# Michigan Tech Fund

## Financial Statements
## For the years ended
## June 30, 2012 and 2011

**Michigan Tech Fund**
Financial Statement Contents
For the years ended June 30, 2012 and 2011

Rehmann

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## Independent Auditors' Report

September 25, 2012

To the Board of Trustees
Michigan Tech Fund
Hancock, Michigan

We have audited the accompanying statements of financial position of the ***Michigan Tech Fund*** (the "Fund," a not-for-profit organization and a discretely presented component unit of Michigan Technological University) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Michigan Tech Fund*** at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rehmann Robson

# Michigan Tech Fund
Statements of Financial Position
June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,873,414 | $ 4,404,099 |
| Pledges receivable, net of allowance for uncollectible amounts | 4,991,445 | 2,758,931 |
| Amount due from Michigan Technological University | - | 100,000 |
| Interest and dividends receivable | 137,721 | 125,992 |
| Prepaid expenses | 12,658 | 32,250 |
| Total current assets | 11,015,238 | 7,421,272 |
| Long-term assets: | | |
| Pledges receivable, net of allowance, net of current portion | 3,091,844 | 3,326,909 |
| Cash surrender value, life insurance | 933,665 | 907,099 |
| Contributions receivable from remainder trusts | 4,496,015 | 4,678,875 |
| Investments | 90,297,647 | 96,864,373 |
| Property held for sale | 119,000 | 65,000 |
| Fixed assets, net | 6,897 | 11,069 |
| Total long-term assets | 98,945,068 | 105,853,325 |
| Total assets | $ 109,960,306 | $ 113,274,597 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 651,114 | $ 663,911 |
| Deferred revenue | - | 1,000,000 |
| Current portion of annuity obligations | 323,948 | 333,670 |
| Total current liabilities | 975,062 | 1,997,581 |
| Long-term liabilities: | | |
| Annuity obligations, net of current | 3,338,065 | 3,090,185 |
| Pooled income obligations | 867,718 | 847,785 |
| Total long-term liabilities | 4,205,783 | 3,937,970 |
| Total liabilities | 5,180,845 | 5,935,551 |
| Contingency and commitments (Notes 1, 2, and 10) | | |
| Net assets: | | |
| Unrestricted | 1,259,011 | 4,523,209 |
| Temporarily restricted | 37,450,730 | 41,541,165 |
| Permanently restricted | 66,069,720 | 61,274,672 |
| Total net assets | 104,779,461 | 107,339,046 |
| Total liabilities and net assets | $ 109,960,306 | $ 113,274,597 |

The accompanying notes are an integral part of these financial statements.

**Michigan Tech Fund**
Statement of Activities
For the year ended June 30, 2012

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and revenue: | | | | |
| Contributions | $ 1,070,301 | $ 7,843,759 | $ 4,795,048 | $ 13,709,108 |
| Investment return (loss) | 1,941,074 | (2,376,114) | - | (435,040) |
| Other income | 48,064 | 102,350 | - | 150,414 |
| Net assets released from restrictions | 9,660,430 | (9,660,430) | - | - |
| Total support and revenue | 12,719,869 | (4,090,435) | 4,795,048 | 13,424,482 |
| Expenses: | | | | |
| Program services on behalf of Michigan Technological University: | | | | |
| Scholarships and fellowships | 3,310,389 | - | - | 3,310,389 |
| Departmental and other program support | 11,739,137 | - | - | 11,739,137 |
| | 15,049,526 | - | - | 15,049,526 |
| Management and general expenses: | | | | |
| Salaries, wages, and benefits | 531,391 | - | - | 531,391 |
| Other operating expenses | 403,150 | - | - | 403,150 |
| | 934,541 | - | - | 934,541 |
| Total expenses | 15,984,067 | - | - | 15,984,067 |
| Change in net assets | (3,264,198) | (4,090,435) | 4,795,048 | (2,559,585) |
| Net assets, beginning of year | 4,523,209 | 41,541,165 | 61,274,672 | 107,339,046 |
| Net assets, end of year | $ 1,259,011 | $ 37,450,730 | $ 66,069,720 | $ 104,779,461 |

The accompanying notes are an integral part of these financial statements.

**Michigan Tech Fund**
Statement of Activities
For the year ended June 30, 2011

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and revenue: | | | | |
| Contributions | $ 5,290,953 | $ 7,478,901 | $ 3,933,296 | $ 16,703,150 |
| Investment return | 4,862,459 | 10,984,030 | - | 15,846,489 |
| Other income | 60,626 | 249,817 | - | 310,443 |
| Net assets released from restrictions | 10,378,135 | (10,378,135) | - | - |
| Total support and revenue | 20,592,173 | 8,334,613 | 3,933,296 | 32,860,082 |
| Expenses: | | | | |
| Program services on behalf of Michigan Technological University: | | | | |
| Scholarships and fellowships | 3,124,236 | - | - | 3,124,236 |
| Departmental and other program support | 11,343,200 | - | - | 11,343,200 |
| | 14,467,436 | - | - | 14,467,436 |
| Management and general expenses: | | | | |
| Salaries, wages, and benefits | 546,999 | - | - | 546,999 |
| Other operating expenses | 413,639 | - | - | 413,639 |
| | 960,638 | - | - | 960,638 |
| Total expenses | 15,428,074 | - | - | 15,428,074 |
| Change in net assets | 5,164,099 | 8,334,613 | 3,933,296 | 17,432,008 |
| Net assets (deficit), beginning of year | (640,890) | 33,206,552 | 57,341,376 | 89,907,038 |
| Net assets, end of year | $ 4,523,209 | $ 41,541,165 | $ 61,274,672 | $ 107,339,046 |

The accompanying notes are an integral part of these financial statements.

**Michigan Tech Fund**
Statement of Functional Expenses
For the year ended June 30, 2012

| | 2012 | | |
|---|---|---|---|
| | Program Services | Management & General | Total |
| Expenses: | | | |
| Scholarships and fellowships | $ 3,310,389 | $ - | $ 3,310,389 |
| Departmental and other program support | 11,739,137 | - | 11,739,137 |
| Salaries and wages | - | 405,831 | 405,831 |
| Payroll taxes | - | 29,091 | 29,091 |
| Retirement plan contributions | - | 31,891 | 31,891 |
| Other employee fringe benefits | - | 64,579 | 64,579 |
| Supplies | - | 18,659 | 18,659 |
| Postage and printing | - | 9,744 | 9,744 |
| Insurance | - | 20,242 | 20,242 |
| Telephone | - | 409 | 409 |
| Accounting fees | - | 21,150 | 21,150 |
| Travel | - | 4,433 | 4,433 |
| Board meetings | - | 20,134 | 20,134 |
| Entertainment | - | 40,197 | 40,197 |
| Equipment charges and maintenance | - | 17,340 | 17,340 |
| Depreciation | - | 4,173 | 4,173 |
| Space rental | - | 151,896 | 151,896 |
| Stewardship and special events | - | 8,079 | 8,079 |
| Professional services | - | 15,346 | 15,346 |
| Credit card processing fees | - | 19,462 | 19,462 |
| Training and seminars | - | 845 | 845 |
| Dues and memberships | - | 9,447 | 9,447 |
| Custodian and trustee fees | - | 24,138 | 24,138 |
| Other | - | 17,454 | 17,454 |
| Total expenses | $ 15,049,526 | $ 934,541 | $ 15,984,067 |

The accompanying notes are an integral part of these financial statements.

**Michigan Tech Fund**
Statement of Functional Expenses
For the year ended June 30, 2011

| | 2011 | | |
|---|---|---|---|
| | Program Services | Management & General | Total |
| Expenses: | | | |
| Scholarships and fellowships | $ 3,124,236 | $ - | $ 3,124,236 |
| Departmental and other program support | 11,343,200 | - | 11,343,200 |
| Salaries and wages | - | 415,510 | 415,510 |
| Payroll taxes | - | 31,330 | 31,330 |
| Retirement plan contributions | - | 34,538 | 34,538 |
| Other employee fringe benefits | - | 65,621 | 65,621 |
| Supplies | - | 21,766 | 21,766 |
| Postage and printing | - | 11,347 | 11,347 |
| Insurance | - | 19,710 | 19,710 |
| Telephone | - | 844 | 844 |
| Legal fees | - | 1,212 | 1,212 |
| Accounting fees | - | 20,500 | 20,500 |
| Travel | - | 3,408 | 3,408 |
| Board meetings | - | 14,701 | 14,701 |
| Entertainment | - | 23,691 | 23,691 |
| Equipment charges and maintenance | - | 18,488 | 18,488 |
| Depreciation | - | 5,120 | 5,120 |
| Space rental | - | 151,896 | 151,896 |
| Stewardship and special events | - | 10,794 | 10,794 |
| Professional services | - | 24,637 | 24,637 |
| Credit card processing fees | - | 19,637 | 19,637 |
| Training and seminars | - | 2,750 | 2,750 |
| Dues and memberships | - | 8,358 | 8,358 |
| Custodian and trustee fees | - | 27,502 | 27,502 |
| Other | | 27,278 | 27,278 |
| Total expenses | $ 14,467,436 | $ 960,638 | $ 15,428,074 |

The accompanying notes are an integral part of these financial statements.

# Michigan Tech Fund

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (2,559,585) | $ 17,432,008 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 4,173 | 5,120 |
| Provision for uncollectible pledges | 155,087 | 239,670 |
| Net realized and unrealized losses (gains) | 3,001,192 | (13,801,998) |
| Contributions of marketable securities and real property | (705,168) | (978,198) |
| Contributions restricted for long-term investment | (3,985,821) | (1,878,511) |
| Changes in present value of split-interest agreements | 543,716 | 332,484 |
| Net change in contributions receivable from remainder trusts | 182,860 | (507,194) |
| Increase in cash surrender value, life insurance | (26,566) | (10,656) |
| Changes in assets and liabilities: | | |
| Interest and dividends receivable | (11,729) | (73,371) |
| Pledges receivable, net of permanently restricted components | (634,347) | (1,044,516) |
| Prepaid expenses | 19,592 | 12,658 |
| Accounts payable and accrued expenses | (12,797) | 145,015 |
| Deferred revenue | (1,000,000) | - |
| Net cash used in operating activities | (5,029,393) | (127,489) |
| Cash flows from investing activities: | | |
| Purchase of investments | (67,114,012) | (23,079,237) |
| Proceeds from sale of investments | 71,330,713 | 21,875,458 |
| Collection of amount due from Michigan Technological University | 100,000 | 500,000 |
| Net cash provided by (used in) investing activities | 4,316,701 | (703,779) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for: | | |
| Investment in endowments | 3,580,673 | 1,791,345 |
| Investment subject to annuity agreements | 405,148 | 87,166 |
| Change in permanently restricted contributions receivable | (1,518,189) | (1,616,444) |
| Payments on annuity obligations | (285,625) | (325,743) |
| Net cash provided by (used in) financing activities | 2,182,007 | (63,676) |
| Net change in cash and cash equivalents | 1,469,315 | (894,944) |
| Cash and cash equivalents, beginning of year | 4,404,099 | 5,299,043 |
| Cash and cash equivalents, end of year | $ 5,873,414 | $ 4,404,099 |

The accompanying notes are an integral part of these financial statements.

**1. Summary of Significant Accounting Policies:**

The **Michigan Tech Fund** (the "Fund") is a Michigan not-for-profit organization established to raise, receive, and maintain funds to use or apply the whole or any part of the income therefrom or the principal thereof exclusively to promote the best interest, purposes, and objectives of Michigan Technological University (the "University" or "MTU"). The Fund is a discretely presented component unit of the University. As of July 2, 2012, the Fund entered into an arrangement with the University in which Fund employees became University employees. The Fund will reimburse the University for expenses associated with those employees. The Fund is organized under the provisions of the Michigan Corporation Act (Act 327, PA of 1931) as amended. The Fund has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Fund have been grouped into the following three classes:

***Unrestricted net assets:*** Generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, less the expenses incurred in providing services, raising contributions, and performing administrative functions.

***Temporarily restricted net assets:*** Generally result from contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, and other inflows of assets, which are held for specific purposes as stipulated by the donor. Temporarily restricted net assets are released from restrictions by the passage of time or by actions of the Fund, pursuant to the donors' stipulations.

***Permanently restricted net assets:*** Generally result from contributions and other inflows of assets that represent permanent endowments where use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Fund.

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

**a. Cash and Cash Equivalents:** Cash and cash equivalents include cash deposits, time deposits, money market funds, and highly liquid debt instruments with original maturities of three months or less. Bank account balances periodically exceed the federal insurance limits for deposits. Management evaluates the financial institutions in which the Fund maintains deposits and assesses the level of risk associated with those institutions.

**1. Summary of Significant Accounting Policies, continued:**

**b. Fair Value Measurements:** Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data.

For assets and liabilities recorded at fair value, it is the Fund's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, the Fund includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. For a further discussion of Fair Value Measurements, refer to Note 3.

**c. Investments:** Investments in marketable securities including hedge funds are carried at quoted fair market value whenever possible. Hedge funds' fair values are based on information provided by the administrators of each underlying fund. Real estate and natural resources are accounted for on the equity method. Private equity and limited partnerships which do not have readily determinable market values as of June 30 are valued based on the most recent available partner capital account balances as reported by the partnerships to the Fund. The partnership valuations involve assumptions and methods that are reviewed by the Fund. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, private equity and limited partnerships' estimated values may differ materially from the values that would have been used if a ready market for the securities existed. Gifts of securities are recorded at their fair value based on the mean of the high and low quoted price of stock transactions at the date of the gift. Except for investments that are not readily marketable or where donors specifically provide otherwise, investments are maintained by custodial institutions responsible for consummating investment transactions at the request of the Fund to facilitate cash flow requirements. The Fund employs an asset allocation investment policy and uses the services of an investment advisor to facilitate the implementation of this policy. Asset allocations are reviewed monthly and rebalanced as necessary. The Fund's Investment Committee of the Board of Trustees provides oversight of the investment advisor and makes recommendations to the Board of Directors concerning any changes in the asset allocation. Each month, the Fund allocates and credits investment earnings (including realized and unrealized gains and losses) on permanently restricted, temporarily restricted, and unrestricted net assets to departmental funds based on an average of each fund's beginning and ending monthly balances. Any unrealized losses on amounts invested for donor-restricted endowments are recorded as temporarily restricted to the extent of unexpended earnings of the respective endowment fund. Any unrealized losses in excess of that amount are charged to unrestricted net assets. Subsequent unrealized appreciation on the related investments is recorded as unrestricted up to the amount of losses previously absorbed by unrestricted net assets.

**1. Summary of Significant Accounting Policies, continued:**

**d. Split-Interest Agreements:** Life income trusts, pooled income funds, remainder trusts, and certain other investments are maintained by a separate trust company. Trustee functions include management of the investments, distributions to donors, complying with tax filing requirements, and providing periodic trust statements to the Fund. Refer to Note 7 for further details.

**e. Fixed Assets:** The fixed assets of the Fund consist of leasehold improvements, office equipment, computers, and software. Fixed assets are recorded at cost at the date of acquisition and are depreciated on a straight-line basis over estimated useful lives, which range from three to seven years. At the time of disposal, any gain or loss is recognized in the statement of activities.

**f. Gifts-in-Kind:** Land, buildings, and equipment are recorded at estimated fair value at the date of the gift based upon appraised values. In most cases, the Fund serves as an agent for the receipt of property and equipment and immediately transfers these gifts to the University. The Fund has a policy to list for sale any gifts-in-kind received and not subject to immediate transfer to the University.

**g. Contributions and Pledges Receivable:** Contributions received and unconditional promises to give are recognized at their fair values as revenues in the periods received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. All unconditional promises to give are recorded at their net realizable values.

**h. Asset-Based Management and Administrative Fees:** The Fund receives monthly management and administrative fees from the various departmental funds for acting as agent-intermediary for assets processed and maintained by the Fund. These fees increase unrestricted net assets and decrease temporarily restricted net assets.

**i. Amount Due from Michigan Technological University / Deferred Revenue:** During fiscal year 2007, the Fund received a contribution in the amount of $1,000,000, which was immediately loaned to the University; repayment to the Fund was based on an agreement as stipulated by the donor which stated that the University shall deliver no less than (1) a cumulative total of $400,000 to the Fund by September 30, 2008; (2) a cumulative total of $900,000 to the Fund by September 30, 2010; and (3) a cumulative total of $1,000,000 to the Fund by September 30, 2011. The first, second, and third payments of $400,000, $500,000, and $100,000, respectively, were made timely by the University; thus the $1,000,000 of revenue was recognized during fiscal year 2012.

**1. Summary of Significant Accounting Policies, continued:**

**j. Income Taxes:** Accounting Standards Codification ("ASC") Topic 740 prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. Not-for-profit organizations are also within the scope of ASC Topic 740. An organization must consider whether it has engaged in activities that jeopardize its current tax exempt status with the Internal Revenue Service. Furthermore, the organization must determine whether it has any unrelated business income, which may be subject to US federal or state income taxes. The Fund analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Fund has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any charges for such, to the extent they arise, as a component of its management and general expenses.

The Fund evaluated the provisions of ASC Topic 740 for fiscal years 2008 through 2012, the years which remain subject to examination by major tax jurisdictions as of June 30, 2012. The Fund concluded that there are no significant uncertain tax positions requiring recognition in the Fund's financial statements. The Fund does not expect the total amount of unrecognized tax benefits ("UTB") (e.g., tax deductions, exclusion, or credits claimed or expected to be claimed) to significantly increase or decrease in the next twelve months. The Fund does not have any amounts accrued for interest and penalties related to UTBs at June 30, 2012 and 2011, and it is not aware of any claims for such amounts by federal or state income tax authorities.

**k. Subsequent Events:** In preparing these financial statements, the Fund has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2012, the most recent statement of financial position presented herein, through September 25, 2012, the date these financial statements were available to be issued. No significant such events or transactions were identified, except that, on July 2, 2012, all employees of the Fund became employees of Michigan Technological University, as described in Note 1.

## 2. Investments

Investments, carried at fair value, at June 30, 2012 and 2011, are categorized as follows:

| | 2012 | 2011 |
|---|---|---|
| Marketable securities | | |
| Equities | $ 354,804 | $ 336,553 |
| Mutual funds – equities | 40,686,554 | 40,943,940 |
| Mutual funds – fixed income | 12,555,494 | 38,165,685 |
| Corporate bonds and notes | 115,573 | 27,658 |
| US government obligations | 20,540,614 | 949,709 |
| Total marketable securities | 74,253,039 | 80,423,545 |
| Alternative investments | | |
| Hedge funds | 5,054,643 | 4,934,818 |
| Real estate and natural resources | 4,112,379 | 3,976,200 |
| Private equity | 6,857,586 | 7,480,810 |
| Total alternative investments | 16,024,608 | 16,391,828 |
| Other investments | 20,000 | 49,000 |
| Total investments | $ 90,297,647 | $ 96,864,373 |

At June 30, 2012, the Fund's remaining future capital commitments for investment in limited partnerships (alternative investments) is approximately $1,694,000.

Investment (loss) return is a net amount and is comprised of the following for the years ended June 30, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Interest and dividends | $ 2,049,053 | $ 1,850,878 |
| Capital gain distributions | 752,749 | 436,565 |
| Net gain on sale of investments | 2,667,681 | 1,633,639 |
| Net unrealized (loss) gain on investments | (5,668,873) | 12,168,358 |
| Asset-based management and administrative fees | (235,650) | (242,951) |
| Total investment (loss) return | $ (435,040) | $ 15,846,489 |

The Fund invests in various securities including US government obligations, corporate debt instruments, mutual funds, corporate equities, and alternative investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. 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 and activities.

## 3. Fair Value:

The Fund utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Additionally, from time to time, the Fund may be required to adjust other assets and liabilities to fair value on a non-recurring basis.

*Fair Value Hierarchy*

Under ASC Topic 820, the Fund groups its assets at fair value into three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

**Level 1:** Valuation is based upon quoted prices for identical instruments traded in active markets.

**Level 2:** Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

**Level 3:** Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for assets recorded at fair value on a recurring basis.

**Investments:** Fair value measurement is based upon quoted prices, if available. Level 1 investments include fixed income and equity securities (primarily mutual funds). Level 2 investments include debt securities (principally fixed income mutual funds and US government obligations). Level 3 investments include limited partnership interests in hedge funds, private equity funds, and real estate. Hedge funds' fair values are based on the information provided by the administrators of each underlying fund; management relies on advice from its investment consultant and takes into consideration audited financial information to determine overall reasonableness of the recorded value. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method and are based on information provided by the general partner; management also takes into consideration the audited financial information and K-1 capital account balances to determine overall reasonableness of the recorded value. Management believes that the equity method represents the best estimate of the partnerships' fair values. Audited information is only available annually, based on each partnership's year-end. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed.

**Contributions Receivable from Remainder Trusts:** Fair value measurement is based upon the fair value of the underlying investments in the trusts, an estimated rate of return, anticipated future payments to be made to beneficiaries, living beneficiaries' life expectancies, and an assumed discount rate as discussed further in Note 7. As of June 30, 2012 and 2011, contributions receivable from remainder trusts with fair values of $4,496,015 and $4,678,875, respectively, are classified as Level 3.

**3. Fair Value, continued:**

Following is a description of the valuation methodologies used for additional assets and liabilities that are recorded at fair value on a non-recurring basis.

**Pledges Receivable:** The fair value of pledges receivable is based on the present value of discounted cash flows.

**Cash Surrender Value of Life Insurance:** The fair value of cash surrender value of life insurance is equal to the policyholder's equity in the life insurance policy which is the accumulation of earnings and a portion of the premiums paid on each policy, net of any expenses.

**Annuity and pooled income obligations:** The fair value of annuity and pooled income obligations is based upon anticipated future payments to be made to beneficiaries, living beneficiaries' life expectancies, and an assumed discount rate as discussed further in Note 7.

The carrying amounts reported in the statements of financial position for cash, amount due from Michigan Technological University, interest and dividends receivable, and deferred revenue approximate fair value because of their short-term nature.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**3. Fair Value, continued:**

The following tables present the recorded amount of the Fund's investments measured at fair value on a recurring basis as of June 30:

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities | | | | |
| Equities | $ 354,804 | $ - | $ - | $ 354,804 |
| Mutual funds – equities | 40,686,554 | - | - | 40,686,554 |
| Mutual funds – fixed income | 8,498,630 | 4,056,864 | - | 12,555,494 |
| Corporate bonds and notes | - | 115,573 | - | 115,573 |
| US government obligations | 3,249,811 | 17,290,803 | - | 20,540,614 |
| Alternative investments | | | | |
| Hedge funds | - | - | 5,054,643 | 5,054,643 |
| Real estate and natural resources | - | - | 4,112,379 | 4,112,379 |
| Private equity | - | 131,918 | 6,725,668 | 6,857,586 |
| Other investments | - | - | 20,000 | 20,000 |
| **Total investments at fair value** | $52,789,799 | $21,595,158 | $15,912,690 | $90,297,647 |

| | 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities | | | | |
| Equities | $ 336,553 | $ - | $ - | $ 336,553 |
| Mutual funds – equities | 40,943,940 | - | - | 40,943,940 |
| Mutual funds – fixed income | 34,400,616 | 3,765,069 | - | 38,165,685 |
| Corporate bonds and notes | - | 27,658 | - | 27,658 |
| US government obligations | 949,709 | - | - | 949,709 |
| Alternative investments | | | | |
| Hedge funds | - | - | 4,934,818 | 4,934,818 |
| Real estate and natural resources | - | - | 3,976,200 | 3,976,200 |
| Private equity | - | 160,624 | 7,320,186 | 7,480,810 |
| Other investments | - | - | 49,000 | 49,000 |
| **Total investments at fair value** | $76,630,818 | $ 3,953,351 | $16,280,204 | $96,864,373 |

**3. Fair Value, continued:**

The following tables set forth a summary of changes in the fair value of the Fund's Level 3 assets for the years ended June 30:

| | 2012 | |
|---|---|---|
| | Investments | Contributions Receivable from Remainder Trusts |
| Balance, beginning of year | $ 16,280,204 | $ 4,678,875 |
| Capital contributions | 294,713 | - |
| Distributions | (1,453,609) | - |
| Investment income | 165,886 | - |
| Operating loss – limited partnerships | (64,004) | - |
| Realized gains | 204,898 | - |
| Unrealized gains | 484,602 | - |
| Change in value | - | (182,860) |
| Balance, end of year | $ 15,912,690 | $ 4,496,015 |

| | 2011 | |
|---|---|---|
| | Investments | Contributions Receivable from Remainder Trusts |
| Balance, beginning of year | $ 14,739,636 | $ 4,171,681 |
| Capital contributions | 534,996 | - |
| Distributions | (1,375,784) | - |
| Investment income | 887,694 | - |
| Operating loss – limited partnerships | (11,020) | - |
| Realized gains | 460,365 | - |
| Unrealized gains | 1,044,317 | - |
| Change in value | - | 507,194 |
| Balance, end of year | $ 16,280,204 | $ 4,678,875 |

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Fund uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

**3. Fair Value, continued:**

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Fund's statements of financial position as of June 30 are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | $ 5,873,414 | $ 5,873,414 | $ 4,404,099 | $ 4,404,099 |
| Pledges receivable, net | 8,083,289 | 8,489,230 | 6,085,840 | 6,563,492 |
| Amount due from MTU | - | - | 100,000 | 100,000 |
| Interest and dividends receivable | 137,721 | 137,721 | 125,992 | 125,992 |
| CSV, life insurance | 933,665 | 933,665 | 907,099 | 907,099 |
| Liabilities: | | | | |
| Deferred revenue | - | - | 1,000,000 | 1,000,000 |
| Annuity obligations | 3,662,013 | 5,355,649 | 3,423,855 | 5,329,863 |
| Pooled income obligations | 867,718 | 2,194,282 | 847,785 | 2,186,975 |

**3. Fair Value, continued:**

The Fund uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which (1) do not have a readily determinable fair value, and (2) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category as of June 30, 2012 and 2011:

| | Strategy | NAV in Funds FY 2012 | NAV in Funds FY 2011 | Number of Funds | Remaining Life | Amount of Unfunded Commitments | Timing to Draw Down Commitments | Redemption Terms | Redemption Restrictions | Redemption Restrictions in Place at Year End |
|---|---|---|---|---|---|---|---|---|---|---|
| Private Equity | Venture, buyout, and special situations, distressed asset funds and credit strategies, primarily in the US | $ 6,857,586 | $ 7,480,810 | 7 | 1 to 6 years | $ 1,476,240 | 1 to 6 years | NA * | NA | NA |
| Real Assets | Domestic real estate and domestic and international natural resources | 4,112,379 | 3,976,200 | 4 | 4 to 6 years | 217,759 | 1 to 6 years | NA for 3 funds *; quarterly for 1 fund | NA for 3 funds; subject to quarterly reviews for 1 fund | NA for 3 funds; none for 1 fund |
| Absolute Return | Hedge funds with various strategies | 5,054,643 | 4,934,818 | 1 | NA | NA | NA | Calendar year-end redemptions with 100 days' notice | One year lock-up provision | None |
| **Total** | | $16,024,608 | $16,391,828 | 12 | | $ 1,693,999 | | | | |

* These funds are in private equity structure, with no ability to be redeemed.

## 4. Pledges Receivable:

The following table shows the balance due of unconditional promises to give to the Fund at June 30, 2012 and 2011. Pledges are unrestricted, temporarily restricted, and permanently restricted by donors for property and equipment purchases, scholarships, faculty chairs, or designated departments of the University, and have been reported at their estimated fair values. The Fund estimated the present value of future cash flows using .25% over the risk-adjusted rate at the date of the gift. Rates range from .70% to 3.43%.

| | 2012 | 2011 |
|---|---|---|
| Pledges receivable in less than one year | $ 5,722,611 | $ 3,099,587 |
| Pledges receivable in one to five years | 2,768,280 | 3,412,350 |
| Pledges receivable in more than five years | 409,505 | 392,212 |
| | 8,900,396 | 6,904,149 |
| Less: | | |
| Allowance for uncollectible pledges | (411,166) | (340,657) |
| Present value discount | (405,941) | (477,652) |
| Net pledges receivable | $ 8,083,289 | $ 6,085,840 |

## 5. Cash Surrender Value of Life Insurance:

The Fund is the owner and beneficiary of life insurance policies with death benefit values of approximately $2,500,000 at June 30, 2012 and 2011. The assignments of these policies were received as gifts for various University programs, scholarships, and other designations.

## 6. Property Held for Sale and Gifts-in-Kind:

The Fund serves as an agent for the receipt of gifted property and in most cases immediately transfers the property to the University. Any gifted property accepted as a contribution and not subject to transfer to the University is listed for sale. It is the Fund’s policy to offer such gifted property for sale based on appraised or estimated fair value at the time of the gift. During the years ended June 30, 2012 and 2011, the Fund received gift property in the amount of $1,007,791 and $701,641, respectively. These amounts were recorded as contribution revenue. Amounts immediately transferred to the University and recorded as program services expense in the accompanying statements of activities were $953,791 and $636,641 for the years ended June 30, 2012 and 2011, respectively. The remainder of $119,000 and $65,000 at June 30, 2012 and 2011, respectively, is classified as property held for sale in the accompanying statements of net assets.

## 7. Split-Interest Agreements:

Some donors enter into trust or other arrangements under which the Fund receives benefits that are shared with other beneficiaries. These types of arrangements, known as split-interest agreements, include pooled (life) income funds, charitable remainder trusts, and charitable gift annuities. Provisions for the various donor trust agreements are as follows:

***Century II Pooled Income Fund:*** All income of the pooled fund is distributed to its participants on a pro-rata basis.

***Charitable Remainder Unitrusts:*** Donors receive income, generally payable quarterly, at a predetermined percentage rate of their unitrust's annual value at December 31.

***Charitable Remainder Annuity Trusts:*** Donors receive a fixed percentage rate of income based on the initial value of the annuity trust, generally payable quarterly.

***Charitable Gift Annuities:*** Donors receive a fixed percentage rate of income based on the initial value of the gift annuity, payable quarterly. Assets received under a gift annuity contract are held as general assets of the Fund, and the annuity liability is a general obligation of the Fund. All assets received under a gift annuity contract are pooled with other gift annuity contract funds and invested in equity and fixed income mutual funds and in cash equivalents. Those investments are held in accounts segregated from the Fund's other investments.

Irrevocable split-interest agreements in which the Fund does not control the trust assets are recognized in the Fund's financial statements when notification is received of the trust's existence. The present value of the estimated future distributions to be received by the Fund is recorded as contribution revenue and a contribution receivable from remainder trust. Amounts reflected as receivable from this type of agreement were $4,496,015 and $4,678,875 at June 30, 2012 and 2011, respectively.

Irrevocable split-interest agreements in which the Fund does control the trust assets are recognized in the Fund's financial statements when the trust is executed. The fair value of the trust assets and the present value of the expected future payments to be made to other beneficiaries are recorded as assets and liabilities, respectively, and the difference is recorded as contribution revenue. Amounts included in the accompanying statements of financial position at June 30, 2012 and 2011, from these types of agreements are as follows:

| | 2012 | 2011 |
|---|---|---|
| Assets included in cash and investments | $ 7,545,898 | $ 7,502,274 |
| Annuity and pooled income obligations to other beneficiaries | $ 4,529,731 | $ 4,271,640 |

Included with contribution revenue on the statement of activities for the years ended June 30, 2012 and 2011, are contributions from split-interest agreements and changes in the value of split-interest agreements, as follows:

| | 2012 | 2011 |
|---|---|---|
| Contributions | $ 405,250 | $ 573,044 |
| Change in value | $ (73,236) | $ 335,869 |

The calculations of present value follow the guidelines as set forth in Section 642(c) of the Internal Revenue Code. Discount rates used to calculate present value are the Applicable Federal Rates, which approximate the risk-adjusted rates, and range from 1.4% to 8.2%.

## 8. Net Asset Categories:

Unrestricted net assets at June 30, 2012 and 2011, consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level | $ (1,246,857) | $ (839,519) |
| Undesignated | 2,505,868 | 5,362,728 |
| Total unrestricted net assets | $ 1,259,011 | $ 4,523,209 |

Temporarily restricted net assets at June 30, 2012 and 2011, were restricted for the following:

| | 2012 | 2011 |
|---|---|---|
| University programs | $ 17,538,452 | $ 16,392,071 |
| Remainder interests in split-interest agreements | 1,142,347 | 1,187,377 |
| Net appreciation on donor-restricted endowment funds | 18,769,931 | 23,961,717 |
| Total temporarily restricted net assets | $ 37,450,730 | $ 41,541,165 |

Permanently restricted net assets at June 30, 2012 and 2011, were restricted for the following:

| | 2012 | 2011 |
|---|---|---|
| Remainder interests in split-interest agreements | $ 6,515,972 | $ 5,230,762 |
| Corpus of donor-restricted endowment funds | 59,553,748 | 56,043,910 |
| Total permanently restricted net assets | $ 66,069,720 | $ 61,274,672 |

Permanently restricted net assets are held in perpetuity, the income from which supports scholarships and fellowships, faculty chairs, and other University programs.

## 9. Endowment:

The Fund's endowment consists of 564 individual, donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Fund has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) 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 Fund 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) 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. Any donor-restricted endowment fund that would not be classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

**9. Endowment, continued:**

(1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Fund, and (7) the Fund's investment policies.

Following is a summary of the Fund's endowment and changes therein:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Changes in endowment net assets for the year ended June 30, 2012** | | | | |
| Invesment return: | | | | |
| Investment income | $ - | $ 1,685,337 | $ - | $ 1,685,337 |
| Net depreciation (realized and unrealized) | (407,338) | (3,743,541) | - | (4,150,879) |
| Net investment loss | (407,338) | (2,058,204) | - | (2,465,542) |
| Contribution receipts | - | 70,835 | 3,509,838 | 3,580,673 |
| Appropriation of endowment assets for expenditure | - | (3,204,417) | - | (3,204,417) |
| Changes to endowment net assets | (407,338) | (5,191,786) | 3,509,838 | (2,089,286) |
| Endowment net assets (deficit): | | | | |
| Beginning of year | (839,519) | 23,961,717 | 56,043,910 | 79,166,108 |
| End of year | $ (1,246,857) | $ 18,769,931 | $ 59,553,748 | $ 77,076,822 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Changes in endowment net assets for the year ended June 30, 2011** | | | | |
| Invesment return: | | | | |
| Investment income | $ - | $ 1,434,669 | $ - | $ 1,434,669 |
| Net appreciation (realized and unrealized) | 1,136,502 | 9,120,219 | - | 10,256,721 |
| Net investment income | 1,136,502 | 10,554,888 | - | 11,691,390 |
| Contribution receipts | - | 116,265 | 1,675,080 | 1,791,345 |
| Appropriation of endowment assets for expenditure | - | (3,374,305) | - | (3,374,305) |
| Changes to endowment net assets | 1,136,502 | 7,296,848 | 1,675,080 | 10,108,430 |
| Endowment net assets (deficit): | | | | |
| Beginning of year | (1,976,021) | 16,664,869 | 54,368,830 | 69,057,678 |
| End of year | $ (839,519) | $ 23,961,717 | $ 56,043,910 | $ 79,166,108 |

**9. Endowment, continued:**

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Fund to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that were reported in unrestricted net assets as of June 30, 2012 and 2011, amounted to $1,246,857 and $839,519, respectively. These deficiencies resulted from recent significant unfavorable market fluctuations. Management believes that these deficiencies are temporary in anticipation of a future recovery in the market.

***Return Objectives and Risk Parameters***

The Fund has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Fund expects its endowment funds, over time, to provide an average rate of return of 9.0% annually. Actual returns in any given year may vary.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Fund has an annual spending policy of 4.0% of its endowment funds' average fair values over the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Fund considered the long-term expected return of its endowment. This policy is consistent with the Fund's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

**10. Operating Lease:**

The Fund leases its office space under an operating lease, which commenced on October 1, 2003, and will terminate on September 30, 2018.

Minimum future rental payments under the noncancelable operating lease for each of the next five years and thereafter are:

| Year Ending June 30 | Amount |
|---|---|
| 2013 | $ 151,896 |
| 2014 | 151,896 |
| 2015 | 151,896 |
| 2016 | 151,896 |
| 2017 | 151,896 |
| Thereafter | 189,870 |
| Total minimum future rental payments | $ 949,350 |