Report of Independent Auditors
and Financial Statements

**Montana Tech Foundation**

June 30, 2023

MOSSADAMS

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# Report of Independent Auditors

The Finance Committee and Board of Directors
Montana Technological University Foundation

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Montana Technological University Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Montana Technological University Foundation as of June 30, 2023, 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.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Montana Technological University Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana Technological University Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Montana Technological University Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana Technological University Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Moss Adams LLP

Spokane, Washington
October 30, 2023

# Financial Statements

# Montana Tech Foundation
## Statement of Financial Position
## June 30, 2023

### ASSETS

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 4,590,880 |
| Short-term investments | 2,084,770 |
| Pledges receivable, net | 24,034,935 |
| Prepaid expenses | 137,800 |
| Other assets | 223,668 |
| Investments at fair value | 65,662,289 |
| Beneficial interest in perpetual trust | 1,915,631 |
| Property and equipment, net | 1,737,259 |
| Total assets | $ 100,387,232 |

### LIABILITIES AND NET ASSETS

| | |
|---|---|
| **LIABILITIES** | |
| Accounts payable | $ 206,987 |
| Accrued expenses | 39,599 |
| Short-term notes payable | 90,128 |
| Long-term charitable gift annuities | 191,054 |
| Total liabilities | 527,768 |
| **NET ASSETS** | |
| Without donor restrictions | |
| Undesignated | 1,484,114 |
| Designated by the board | 758,854 |
| Total without donor restrictions | 2,242,968 |
| With donor restrictions | |
| Perpetual in nature | 59,758,876 |
| Purpose or time restrictions | 37,857,620 |
| Total with donor restrictions | 97,616,496 |
| Total net assets | 99,859,464 |
| Total liabilities and net assets | $ 100,387,232 |

See accompanying notes.

# Montana Tech Foundation
## Statement of Activities
## Year Ended June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | 2023 Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| Contributions | $ 140,221 | $ 35,690,263 | $ 35,830,484 |
| Contributed nonfinancial assets | 575 | 7,275,960 | 7,276,535 |
| Investment income, net | 95,880 | 3,333,067 | 3,428,947 |
| Net assets released from restrictions | 11,945,529 | (11,945,529) | - |
| Total revenue and support | 12,182,205 | 34,353,761 | 46,535,966 |
| **EXPENSES** | | | |
| Program services expense | | | |
| University support | | | |
| Educational program services | 889,286 | - | 889,286 |
| Nonfinancial distribution | 7,409,184 | - | 7,409,184 |
| Professorship distributions | 396,336 | - | 396,336 |
| Scholarship distributions | 2,042,494 | - | 2,042,494 |
| Direct college support | 45,000 | - | 45,000 |
| Total program expenses | 10,782,300 | - | 10,782,300 |
| Supporting services expense | | | |
| General and administrative | 665,971 | - | 665,971 |
| Fundraising | 855,151 | - | 855,151 |
| Total supporting services expenses | 1,521,122 | - | 1,521,122 |
| Total expenses | 12,303,422 | - | 12,303,422 |
| **CHANGE IN NET ASSETS** | (121,217) | 34,353,761 | 34,232,544 |
| Net assets - beginning of year | 2,364,185 | 63,262,735 | 65,626,920 |
| **NET ASSETS - END OF YEAR** | $ 2,242,968 | $ 97,616,496 | $ 99,859,464 |

See accompanying notes.

# Montana Tech Foundation
## Statement of Functional Expenses
## Year Ended June 30, 2023

| | Program Services | Supporting Activities | | |
|---|---|---|---|---|
| | University Support | General and Administrative | Fundraising | 2023 Total |
| Direct University support | $ 9,890,340 | $ 9,796 | $ - | $ 9,900,136 |
| Accounting and auditing | - | 56,027 | - | 56,027 |
| Advertising and promotion | 11,120 | - | 2,860 | 13,980 |
| Bad debt expense | - | 1,000 | - | 1,000 |
| Bank and credit card fees | 9,170 | 21,494 | - | 30,664 |
| Contracted services | 109,095 | 26,957 | 25,092 | 161,144 |
| Depreciation | 37,137 | 10,531 | 17,494 | 65,162 |
| Dues and subscriptions | 18,547 | 915 | 2,332 | 21,794 |
| Entertainment | 179,571 | 17,444 | 38,625 | 235,640 |
| Gifts | 58,327 | 4,131 | 23,575 | 86,033 |
| Insurance | 429 | 21,958 | - | 22,387 |
| Interest expense | 221 | - | - | 221 |
| Legal fees | 1,500 | 1,750 | - | 3,250 |
| Licenses and taxes | - | 35,256 | - | 35,256 |
| Minor equipment | 132,272 | 5,223 | 1,507 | 139,002 |
| Miscellaneous | 8,202 | - | 3,050 | 11,252 |
| Office supplies, printing, and postage | 7,008 | 11,403 | 7,418 | 25,829 |
| Prizes and awards | 11,754 | - | - | 11,754 |
| Professional development | 15,391 | 4,390 | 735 | 20,516 |
| Repairs and maintenance | 3,249 | 733 | - | 3,982 |
| Salaries and fringe benefits | - | 388,235 | 540,525 | 928,760 |
| Scholarship to others | 1,200 | - | - | 1,200 |
| Software acquisition and maintenance | 4,207 | 23,132 | 140,748 | 168,087 |
| Supplies | 133,446 | 1,165 | 1,001 | 135,612 |
| Telephone | - | 4,607 | 4,647 | 9,254 |
| Travel, lodging, and relocation | 150,114 | 19,824 | 45,542 | 215,480 |
| Total expenses by function | $ 10,782,300 | $ 665,971 | $ 855,151 | $ 12,303,422 |

See accompanying notes.

# Montana Tech Foundation
## Statement of Cash Flows
## Year Ended June 30, 2023

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | $ 34,232,544 |
| Adjustments to reconcile change in net assets to net cash | |
| Depreciation | 65,162 |
| Net realized and unrealized gain on operating investments | (2,482,368) |
| Contributions of donated stock | (1,185,026) |
| Unrealized gain on beneficial interest in perpetual trust | (82,779) |
| Change in value of charitable gift annuities | 8,317 |
| (Increase) decrease in assets and liabilities | |
| Pledge receivables | (22,221,726) |
| Other assets | 82,353 |
| Accounts payable | (69,371) |
| Accrued expenses | 2,971 |
| Net cash from operating activities | 8,350,077 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of property and equipment | (19,782) |
| Purchase of investments | (54,153,051) |
| Proceeds from sale of investments | 45,767,539 |
| Net cash from investing activities | (8,405,294) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Notes payable | (90,128) |
| Net cash from financing activities | (90,128) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (145,345) |
| Cash and cash equivalents - beginning of year | 4,736,225 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 4,590,880 |

See accompanying notes.

## Note 1 – Summary Of Significant Accounting Policies

**Organization** – Montana Tech Foundation (the Foundation) was organized and incorporated December 7, 1967, as a nonprofit 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.

**Basis of presentation** – The Foundation's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Use of estimates** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Net assets** – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenues are reported as increases in net assets without restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in without donor restricted net assets unless their use is restricted by explicit donor stipulation or by law.

**Cash and cash equivalents** – For the purpose of the statement of cash flows, management generally considers all checking and investment cash accounts with an original maturity of three months or less to be cash equivalents.

**Short-term investments** – The Foundation invests cash in excess of its immediate needs in certificate of deposit, U.S. Treasury securities, and obligations of federal agencies or affiliates. Short-term investments are carried at fair value, which approximate cost.

**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 U.S. Treasuries, certificates of deposit, and alternative investments are recorded as market gains or losses in the statements 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 and public equity funds, bond funds, real assets, and diversifying. The fair value of alternative investments publicly traded on national security exchanges are stated at their closing market prices as of June 30, 2023. 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 nonpublicly traded alternative investments, those estimated fair values may differ materially from the values that might ultimately be realized.

**Investment income** – Net investment income is comprised of dividend and interest income, realized and unrealized gains and losses on investments, and investment expenses. Dividend and interest income are recorded when earned. Realized gains and losses are recorded at the time of sale for the amount of the difference between the sale price and the cost basis of the investment. Unrealized gains and losses are recorded for the change in the fair value of the securities, which are still held as of year-end. Investment expenses are recorded as incurred.

**Beneficial interests in perpetual trust** – Beneficial interests in perpetual trust represent resources neither in the possession nor under the control of the Foundation, but held and administered by outside fiscal agents, with the Foundation deriving income from such funds and are reported at fair value. Distributions from the trust assets are restricted to use for either scholarships or academic and institutional support and are reported as income from perpetual trusts increasing net assets with donor restrictions. The value of the beneficial interests in these trusts is adjusted annually for the change in its estimated fair value. Those changes in value are also reported as increases/decreases in net assets with donor restrictions, because the trust assets will never be distributed to the Foundation.

**Pledges receivable, net** – 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 $20,000 has been recorded as of June 30, 2023. Pledges are reviewed on an individual basis to determine if they are collectible. Donors are contacted on pledges that have not performed in accordance with their agreement to determine if they are collectable. Conditional promises to give are recognized when the conditions on which they depend are met.

**Property and equipment, net** – Depreciable assets consist of land, buildings, furniture and equipment, and computer equipment. 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 three to forty years. Capital assets purchased on behalf of the University are classified as expenses by the Foundation since the University assumes control immediately after purchase. Repair and maintenance costs are expensed as incurred and improvements increasing the assets life or value in excess of $5,000 are capitalized. Property and equipment consist of the following at June 30, 2023:

| | |
|---|---|
| Land | $ 18,996 |
| Building | 2,306,447 |
| Furniture and equipment | 104,140 |
| Computer equipment | 21,030 |
| | 2,450,613 |
| Less accumulated depreciation | 713,354 |
| | $ 1,737,259 |

**Long-term charitable gift annuities** – The Foundation records an amount due to income beneficiaries of charitable gift annuities and charitable remainder trusts when it acts as trustee. The liability is based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Annual adjustments to the liability reflect revaluation of the present value of the estimated future payments to the income beneficiary and are recognized in the statement of activities as a change in value of planned gifts. The present value of the future payments was calculated using the original discount rates at the date of the gift, ranging from 0.6% to 4.4%, and applicable mortality tables.

**Contributions of financial assets** – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is communicated or received. Contributions of public stock are recorded at fair value on the date of donation and liquidated upon receipt. Contributions of life insurance policies are recorded at cash surrender value on the date of donation.

Conditional promises to give are recognized when the conditions on which they depend are met. Administrative fee revenue and other miscellaneous income is recognized over time when the related services have been provided and earned.

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.

**Contributed nonfinancial assets** – Contributed nonfinancial assets, or in-kind contributions, are recorded as contributions at their estimated fair value at the date of donation. Fair value is determined using appraisers or other readily available valuations of similar property and equipment. Such contributions are reported as increases within the net asset classification of without donor restrictions unless the donor has restricted the donated asset to a specific purpose or time restriction. The Foundation will evaluate each contributed asset to determine whether it will be utilized or monetized depending on the nature of the asset. No amounts have been reflected in the statements for donated services because they do not meet the criteria to record under GAAP (see Note 15).

**Administrative support** – Administrative support includes an investment management fee and a service fee. The investment management fee is an annual 2% fee (charged quarterly) to the endowment and quasi-endowment funds. The service fee is a one-time 5% fee assessed on all contributions, sales, services and other revenue received, which is recorded as a release from restriction.

**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 net assets with donor restrictions. When the restriction is met or earnings appropriated by the board, the earnings are reclassified to undesignated net assets (without donor restrictions).

**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.

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.

**Advertising** – Advertising costs, which relate principally to fundraising activities, are expensed as incurred and totaled $13,980 for the year ended June 30, 2023.

**Income taxes** – The Foundation is exempt from federal and state income taxes under Internal Revenue Code §50l(c)(3) as amended. The Internal Revenue Service (IRS) 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. The Foundation complies with the FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. As of June 30, 2023, the Foundation had no uncertain tax positions requiring accrual.

**Concentrations of risk** –

*Cash equivalents* – In the normal course of business, the Foundation may maintain balances at a bank in excess of federally insured limits.

*Investments* – Investments are exposed to various risks, such as interest, market, and credit risks. It is reasonably possible given the risks associated with investments that changes in the near term could materially affect the amounts reported in the financial statements. To manage risk, the Foundation has formal investment policies.

**New accounting pronouncements** – July 1, 2022, the Foundation adopted Accounting Standards Codification (ASC) 842, *Leases*. The standard establishes a new accounting model for leases, which requires lessees to recognize right-of-use assets and lease liabilities on the statement of financial position, but lease expense will be recognized on the statement of activities in a manner similar to previous requirements. The Foundation's existing leases are not significant. Therefore, adoption of this new standard did not have a material impact on the Foundation's financial statements and related disclosures.

**Subsequent events** – Management has evaluated subsequent events through October 30, 2023, the date on which the financial statements were available to be issued.

## Note 2 – Liquidity and availability

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

| | |
|---|---|
| Financial assets at year end | |
| Cash and cash equivalents | $ 4,590,880 |
| Short-term investments | 2,084,770 |
| Pledges receivable, net | 24,034,935 |
| Investments | 65,662,289 |
| Beneficial interest in perpetual trust | 1,915,631 |
| Total financial assets | 98,288,505 |
| Less amounts not available to be used within one year | |
| Board-designated net assets | (758,854) |
| Total net assets with donor restrictions | (96,416,496) |
| Total amounts not available to be used within one year | (97,175,350) |
| Total | $ 1,113,155 |

The Foundation's general expenditures include fundraising and administrative expenses. To meet the cash needs for these general expenditures during the year, the Foundation relies upon the administrative fees (endowment management fee and service fee), unrestricted donations, and investment earnings from short-term investments.

Total net assets with donor restrictions as of June 30, 2023, has been reduced by managements estimate of the 2% investment management fee charged to endowments to be distributed in the next 12 months.

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, the Foundation has board-designated funds of $758,854 as of June 30, 2023. Although the Foundation does not intend to spend from its board-designated endowment, amounts 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.

The majority of the Foundation's assets are held for Montana Tech with donor restrictions. The expenditures of these assets are not considered general expenditures.

**Note 3 – Pledges Receivable**

Pledges receivable consist of the following at June 30, 2023:

| | |
|---|---|
| Within one year | $ 8,318,107 |
| In one to five years | 17,753,501 |
| Over five years | 40,000 |
| Total | 26,111,608 |
| Less discount to net present value | (2,056,673) |
| Less allowance for uncollectible promises to give | (20,000) |
| Total | $ 24,034,935 |

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 0.6%-4.4%.

At June 30, 2023, the Foundation had a pledge receivable from one donor, which represented 96% of the total pledges receivable. This pledge was recorded during fiscal year June 30, 2023.

Pledges receivable have been designated by donors for the following purposes at June 30, 2023:

| | |
|---|---|
| Endowment | $ 25,104,808 |
| Scholarships | 956,800 |
| Nursing Simulation Center | 50,000 |
| Total | $ 26,111,608 |

**Note 4 – Investments and Fair Value Measurements**

Investments are stated at fair value following applicable requirements of accounting principles generally accepted in the United States of America. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair market values are determined by the most relevant available and observable valuation inputs and are classified into three levels.

The three levels of the fair value hierarchy are described below:

**Level 1** – Quoted market prices available through public markets for identical assets or liabilities.

**Level 2** – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** – Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

Investments in certificates of deposit and debt securities where cash deposits are invested in a diversified network of banks are classified within Level 2.

Investments in beneficial interest in perpetual trust are invested in a diversified network of banks and are classified within Level 3.

Investment funds valued using net asset value per share (NAV) or its equivalent as reported by investment managers and have trading activity and the ability to redeem at NAV on or near the reporting date, are evaluated outside of the fair value hierarchy.

The general partners of the underlying investment partnerships generally value their investments at fair value and in accordance with accounting principles generally accepted in the United States of America. Investments with no readily available market are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, and/or the income approach. Consideration is also given to financial condition and operating results of the investments, the amount the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant.

Although the Foundation uses its best judgement in determining the fair value, the values presented herein are not necessarily indicative of the amount the Foundation could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon redemption of the investments.

The following tables present by level, within the fair value hierarchy, the Foundation's investment assets at fair value, as of June 30, 2023, respectively. Investment assets are classified in their entirety based upon the lowest level of input that is significant at the fair value measurement.

| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Short-term investments | | | | |
| U.S. Treasury securities | $ - | $ 845,676 | $ - | $ 845,676 |
| Certificates of deposit | - | 1,239,094 | - | 1,239,094 |
| Total short-term investments in fair value hierarchy | - | 2,084,770 | - | 2,084,770 |
| Beneficial interest in perpetual trust | - | - | 1,915,631 | 1,915,631 |
| Total assets in fair value hierarchy | $ - | $ 2,084,770 | $ 1,915,631 | $ 4,000,401 |
| Long-term investments measured at NAV practical expedient | | | | $ 65,662,289 |

In accordance with the Financial Accounting Standards Board Accounting Standards Codification Subtopic 820-10, certain investments that are measured at fair value using the NAV 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 statement of financial position.

**Fair value of investments in entities that use NAV** – The following table summarizes investments measured at fair valued based on NAV per share, as well as the unfunded commitment as of June 30, 2023:

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Common collective funds | | | | |
| Public equity funds | $ 26,731,247 | $ - | Daily | 30 Days |
| Private equity funds | 10,546,626 | 4,816,777 | Not Liquid | N/A |
| Bond funds | 11,295,996 | 2,932,798 | Daily | 30 Days |
| Real asset funds | 10,396,323 | 5,462,712 | Not Liquid | N/A |
| Diversifying funds | 6,692,097 | - | Daily | 30 Days |
| Total | $ 65,662,289 | $ 13,212,287 | | |

*Public equity* – Public equity investments are structured as limited partnerships allowing for a variety of investment strategies including investments in illiquid debt and equity assets across multiple sectors and global markets. The unobservable inputs used to determine fair value has been estimated based on the capital account balances reported by underlying partnerships subject to the private capital fund of funds management review and judgment.

*Private equity* – Private equity investments are structured as limited partnerships allowing for a variety of investment strategies including investments in illiquid debt and equity assets across multiple sectors and global markets. The unobservable inputs used to determine fair value has been estimated based on the capital account balances reported by underlying partnerships subject to the private capital fund of funds management review and judgment.

*Bond* – Fixed income securities include but are not limited to global bonds, foreign currency, emerging market debt, convertibles, and securitized debt and bank loans. The fair value calculation of these funds is based primarily on readily available quoted or comparable market prices.

*Real assets* – These funds consist of a diversified portfolio of commercial property and energy investments. The unobservable inputs used to determine fair value may include but are not limited to discounted cash flows, comparable asset analyses, third-party pricing services, and appraisals and bona fide offers.

*Diversifying* – These funds consist of domestic and international equities, which are proprietary, institutional index funds comprised of publicly traded corporate stock. These funds also consist of fixed income securities such as U.S. government securities and corporate bonds. Investing in collective funds provides diversification, dividend income, and growth potential to the overall portfolio. The fair value calculation of these funds is based on readily available quoted or comparable market prices.

The following is a summarization of the level 3 significant unobservable inputs:

| Instrument | Fair Value 2023 | Principal Valuation Technique | Observable Inputs |
|---|---|---|---|
| Beneficial interest in perpetual trust | $ 1,915,631 | FMV of Trust Investments | Values of Unerlying Asssts |

The following reconciles the Level 3 inputs of fair value measurements using significant unobservable inputs for the year ended June 30, 2023:

| | |
|---|---|
| Balance at June 30, 2022 | $ 1,832,852 |
| Investment income | 82,779 |
| Balance at June 30, 2023 | $ 1,915,631 |

Investment fees totaled $103,704 for the years ended June 30, 2023. Net investment income at June 30 consisted of the following:

| | |
|---|---|
| Interest and dividend income | $ 71,950 |
| Unrealized gain on investments | 3,039,940 |
| Unrealized gain on benficial interest | 82,779 |
| Realized gain on investments | 337,982 |
| Investment fees | (103,704) |
| Investment Income, net | $ 3,428,947 |

**Note 5 – Trust Funds Held by third Parties**

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 are reinvested with donor restricted net assets. The financial statements reflect the fair value of the Davis Trust assets at June 30, 2023, in the amount of $1,915,631. The Davis Trust generated an unrealized gain of $82,779 for the year ended June 30, 2023.

**Note 6 – Notes Payable**

The Foundation has an unsecured line of credit with Glacier Bank valued at $150,000. The line of credit bears interest at 4.5%. There was no outstanding balance as of June 30, 2023. The line of credit is subject to renewal on November 6, 2023.

In June 2020, the Foundation entered into a finance agreement for a new software subscription in which the lender pays the software vendor directly and the Foundation began paying back the lender in July 2021. The agreement requires 12 quarterly payments of $22,532 and matures in June 2024. The balance remaining on the loan was $90,128 as of June 30, 2023.

**Note 7 – Net Assets With Donor Restrictions**

The Foundation is subject to certain provisions of the Montana Code Annotated, which specifies 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.

Donor restricted net assets exist for the following purposes as of June 30, 2023:

| | |
|---|---|
| Subject to expenditure for specified purpose | |
| Scholarships | $ 1,695,046 |
| Excellence in engineering | 290,375 |
| Departments | 2,749,944 |
| Miscellaneous | 22,739,457 |
| Total | 27,474,822 |
| Original donor-restricted gift amount and amounts Required to be maintained in perpetuity by donor | |
| Scholarships | 35,177,575 |
| Professorships | 13,257,912 |
| Excellence in engineering | 598,139 |
| Departments | 8,809,619 |
| Subtotal | 57,843,245 |
| Beneficial interest in perpetual trust | 1,915,631 |
| Total amounts held in perpetuity | 59,758,876 |
| Subject to the Foundation's spending policy and appropriation | |
| Scholarships | 6,651,369 |
| Professorships | 2,871,421 |
| Excellence in engineering | 430,947 |
| Departments | 429,061 |
| Total | 10,382,798 |
| Total net assets with donor restrictions | $ 97,616,496 |

**Note 8 – Board-Designated Net Assets**

Board-designated net assets consist of the following at June 30, 2023:

| | |
|---|---|
| Appleman, Waring, James Environmental Endowed Scholarship | $ 1,674 |
| Rae Farrell Memorial Endowed Nursing Scholarship | 6,875 |
| 40th Anniversary Environmental Engineering Endowed Scholarship | 5,324 |
| Kristen Knudsen Memorial Endowed Scholarship | 2,155 |
| SageStrong Sage Lindsay Memorial Scholarship Endowment | 5,938 |
| Lee LaBreche Memorial Endowed Scholarship | 5,541 |
| Class of 2004 Endowment | 14,701 |
| Legacy Endowment | 716,646 |
| Total | $ 758,854 |

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

**Note 9 – 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 the accounting principles generally accepted in the United States of America. This provides guidance on the net assets classification of donor-restricted endowment funds for a nonprofit organization that is subject to UPMIFA.

The Foundation's endowment consists of one fund managed by Common Fund. 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.

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 composition by type of fund as of June 30, 2023, are as follows:

| | Without Donor Restrictions | Purpose Restricted | Perpetually Restricted | Total |
|---|---|---|---|---|
| Donor restricted endowment | $ - | $ 10,382,798 | $ 57,843,245 | $ 68,226,043 |
| Board restricted endowment | 758,854 | - | - | 758,854 |
| Total | $ 758,854 | $ 10,382,798 | $ 57,843,245 | $ 68,984,897 |

Changes in net asset composition by type of fund for the years ended June 30, 2023, are as follows:

| | Board Restricted | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets at June 30, 2022 | $ 712,718 | $ 56,650,220 | $ 57,362,938 |
| Net appreciation unrealized | 95,880 | 5,175,302 | 5,271,182 |
| Contributions | - | 10,984,588 | 10,984,588 |
| Gift fees | (12,878) | (207,983) | (220,861) |
| Appropriation for expenditure (4%) | (24,172) | (1,891,478) | (1,915,650) |
| Expenditures from direct spending | - | (1,640,586) | (1,640,586) |
| Appropriation for fees | (12,694) | (844,020) | (856,714) |
| Endowment net assets at June 30, 2023 | $ 758,854 | $ 68,226,043 | $ 68,984,897 |
| Total Net Assets | $ 758,854 | $ 68,226,043 | $ 68,984,897 |

**Underwater endowments** – 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 of approximately $829,000 for the year ended June 30, 2023.

**Return objectives and risk parameters** – The Foundation has adopted investment and spending policies for endowment assets invested with Common Fund 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 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 and 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: 1% of the 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 4%. An additional half percent of the endowment's market value is reserved for an administrative fee at the end of the quarter to reach an annualized fee of 2%. 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.

**Note 10 – 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. The Foundation transferred $45,000 for the year ended June 30, 2023, to the University for the vice-chancellor's 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 noncash donations to support the programs, faculty, staff, and students of the University. During the fiscal year ended June 30, 2023, the Foundation transferred a total of $10,782,300 to the University. At June 30, 2023, there was a payable of $23,329 owing to the University. The Foundation also transferred $7,409,184 of non-cash donations to the University in fiscal year 2023.

At June 30, 2023, the board of directors of the Foundation included seven nonmembers of the faculty and administration. The board of directors gave $188,505 in contributions for the year ended June 30, 2023. Of these amounts, there were $25,000 receivables as of June 30, 2023.

### Note 11 – 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 12 – Retirement 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 six consecutive months of employment, the Foundation matches qualified employee contributions at 11% of the employees' adjusted gross salary. For fiscal year 2023, the Foundation contributed $54,148 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 20 hours per week are not eligible to participate in the plan. As of June 30, 2023, the Foundation has not contributed to the 403(b) plan.

### Note 13 – 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 statement of financial position.

### Note 14 – Contingencies

**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.

**Note 15 – Contributed Nonfinancial Assets**

For the year ended June 30, 2023, contributed nonfinancial assets recognized within the statement of activities includes the following:

| | |
|---|---|
| Art - works of art | $ 3,600 |
| Books and publications | 650 |
| Clothing and other household goods | 9,524 |
| Collectibles | 622,552 |
| Equipment | 68,198 |
| Food inventory | 445 |
| Gift baskets | 613 |
| Gift certificates | 1,456 |
| Hotel stays | 483 |
| Services | 1,655 |
| Software | 6,564,992 |
| Supplies | 457 |
| Tickets, events, and green fees | 1,910 |
| | $ 7,276,535 |

Contributed nonfinancial assets were utilized by Montana Tech for their programs and the Foundation.

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