Michigan Tech Fund

Financial Statements
For the years ended
June 30, 2011 and 2010

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Financial Statement Contents
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Rehmann

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Independent Auditors' Report

To the Board of Trustees
Michigan Tech Fund
Houghton, 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, 2011 and 2010, 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, 2011 and 2010, 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

October 7, 2011

Michigan Tech Fund
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,404,099	$ 5,299,043
Pledges receivable, net of allowance for uncollectible amounts	2,758,931	1,755,751
Amount due from Michigan Technological University	100,000	500,000
Interest and dividends receivable	125,992	52,621
Prepaid expenses	32,250	44,908
Total current assets	7,421,272	7,652,323
Long-term assets:		
Pledges receivable, net of allowance, net of current portion	3,326,909	1,908,799
Amount due from Michigan Technological University, net of current portion	-	100,000
Cash surrender value, life insurance	907,099	896,443
Contributions receivable from remainder trusts	4,678,875	4,171,681
Investments	96,864,373	80,912,107
Property held for sale	65,000	-
Fixed assets, net	11,069	16,189
Total long-term assets	105,853,325	88,005,219
Total assets	$ 113,274,597	$ 95,657,542
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 663,911	$ 518,896
Deferred revenue	1,000,000	1,000,000
Annuity obligations	333,670	318,623
Total current liabilities	1,997,581	1,837,519
Long-term liabilities:		
Annuity obligations, long-term portion	3,090,185	3,094,424
Pooled income obligations	847,785	818,561
Total long-term liabilities	3,937,970	3,912,985
Total liabilities	5,935,551	5,750,504
Contingency and commitments (Notes 1, 2, and 11)		
Net assets:		
Unrestricted (deficit)	4,523,209	(640,890)
Temporarily restricted	41,541,165	33,206,552
Permanently restricted	61,274,672	57,341,376
Total net assets	107,339,046	89,907,038
Total liabilities and net assets	$ 113,274,597	$ 95,657,542

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 Activities
For the year ended June 30, 2010

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	$ 1,138,407	$ 4,825,997	$ 4,430,985	$ 10,395,389
Investment return	3,366,091	4,228,380	-	7,594,471
Other income	49,284	60,140	-	109,424
Net assets released from restrictions	7,573,079	(7,573,079)	-	-
Total support and revenue	12,126,861	1,541,438	4,430,985	18,099,284
Expenses:				
Program services on behalf of Michigan Technological University:				
Scholarships and fellowships	2,277,204	-	-	2,277,204
Departmental and other program support	8,267,440	-	-	8,267,440
	10,544,644	-	-	10,544,644
Management and general expenses:				
Salaries, wages, and benefits	543,881	-	-	543,881
Other operating expenses	400,221	-	-	400,221
	944,102	-	-	944,102
Total expenses	11,488,746	-	-	11,488,746
Change in net assets	638,115	1,541,438	4,430,985	6,610,538
Net assets (deficit), beginning of year	(1,279,005)	31,665,114	52,910,391	83,296,500
Net assets (deficit), end of year	$ (640,890)	$ 33,206,552	$ 57,341,376	$ 89,907,038

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
Statement of Functional Expenses
For the year ended June 30, 2010

	2010		
	Program Services	Management & General	Total
Expenses:			
Scholarships and fellowships	$ 2,277,204	$ -	$ 2,277,204
Departmental and other program support	8,267,440	-	8,267,440
Salaries and wages	-	406,388	406,388
Payroll taxes	-	30,626	30,626
Retirement plan contributions	-	40,613	40,613
Other employee fringe benefits	-	66,254	66,254
Supplies	-	26,507	26,507
Postage and printing	-	11,791	11,791
Insurance	-	18,968	18,968
Telephone	-	1,064	1,064
Accounting fees	-	22,975	22,975
Travel	-	5,112	5,112
Board meetings	-	31,370	31,370
Entertainment	-	20,833	20,833
Equipment charges and maintenance	-	13,042	13,042
Depreciation	-	6,629	6,629
Space rental	-	151,896	151,896
Stewardship and special events	-	6,818	6,818
Professional services	-	13,272	13,272
Credit card processing fees	-	19,293	19,293
Training and seminars	-	725	725
Dues and memberships	-	7,379	7,379
Custodian and trustee fees	-	27,601	27,601
Other	-	14,946	14,946
Total expenses	$ 10,544,644	$ 944,102	$ 11,488,746

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

Michigan Tech Fund

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 17,432,008	$ 6,610,538
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,120	6,629
Provision for uncollectible pledges	239,670	107,111
Net realized and unrealized gains	(13,801,998)	(6,165,619)
Contributions of marketable securities and real property	(978,198)	(230,570)
Contributions restricted for long-term investment	(1,878,511)	(3,256,841)
Changes in present value of split-interest agreements	332,484	338,007
Net change in contributions receivable from remainder trusts	(507,194)	(574,407)
Increase in cash surrender value, life insurance	(10,656)	(33,389)
Changes in assets and liabilities:		
Interest and dividends receivable	(73,371)	37,383
Pledges receivable, net of permanently restricted components	(1,044,516)	(306,013)
Prepaid expenses	12,658	-
Accounts payable and accrued expenses	145,015	(228,163)
Net cash used in operating activities	(127,489)	(3,695,334)
Cash flows from investing activities:		
Purchase of investments	(23,079,237)	(14,911,492)
Proceeds from sale of investments	21,875,458	11,581,516
Collection of amount due from Michigan Technological University	500,000	-
Net cash used in investing activities	(703,779)	(3,329,976)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowments	1,791,345	3,229,027
Investment subject to annuity agreements	87,166	27,814
Change in permanently restricted contributions receivable	(1,616,444)	(462,755)
Payments on annuity obligations	(325,743)	(310,947)
Net cash (used in) provided by financing activities	(63,676)	2,483,139
Net change in cash and cash equivalents	(894,944)	(4,542,171)
Cash and cash equivalents, beginning of year	5,299,043	9,841,214
Cash and cash equivalents, end of year	$ 4,404,099	$ 5,299,043

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. 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. 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, certificates of deposit, 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 a custodial institution 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 consulting firm to facilitate the implementation of this policy. Asset allocations are reviewed monthly and rebalanced quarterly, when necessary. The Fund's Investment and Finance Committee of the Board of Trustees oversees investment activity and makes recommendations to the Board of Trustees concerning any changes in investments or asset allocation adjustments. 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 8 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 ended June 30, 2007, the Fund received a contribution in the amount of $1,000,000, which was immediately loaned to the University; repayment to the Fund is based on an agreement as stipulated by the donor which states 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 and second payments of $400,000 and $500,000, respectively, were made timely by the University.

The agreement further stipulates that if the Fund does not receive repayment of the entire $1,000,000 from the University by September 30, 2011, the donor can designate an alternative organization as the beneficiary of the gift and require payment of such by the Fund. Accordingly, contribution revenue will not be recognized until this donor-specified requirement has been fulfilled. The unpaid balance of $100,000 at June 30, 2011, is recorded as an amount due from the University. Subsequent to year-end but prior to September 30, 2011, the amount due was paid. Since the requirement had not been met as of June 30, 2011, the entire contribution is classified as deferred revenue on the accompanying statements of financial position.

1. Summary of Significant Accounting Policies, continued:

j. Income Taxes: Effective July 1, 2009, the Fund adopted the provisions of the accounting standard related to *Accounting for Uncertainty in Income Taxes*, now codified as Accounting Standards Codification ("ASC") Topic 740. ASC Topic 740 seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and 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 has evaluated the provisions of ASC Topic 740 for the fiscal years 2007 through 2010, the years which remain subject to examination by major tax jurisdictions as of June 30, 2011. 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, 2011 and 2010, and it is not aware of any claims for such amounts by federal or state income tax authorities.

k. New Accounting Pronouncements: In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 provides amendments to Subtopic 820-10 that require new disclosures as follows: (1) a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfer; and (2) in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The ASU No. 2010-06 provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: (1) fair value measurement disclosures must be disaggregated for each class of assets and liabilities; and (2) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The adoption of this updated standard expanded the disclosures in the footnotes to the financial statements of the Fund for the year ended June 30, 2011.

l. 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, 2011, the most recent statement of financial position presented herein, through October 7, 2011, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those matters disclosed in Note 1(i), labeled Amount Due from Michigan Technological University / Deferred Revenue.

2. Investments

Investments, carried at fair value, at June 30, 2011 and 2010, are categorized as follows:

	2011	2010
Marketable securities		
Equities	$ 336,553	$ 253,170
Mutual funds – equities	40,943,940	40,359,102
Mutual funds – fixed income	38,165,685	24,384,871
Corporate bonds and notes	27,658	35,901
US government obligations	949,709	1,023,797
Total marketable securities	80,423,545	66,056,841
Alternative investments		
Hedge funds	4,934,818	4,596,947
Real estate and natural resources	3,976,200	3,209,309
Private equity	7,480,810	7,000,010
Total alternative investments	16,391,828	14,806,266
Other investments	49,000	49,000
Total investments	$ 96,864,373	$ 80,912,107

At June 30, 2011, the Fund's remaining future capital commitments for investment in limited partnerships (alternative investments) is approximately $1,927,000.

Investment return is a net amount and is comprised of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Interest and dividends	$ 1,850,878	$ 1,671,158
Capital gain distributions	436,565	2,045
Net gain (loss) on sale of investments	1,633,639	(1,940,436)
Net unrealized gain on investments	12,168,358	8,106,055
Asset-based management and administrative fees	(242,951)	(244,351)
Total investment return	$ 15,846,489	$ 7,594,471

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). 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 8. As of June 30, 2011, contributions receivable from remainder trusts with fair values of $4,678,875 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 8.

The carrying amounts reported in the statements of financial position for cash, amount due from Michigan Technological University, interest and dividends receivable, prepaid expenses, property held for sale, fixed assets, accounts payable and accrued expenses 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 valuations 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:

	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

	2010			
	Level 1	Level 2	Level 3	Total
Marketable securities				
Equities	$ 253,170	$ -	$ -	$ 253,170
Mutual funds – equities	40,359,102	-	-	40,359,102
Mutual funds – fixed income	20,800,249	3,584,622	-	24,384,871
Corporate bonds and notes	-	35,901	-	35,901
US government obligations	1,023,797	-	-	1,023,797
Alternative investments				
Hedge funds	-	-	4,596,947	4,596,947
Real estate and natural resources	-	-	3,209,309	3,209,309
Private equity	-	115,630	6,884,380	7,000,010
Other investments	-	-	49,000	49,000
Total investments at fair value	$62,436,318	$ 3,736,153	$14,739,636	$80,912,107

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 year ended June 30:

	2011		
	Investments	Contributions Receivable from Remainder Trusts	Total Level 3 Assets
Balance, beginning of year	$ 14,739,636	$ 4,171,681	$ 18,911,317
Capital contributions	534,996	-	534,996
Distributions	(1,375,784)	-	(1,375,784)
Investment income	887,694	-	887,694
Operating loss – limited partnerships	(11,020)	-	(11,020)
Realized gains	460,365	-	460,365
Unrealized gains	1,044,317	-	1,044,317
Change in value	-	507,194	507,194
Balance, end of year	$ 16,280,204	$ 4,678,875	$ 20,959,079

	2010		
	Investments	Contributions Receivable from Remainder Trusts	Total Level 3 Assets
Balance, beginning of year	$ 12,893,771	$ 3,597,274	$ 16,491,045
Capital contributions	1,692,790	-	1,692,790
Distributions	(1,057,365)	-	(1,057,365)
Investment income	838,441	-	838,441
Operating loss – limited partnerships	(39,519)	-	(39,519)
Realized gains	50,217	-	50,217
Unrealized gains	361,301	-	361,301
Change in value	-	574,407	574,407
Balance, end of year	$ 14,739,636	$ 4,171,681	$ 18,911,317

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 net assets are as follows:

	2011		2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 4,404,099	$ 4,404,099	$ 5,299,043	$ 5,299,043
Pledges receivable, net	6,085,840	6,563,492	3,664,550	4,202,447
Amount due from MTU	100,000	100,000	600,000	600,000
Interest and dividends receivable	125,992	125,992	52,621	52,621
Prepaid expenses	32,250	32,250	44,908	44,908
CSV, life insurance	907,099	907,099	896,443	896,443
Property held for sale	65,000	65,000	-	-
Fixed assets, net	11,069	11,069	16,189	16,189
Liabilities:				
Accounts payable and accrued expenses	663,911	663,911	518,896	518,896
Deferred revenue	1,000,000	1,000,000	1,000,000	1,000,000
Annuity obligations	3,423,855	5,329,863	3,413,047	4,615,419
Pooled income obligations	847,785	2,186,975	818,561	2,190,914

3. Fair Value, continued:

The Fund uses the 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. Per Accounting Standards Update 2009-12, *Investment in Certain Entities that Calculate Net Asset Value per Share*, the following table lists investments in other investment companies (in partnership format) by major category:

	Strategy	NAV in Funds FY 2011	NAV in Funds FY 2010	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	$ 7,480,810	$ 7,000,010	7	2 to 7 years	$ 1,610,758	1 to 7 years	NA *	NA	NA
Real Assets	Domestic real estate and domestic and international natural resources	3,976,200	3,209,309	4	5 to 7 years	315,822	1 to 7 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	4,934,818	4,596,947	1	NA	NA	NA	Calendar year-end redemptions with 100 days' notice	One year lock-up provision	None
Total		$16,391,828	$14,806,266	12		$ 1,926,580				

* 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, 2011 and 2010. 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-free rate at the date of the gift. Rates range from .70% to 3.43%.

	2011	2010
Pledges receivable in less than one year	$ 3,099,587	$ 2,032,687
Pledges receivable in one to five years	3,412,350	1,919,697
Pledges receivable in more than five years	392,212	526,999
	6,904,149	4,479,383
Less:		
Allowance for uncollectible pledges	(340,657)	(276,936)
Present value discount	(477,652)	(537,897)
Net pledges receivable	$ 6,085,840	$ 3,664,550

5. Cash Surrender Value of Life Insurance:

The Fund is the owner and beneficiary of life insurance policies with death benefit values of approximately $2,550,000 and $2,507,000 at June 30, 2011 and 2010, respectively. 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, 2011 and 2010, the Fund received gift property in the amount of $701,641 and $457,735, 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 $636,641 and $457,735 for the years ended June 30, 2011 and 2010, respectively. The remainder of $65,000 and $0 at June 30, 2011 and 2010, respectively, is classified as property held for sale in the accompanying statements of net assets.

7. Fixed Assets:

A summary of fixed assets at June 30, 2011 and 2010, follows:

	2011	2010
Leasehold improvements	$ 62,188	$ 62,188
Office equipment	57,812	57,812
Computer equipment	21,372	21,372
Total	141,372	141,372
Accumulated depreciation and amortization	(130,303)	(125,183)
Net fixed assets	$ 11,069	$ 16,189

8. 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 $4,678,875 and $4,171,681 at June 30, 2011 and 2010, respectively.

8. Split-Interest Agreements, continued:

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, 2011 and 2010, from these types of agreements are as follows:

	2011	2010
Assets included in cash and investments	$ 7,502,274	$ 6,805,285
Obligations to other beneficiaries	$ 4,271,640	$ 4,231,608

Included with contribution revenue on the statement of activities for the years ended June 30, 2011 and 2010, are contributions from split-interest agreements and changes in the value of split-interest agreements, as follows:

	2011	2010
Contributions	$ 573,044	$ 101,356
Change in value	$ 335,869	$ 241,476

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 1.8% to 8.2%.

9. Net Asset Categories:

Unrestricted net assets (deficit) at June 30, 2011 and 2010, consist of the following:

	2011	2010
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ (839,519)	$ (1,976,021)
Undesignated	5,362,728	1,335,131
Total unrestricted net assets (deficit)	$ 4,523,209	$ (640,890)

Temporarily restricted net assets at June 30, 2011 and 2010, were restricted for the following:

	2011	2010
University programs	$ 16,392,071	$ 14,917,378
Remainder interests in split-interest agreements	1,187,377	1,624,305
Net appreciation on donor-restricted endowment funds	23,961,717	16,664,869
Total temporarily restricted net assets	$ 41,541,165	$ 33,206,552

9. Net Asset Categories, continued:

Permanently restricted net assets at June 30, 2011 and 2010, were restricted for the following:

	2011	2010
Remainder interests in split-interest agreements	$ 5,230,762	$ 2,972,546
Corpus of donor-restricted endowment funds	56,043,910	54,368,830
Total permanently restricted net assets	$ 61,274,672	$ 57,341,376

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

10. Endowment:

The Fund's endowment consists of 551 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.

In 2010, 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: (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.

10. Endowment, continued:

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, 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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in endowment net assets for the year ended June 30, 2010				
Invesment return:				
Investment income	$ -	$ 1,331,778	$ -	$ 1,331,778
Net appreciation (realized and unrealized)	652,982	2,497,614	-	3,150,596
Net investment income	652,982	3,829,392	-	4,482,374
Contribution receipts	-	-	3,607,028	3,607,028
Appropriation of endowment assets for expenditure	-	(2,945,018)	-	(2,945,018)
Changes to endowment net assets	652,982	884,374	3,607,028	5,144,384
Endowment net assets (deficit):				
Beginning of year	(2,629,003)	15,780,495	50,761,802	63,913,294
End of year	$ (1,976,021)	$ 16,664,869	$ 54,368,830	$ 69,057,678

10. 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, 2011 and 2010, amounted to $839,519 and $1,976,021, 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 8.5% 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.

11. 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
2012	$ 151,896
2013	151,896
2014	151,896
2015	151,896
2016	151,896
Thereafter	341,766
Total minimum future rental payments	$ 1,101,246