is to seek competitive investment performance versus appropriate capital market measures, such as securities indices. This objective shall be measured primarily by comparing investment results, reviewed quarterly by the Finance/Investment Committee.

Strategies Employed for Achieving Objectives

The assets will be managed on a total return basis. While the Foundation recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if such strategies are in the pool's best interest on a risk-adjusted basis. Risk management of the investment program is focused on understanding both the investment and operational risks to which the Pool is exposed. The objective is to minimize operational risks and require appropriate compensation for investment risks which the pool is willing to accept.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Montana Tech Foundation distributes funds from the Endowment using the following methodology: one percent of Endowment's average market value at the end of the preceding twelve quarters starting with December 31 of the preceding fiscal year, is reserved for distribution at the end of the quarter to reach an annualized distribution of four percent. An additional half percent of Endowment's market value is reserved for an administrative fee at the end of the quarter to reach an annualized fee of two percent. It is understood that the total return basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), under which guidelines the Institution is permitted to spend an amount in excess of the current yield (interest and dividends earned), including realized or unrealized appreciation. The Foundation expects the current spending policy to allow its endowment to grow.

MONTANA TECH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 16. RISKS AND UNCERTAINTIES

The Montana Tech Foundation provided for various investments in stocks and other investment securities. Investment securities, in general, are exposed to various risks, such as: significant world events, interest rate, credit, and overall market volatility. The Montana Tech Foundation may invest in securities with contractual cash flows, such as: asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Financial Position.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Commitments

The Montana Tech Foundation entered into an agreement with a related party, the University, for the purpose of building a Living Learning Center/Student Success Center. Under the agreement the Foundation is committed to pay \$8 million of the total \$24 million needed to construct the building. The Foundation has raised approximately \$7.8 million in gifts and pledges through June 30, 2019. The construction is expected to be complete in fall 2019.

The Foundation has entered into several limited partnerships for private equity funds, as part of its holding in alternative investments. As part of these investments, the Foundation has made a commitment to fund a total of \$16.3 million to these various funds. At June 30, 2019, the Foundation had invested approximately \$8 million, leaving a remaining commitment to be satisfied of \$8.3 million.

Legal and Regulatory Proceedings

The Foundation is subject to legal and regulatory matters that arise from time to time in the ordinary course of business. Management currently believes that resolving such matters, individually or in the aggregate, will not have a material adverse effect on the Foundation's financial position, results of operations, or cash flows. However, these matters are subject to inherent uncertainties and management's view may change in the future.



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