

# **Michigan Tech Fund**

**Audited Financial Statements  
June 30, 2021**

# Michigan Tech Fund

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For the Year Ended June 30, 2021

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# Michigan Tech Fund

Administrative Officials

For the Year Ended June 30, 2021

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## *BOARD OF DIRECTORS AND OFFICERS*

Robert Tripp  
Chair and Director

Michael Pulick  
Director

Brenda Ryan  
Director

Richard Koubek  
President and Director

James Parm  
Director

Karla Aho  
Secretary

Karl LaPeer  
Director

Jeffrey Littmann  
Director

John Bacon  
Director

Susan Kerry  
Director

William Roberts  
Vice President

Julie Seppala  
Treasurer

## **Independent Auditor's Report**

To the Board of Directors  
Michigan Tech Fund

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Michigan Tech Fund (the "Fund"), a component unit of Michigan Technology University, as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise Michigan Tech Fund's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Tech Fund as of June 30, 2021 and the changes in its financial position and cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

The basic financial statements of Michigan Tech Fund as of and for the year ended June 30, 2020 were audited by a predecessor auditor, which expressed an unmodified opinion. The predecessor auditor's report was dated November 30, 2020. As part of our audit of the 2021 financial statements, we also audited the adjustments described in Note 9 that were applied to restatement of net position. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2020 financial statements of the Fund other than with respect to the adjustments, and, accordingly, we do not express an opinion on any other form of assurance on the 2020 financial statements as a whole.

To the Board of Directors  
Michigan Tech Fund

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Plante & Moran, PLLC*

October 21, 2021

# Michigan Tech Fund

Management's Discussion and Analysis

June 30, 2021

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## Introduction

Following this discussion and analysis are the financial statements for The Michigan Tech Fund (the "Fund"). This management discussion and analysis will review the financial statements and their relationship to each other, and outline any additional facts, decisions, or conditions that have, or are expected to have, a significant effect on the financial position of the Fund.

## Mission and Impact

The Fund exists to support the mission, vision and values of Michigan Technological University ("the University" or "MTU"). On behalf of the University, the Fund serves as the steward for contributions, produces donor receipts, and prudently invests contributions until they are spent for their intended purposes.

During fiscal year 2021 and 2020, respectively, the Fund provided approximately \$11.1 million and \$14.1 million in grants to benefit the University, including over \$2.2 million and \$2.5 million in student financial aid to MTU students.

## Financial Statement Overview

The Fund is a not-for-profit organization that, because of its relationship to the University and governance structure, is considered a governmental entity and therefore, follows financial reporting guidance promulgated by the Governmental Accounting Standards Board. This set of audited financial statements contains a management's discussion and analysis section, the basic financial statements which include the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows, and notes to the financial statements. The statement of net position includes all of the Fund's asset, liabilities and net position, and deferred outflows/inflows of resources. The statement of revenues, expenses and changes in net position accounts for all of the current year's revenues and expenses when earned or incurred regardless of when cash is received or paid. The net position of the proprietary fund is reported in the statement of net position. Net position, the difference between the Fund's assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure the Fund's financial health. Increases or decreases in the Fund's net position are one indicator of whether its financial position is improving or deteriorating.

## Michigan Tech Fund

Management's Discussion and Analysis

June 30, 2021

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### Financial Highlights: Statements of Financial Position

#### Condensed Statements of Net Position As of June 30

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current assets	\$ 12,837,883	\$ 11,035,400
Noncurrent assets	204,223,625	148,587,285
<b>Total Assets</b>	<b><u>\$ 217,061,508</u></b>	<b><u>\$ 159,622,685</u></b>
<b>LIABILITIES</b>		
Current liabilities	\$ 633,000	\$ 537,310
Noncurrent liabilities	5,218,433	5,390,313
<b>Total liabilities</b>	<b><u>5,851,433</u></b>	<b><u>5,927,623</u></b>
<b>DEFERRED INFLOWS</b>	<b>12,115,805</b>	<b>8,831,663</b>
<b>NET POSITION</b>		
Restricted		
Nonexpendable	106,282,134	97,028,365
Expendable	84,012,420	39,618,731
Unrestricted	8,799,716	8,216,303
<b>Total net position</b>	<b><u>199,094,270</u></b>	<b><u>144,863,399</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>\$ 217,061,508</u></b>	<b><u>\$ 159,622,685</u></b>

#### Changes from 2020 to 2021

Total liabilities were consistent with the prior year, decreasing marginally by \$76,000 or 1%. Liabilities of the Fund consist primarily of payments to beneficiaries of split-interest agreements (pooled income funds and charitable gift annuities).

Deferred inflows increased by \$3.3 million or 37%. The increase was due to the appreciation of the market value of the investments held as irrevocable split-interest agreements (remainder trusts, pooled income funds and charitable gift annuities).

Total net position increased by \$54.2 million or 37%. The net position category that increased significantly was restricted expendable. That category holds the net appreciation on endowment investments and unspent non-endowed donor-restricted contributions.

## Michigan Tech Fund

Management's Discussion and Analysis

June 30, 2021

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### Financial Highlights: Statements of Revenues, Expenses and Changes in Net Position

#### Condensed Statements of Revenues, Expenses and Changes in Net Position For the year ended June 30

	<u>2021</u>	<u>2020</u>
<b>OPERATING EXPENSES</b>		
Grants to Michigan Technological University	\$ 11,114,994	\$ 14,094,344
Other operating expenses	560,764	632,031
<b>Total operating expenses</b>	<b>11,675,758</b>	<b>14,726,375</b>
<b>Operating loss</b>	<b>(11,675,758)</b>	<b>(14,726,375)</b>
<b>NONOPERATING REVENUES AND OTHER REVENUES</b>		
Contributions	25,717,004	6,556,287
Investment return, net	30,868,363	4,919,132
Other revenues	9,321,262	6,786,074
<b>Total nonoperating revenues and other revenues</b>	<b>65,906,629</b>	<b>18,261,493</b>
<b>Net increase in net position</b>	<b>54,230,871</b>	<b>3,535,118</b>
<b>NET POSITION</b>		
Beginning of year, as restated	144,863,399	141,328,281
<b>End of year</b>	<b><u>\$ 199,094,270</u></b>	<b><u>\$ 144,863,399</u></b>

#### Changes from 2020 to 2021

Total operating expenses decreased by \$3.1 million or 21%. The large swing in expenses was in the grants to MTU category and was due to the COVID-19 pandemic. Fiscal year 2020 was more of a "normal" year with only the final quarter of the fiscal year being affected by the pandemic. The financial restraints that were put into place at the end of fiscal year 2020 continued for the majority of fiscal year 2021.

Nonoperating revenues and other revenues increased by \$47.6 million or 261%. Fundraising had an excellent year with giving up over \$21.7 million (contributions for endowment purposes which is in the "other revenues" line are included with this total). Strong investment returns also contributed to the increase in nonoperating revenues.



## Michigan Tech Fund

Management's Discussion and Analysis

June 30, 2021

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### **Financial Highlights: Statements of Cash Flows**

#### **Condensed Statements of Cash Flows For the year ended June 30**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM</b>		
Operating activities	\$ (11,407,463)	\$ (15,109,153)
Noncapital financing activities	5,520,640	5,516,829
Capital and related financing activities	9,062,989	5,785,653
Investment activities	<u>(2,178,851)</u>	<u>6,744,432</u>
<b>Net increase in cash and cash equivalents</b>	<b>997,315</b>	<b>2,937,761</b>
Cash and cash equivalents, beginning of year	<u>10,170,945</u>	<u>7,233,184</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 11,168,260</u></b>	<b><u>\$ 10,170,945</u></b>

#### **Changes from 2020 to 2021**

Overall, cash and cash equivalents increased by \$997,000 during fiscal year 2021. The cash item that differed the most from 2020 was in investment activities. Fiscal year 2021 saw purchases of investments exceed sales of investments by \$4.4 million, as less cash was needed for spending due to reduced expenses in fiscal year 2021.

#### **Economic Factors Impacting the Future**

The Fund's fiscal year 2021 saw aggregate investment returns that exceeded 20%. Management does not expect fiscal year 2022's investment returns to be as strong as the prior year, given the current economic challenges such as inflationary pressure, supply-chain issues, and a shortage of workers. Fiscal year 2021 was also an exemplary year for giving and that trend is not expected to continue at the same level.

# Michigan Tech Fund

## Statement of Net Position

June 30, 2021

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### ASSETS

#### Current assets

Cash and cash equivalents	\$ 11,168,260
Pledges receivable, net of allowance for uncollectible amounts	1,661,638
Interest and dividends receivable	7,985

**Total current assets** **12,837,883**

#### Noncurrent assets

Pledges receivable, net of discount, net of current portion	17,377,039
Amount due from Michigan Technological University	378,000
Cash surrender value, life insurance	1,045,794
Beneficial interest in remainder trusts	7,778,511
Investments	177,644,281

**Total noncurrent assets** **204,223,625**

**Total assets** **\$ 217,061,508**

### LIABILITIES, DEFERRED INFLOWS AND NET POSITION

#### Current liabilities

Accounts payable and accrued expenses	\$ 200,388
Current portion of annuity obligations	432,612

**Total current liabilities** **633,000**

#### Noncurrent liabilities

Annuity obligations, net of current portion	4,629,811
Pooled income obligations	588,622

**Total noncurrent liabilities** **5,218,433**

**Total liabilities** **5,851,433**

**Deferred inflows** **12,115,805**

#### Net position

Restricted	
Nonexpendable	106,282,134
Expendable - net appreciation on endowment	42,777,006
Expendable - University programs and student financial aid	41,235,414
Unrestricted	8,799,716

**Total net position** **199,094,270**

**TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION** **\$ 217,061,508**

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

## Michigan Tech Fund

Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2021

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### OPERATING EXPENSES

Grants to Michigan Technological University	\$ 11,114,994
Other operating expenses	560,764

<b>Total operating expenses</b>	<b>11,675,758</b>
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<b>Operating loss</b>	<b>(11,675,758)</b>
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### NONOPERATING REVENUES

Contributions	25,717,004
Investment return, net	30,868,363

<b>Total nonoperating revenues</b>	<b>56,585,367</b>
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<b>Income before other revenues</b>	44,909,609
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### OTHER REVENUES

Gifts for permanent endowment and capital purposes	9,260,231
Other revenues	61,031

<b>Total other revenues</b>	<b>9,321,262</b>
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<b>Change in net position</b>	<b>54,230,871</b>
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### NET POSITION

Beginning	153,695,062
Change in accounting framework	(8,831,663)

Beginning, as restated	144,863,399
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<b>Ending</b>	<b>\$ 199,094,270</b>
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The accompanying notes are an integral part of these financial statements.

## Michigan Tech Fund

### Statement of Cash Flows

For the year ended June 30, 2021

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#### CASH FLOWS FROM OPERATING ACTIVITIES

Payments to and on-behalf-of Michigan Technological University	\$ (11,278,029)
Payments for other operating expenses	(129,434)

**Net cash from operating activities** **(11,407,463)**

#### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Contributions for other than endowment or capital purposes	5,848,054
Payments to annuitants	(388,445)
Other receipts	61,031

**Net cash from noncapital financing activities** **5,520,640**

#### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Contributions for endowment and capital purposes	9,062,989
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**Net cash from capital and related financing activities** **9,062,989**

#### CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of investments	28,654,438
Purchase of investments	(33,049,469)
Income on investments, net of fees paid	2,216,180

**Net cash from investment activities** **(2,178,851)**

**Net change in cash and cash equivalents** **997,315**

#### CASH AND CASH EQUIVALENTS

Beginning	10,170,945
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**Ending** **\$ 11,168,260**

#### Reconciliation of operating loss to net cash from operating activities

Operating loss	\$ (11,675,758)
Adjustment to reconcile operating loss to net cash from operating activities	
Change in accounts payable and accrued expenses	268,295

**Net cash from operating activities** **\$ (11,407,463)**

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

# Michigan Tech Fund

## Notes to Financial Statements

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### 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 blended 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 Fund and the University have an arrangement in which the accounting function for the Fund is performed by University employees. The expenses for those employees totaled \$394,389 for fiscal year 2021 and are included in other operating expenses in the statement of revenues, expenses and changes in net position.

The Michigan Tech Fund Supporting Organization (Supporting Organization) is a charitable trust, which is governed by two trustees who are also directors of the Michigan Tech Fund. The purpose for which the trust was formed is to support the Michigan Tech Fund within the meaning of Section 509(a)(3) of the Internal Revenue Code and to which contributions are deductible under Section 170(c)(2) of the Internal Revenue Code. The Supporting Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Fund has excluded the financial activity of the Supporting Organization from its financial statements due to insignificance.

**Accounting and Reporting Principles:** The Fund follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). Based on these criteria, there are no component units of the Fund that are to be included in the reporting entity. Other organizations, including not-for-profit organizations, are considered governmental and required to comply with GASB if one or more of the following characteristics are met: (i) popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments; (ii) the potential for unilateral dissolution by a government with the net assets reverting to a government; or (iii) the power to enact and enforce a tax levy. The following is a summary of the significant accounting policies used by the Fund:

**Basis of Accounting:** The Fund follows the "business-type" activities requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Fund meets the grandfather provisions under GASB 34, paragraph 147 for entities that were reporting under the AICPA NFP model as of the date of Statement No. 34. The Fund uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Report Presentation:** In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

**Net position:** Net position is classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net positions of the Fund have been grouped into the following three categories:

**Restricted for Nonexpendable Purposes:** Net position from gifts and other inflows of assets that represent permanent endowments. Use of these gifts is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Fund.

# Michigan Tech Fund

## Notes to Financial Statements

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

**Restricted for Expendable Purposes:** Net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the Fund pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of permanent endowment funds and funds designated for student financial aid and other University programs.

**Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Fund's Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**Classification of Revenues and Expenses:** The Fund has classified its revenues and expenses as either operating or nonoperating on the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from exchange transactions. Nonoperating revenues and expenses have the characteristics of non-exchange transactions such as contributions and investment income.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**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.

**Investments:** Investments in marketable securities 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. Private equity funds that do not have readily determinable market values as of June 30 are valued based on net asset value. 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 funds' 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 Directors 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) to departmental funds based on an average of each fund's beginning and ending monthly balances. Net investment return is reported in the statement of revenues, expenses and changes in net position and consists of interest, dividends, and realized and unrealized gains and losses, less external investment expenses.

**Deferred Inflows:** In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows represent an acquisition of net position that applies to a future period and as such, is not recognized as an inflow of resources (revenue) until that time. Deferred inflows consists of future revenue streams related to irrevocable split-interest agreements such as the beneficial interest in remainder trusts, pooled income funds and charitable gift annuities.

# Michigan Tech Fund

## Notes to Financial Statements

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

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

**Gifts-in-Kind:** Land, buildings, and equipment are recorded at acquisition 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.

**Contributions and Pledges Receivable:** Contributions received and unconditional promises to give are recognized at their fair values as revenues in the periods received once eligibility requirements have been met. 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.

**Asset-Based Management and Administrative Fees:** The Fund receives monthly management and administrative fees from the various departmental funds for managing the assets processed and maintained by the Fund. These fees are remitted to the University as expenses and are included with grants to Michigan Technological University on the statement of revenues, expenses and changes in net position.

### 2. Cash and Investments:

The Fund's cash and investments are subject to several types of risk which are addressed within the Fund's investment policy statement (IPS) as follows. The IPS provides guidelines based on type of pool in which each investment is held. There are six separate pools which have their own investment objectives over a period of time which assumes acceptable risk levels commensurate with market volatility. Market volatility is defined as the trailing three-year standard deviation of investment returns. The pools each have a policy asset allocation mix which considers the universe of investments in two broad categories- return seeking assets and risk mitigating assets. Return seeking assets consist of US equity, international developed and emerging market equity, high yield bonds, international emerging market bonds, real estate and infrastructure, natural resources and commodities, hedge funds, and private equity. Risk mitigating assets consist of US investment grade bonds, inflation protected bonds, international developed market bonds, and cash. Within each return seeking/risk mitigating asset mix are approved norms along with lower to upper ranges of the individual assets held.

**Interest rate risk:** The Fund has an investment policy that focuses on the maturity of the pool along with the appropriate risk versus return percentage. The maturities of the Fund's fixed income investments as of June 30, 2021 are categorized below:

	Fair Value	Less than 1 Year	1 to 5 Years	6 to 10 Years
Mutual funds - fixed income	\$ 54,975,476	\$ 7,864,700	\$ 8,256,898	\$ 38,853,878
Corporate bonds and notes	425,700	-	241,339	184,361
US government obligations	1,050,980	272,575	481,653	296,752
<b>Total</b>	<b>\$ 56,452,156</b>	<b>\$ 8,137,275</b>	<b>\$ 8,979,890</b>	<b>\$ 39,334,991</b>

## Michigan Tech Fund

### Notes to Financial Statements

#### 2. Cash and Investments, continued:

**Credit risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by limiting investments to those specified in the Board-approved investment policy statement; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the Fund.

The Fund had the following debt instruments subject to interest rate fluctuations at June 30, 2021:

	<u>Market Value</u> <u>June 30, 2021</u>	<u>Rating</u>	<u>Rating Agency</u>
Mutual funds - fixed income	\$ 169,432	5-star	Morningstar
Mutual funds - fixed income	15,570,261	4-star	Morningstar
Mutual funds - fixed income	39,133,948	3-star	Morningstar
Mutual funds - fixed income	101,835		Not available
Corporate bonds and notes			
Arrow Electrs Note	10,516	BBB-	S&P
Abbvie Inc Sr Note	9,652	BBB+	S&P
Boeing Co Debenture	27,637	BBB-	S&P
Stryker Corp Sr Note	10,924	A-	S&P
Walgreens Boots Alliance Inc Note	9,804	BBB	S&P
Coca Cola Enterprises Inc Debenture	31,673	A+	S&P
Baker Hughes A GE Co LLC Sr Note	10,334	A-	S&P
Microsoft Corp Note	10,738	AAA	S&P
Raytheon Co Debenture	14,280	A-	S&P
Celgene Corp Sr Note	16,668	A+	S&P
Apple Inc.	25,537	AA+	S&P
Bank of NY Mellon Corp	-	A	S&P
Chevron Corp	26,464	AA-	S&P
Intel Corp	26,312	A+	S&P
Pfizer	26,273	A+	S&P
Royal Bank of Canada	26,198	A	S&P
Visa Inc	27,350	AA-	S&P
Prudential PLC	10,828		Not available
Comcast Corp	52,443	A-	S&P
State Street Corp	52,069	A	S&P
US government obligations			
Fed Farm Credit Bk	68,295	AA+	S&P
Fed Home Ln Mtg Corp	10,122	AA+	S&P
US Treasury Notes	920,507	AAA	Moody's
Fed National Mortgage Assn	52,056	AA+	S&P
<b>Total</b>	<b><u>\$ 56,452,156</u></b>		

**Custodial credit risk – deposits:** For deposits, custodial credit risk is present if the Fund's deposits would not be covered by depository insurance or collateralized by the bank. Deposits were reflected in the accounts of the banks of \$11,379,130 as of June 30, 2021. The Fund had \$10,879,130 exposed to custodial credit risk because the deposits were uninsured or uncollateralized as of June 30, 2021.

**Custodial credit risk – investments:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or



## Michigan Tech Fund

### Notes to Financial Statements

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#### 2. Cash and Investments, continued:

collateral securities that are in the possession of an outside party. Investments in external investment pools and open-ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical and book entry form. All investments are in the name of the Fund, as applicable, and the investments are held in accounts with each financial institution from which they were purchased.

**Concentration of credit risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Fund's investment policy does not have specific limits on concentration of credit risk.

The following investments comprise more than 5% of the total investments as of June 30, 2021:

Vanguard Total Stock Market ETF	\$	22,762,178
Vanguard Total Bond Market		38,500,794
Vanguard International Equity Index Fund		21,464,300
<b>Total</b>	<b>\$</b>	<b><u>82,727,272</u></b>

**Foreign currency risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. All of the Fund's foreign investments at June 30, 2021 are valued in US dollars, therefore the Fund was not subject to foreign currency risk.

Investments, carried at fair value, at June 30, 2021 are categorized as follows:

Marketable securities		
Equities	\$	30,103,411
Mutual funds – equities		53,632,124
Mutual funds – fixed income		54,975,476
Corporate bonds and notes		425,700
US government obligations		1,050,980
Total marketable securities		<u>140,187,691</u>
Alternative investments		
Hedge funds		7,153,471
Real estate and natural resources		8,423,652
Private equity		19,558,810
Global credit		2,045,657
Total alternative investments		<u>37,181,590</u>
Other investments		
Land held for sale		255,000
Other		20,000
<b>Total investments</b>	<b>\$</b>	<b><u>177,644,281</u></b>

## Michigan Tech Fund

### Notes to Financial Statements

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#### 2. Cash and Investments, continued:

Investment return is a net amount and is comprised of the following for the year ended June 30, 2021:

Interest and dividends	\$ 2,218,131
Net gain on sale of investments	5,418,037
Net unrealized gain on investments	23,675,866
Investment fees	<u>(443,671)</u>
<b>Total investment return, net</b>	<b><u>\$ 30,868,363</u></b>

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.

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, equity securities (primarily mutual funds), and debt securities (primarily U.S. government obligations) and precious metals (gold and silver coins). The fair value of precious metals is based on appraisals by experts. Level 2 investments include corporate bonds and notes and debt securities (principally US government obligations). Level 3 investments include other investments. Other investments consist of closely-held securities and the fair value is based on appraisals.

## Michigan Tech Fund

### Notes to Financial Statements

#### 3. Fair Value, continued:

**Beneficial Interest in 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.

The following tables present the recorded amount of the Fund's assets measured at fair value on a recurring basis as of June 30, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Marketable securities				
Equities	\$ 30,103,411	\$ 30,103,411	\$ -	\$ -
Mutual funds – equities	53,632,124	53,632,124	-	-
Mutual funds – fixed income	54,975,476	54,975,476	-	-
Corporate bonds and notes	425,700	-	425,700	-
US government obligations	1,050,980	1,050,980	-	-
Other investments		-		
Land held for sale	255,000	-	-	255,000
Other investments	20,000	-	-	20,000
<b>Total investments at fair value</b>	<b><u>140,462,691</u></b>	<b><u>\$ 139,761,991</u></b>	<b><u>\$ 425,700</u></b>	<b><u>\$ 275,000</u></b>
Alternative investments that calculate net asset value per share				
Hedge funds	7,153,471			
Real estate and natural resources	8,423,652			
Private equity	19,558,810			
Global credit	2,045,657			
<b>Total alternative investments that calculate net asset value per share</b>	<b><u>37,181,590</u></b>			
<b>Balance at June 30, 2021</b>	<b><u>\$ 177,644,281</u></b>			
<b>Beneficial interest in remainder trusts</b>	<b><u>\$ 7,778,511</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,778,511</u></b>

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Fund's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

#### Investments in Entities that Calculate Net Asset Value Per Share:

The Fund holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

## Michigan Tech Fund

### Notes to Financial Statements

#### 3. Fair Value, continued:

The following table lists investments in other investment companies (in partnership format) by major category as of June 30, 2021:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds (1)	\$ 7,153,471	\$ -	Quarterly	90 calendar days + 5 business days
Real Estate and Natural Resources (2)	8,423,652	1,314,376	Quarterly for one fund - not redeemable for others funds	Quarterly for one fund - NA for other funds
Private Equity (3)	19,558,810	11,575,128	Not redeemable	NA
Global Credit (4)	<u>2,045,657</u>	<u>200,000</u>	Semi-annually	90 calendar days
<b>Total</b>	<b><u>\$ 37,181,590</u></b>	<b><u>\$ 13,089,504</u></b>		

#### Strategy

- (1) This category includes one multi-strategy hedge fund.
- (2) This category includes funds that invest in commercial and residential real estate funds with U.S. properties and natural resource sector funds.
- (3) This category includes numerous private equity limited partnerships that invest in leverage buyouts, venture capital, growth equity financing, opportunistic situations, high yield, and subordinated debt across the primary and secondary markets.
- (4) This category includes one fund that invests in public and private credit markets, focusing on core, yield-oriented investments, supplemented by opportunistic positions with higher expected returns.

#### 4. Pledges Receivable:

Pledges may be restricted by donors for scholarships and fellowships, faculty positions, property and equipment, or designated departments of the University. Pledges have been reported at their discounted, net realizable values. The Fund estimated the present value of future cash flows using .25% over the risk-adjusted rate at the date of the gift. For fiscal year 2021, rates range from .5% to 1.7%. The following table shows the balance due of unconditional promises to give to the Fund at June 30, 2021.

Pledges receivable in less than one year	\$ 3,550,576
Pledges receivable in one to five years	6,819,569
Pledges receivable in more than five years	<u>13,054,000</u>
	23,424,145
Less:	
Allowance for uncollectible pledges	(1,888,938)
Present value discount	<u>(2,496,530)</u>
<b>Net pledges receivable</b>	<b><u>\$ 19,038,677</u></b>

## Michigan Tech Fund

### Notes to Financial Statements

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#### 5. Cash Surrender Value of Life Insurance:

The Fund is the owner and beneficiary of life insurance policies with death benefit values of approximately \$2,023,000 at June 30, 2021. The assignments of these policies were received as gifts for various University programs, student financial aid, and other designations.

#### 6. Gifts-in-Kind:

The Fund accepts gifts-in-kind, including property, on behalf of the University 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 acquisition value at the time of the gift. During the year ended June 30, 2021, the Fund received gifted equipment in the amount of \$355,143. These amounts were recorded as contribution revenue. Amounts immediately transferred to the University and recorded as a grant to Michigan Technological University in the accompanying statement of revenues, expenses and changes in net position was \$265,143 for the year ended June 30, 2021. Of the amount recorded in contribution revenue, \$90,000 represented donated real property and was recorded as an addition to investments during the year ended June 30, 2021.

#### 7. Functional Classification of Operating Expenses:

The Fund's operating expenses by functional classification were as follows for the year ended June 30, 2021:

	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Fundraising</b>	<b>Total</b>
<b>Operating expenses</b>				
Scholarships and fellowships	\$ 2,200,584	\$ -	\$ -	\$ 2,200,584
Departmental and other program support	8,914,410	-	-	8,914,410
Contracted employee services	-	394,389	-	394,389
Other services	-	58,447	18,600	77,047
Supplies	-	24,328	65,000	89,328
<b>Total expenses</b>	<b>\$ 11,114,994</b>	<b>\$ 477,164</b>	<b>\$ 83,600</b>	<b>\$ 11,675,758</b>

#### 8. Endowment:

The Fund's endowment consists of 689 individual, donor-restricted funds established for a variety of purposes and term endowments.

The Board of Directors 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 restricted nonexpendable net position the original value of gifts donated to a donor-endowed fund, the original value of subsequent gifts to a donor-endowed fund, and accumulations to a donor-endowed fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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.

## Michigan Tech Fund

### Notes to Financial Statements

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#### 8. Endowment, continued:

Following is a summary of the Fund's endowment at June 30, 2021 and changes therein:

Endowment, beginning of year	\$ 117,623,889
Investment return	26,812,429
Contributions	9,069,630
Appropriation of endowment assets for expenditure	<u>(1,986,223)</u>
<b>Endowment, end of year</b>	<b><u>\$ 151,519,725</u></b>

#### 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 accounting principles generally accepted in the United States of America, deficiencies of this nature that were reported in net assets with donor restrictions as of June 30, 2021 amounted to \$441,637.

#### 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 8.0% 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

For the year ended June 30, 2021, the Fund has an annual spending policy of 3.7% 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.

#### 9. Change in Reporting Framework:

The Fund's financial statements for the year ended June 30, 2020 were reported under the not-for-profit reporting model established by the Financial Accounting Standards Board (FASB). The Fund is required to report under the Governmental reporting model established by the Governmental Accounting Standards Board (GASB) given that the majority of the members of the Board of Directors

## Michigan Tech Fund

### Notes to Financial Statements

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#### **9. Change in Reporting Framework, continued:**

are from Michigan Technological University's Board of Trustees and University leadership. As a result, the beginning of year net position has been reduced by \$8,831,663 and a corresponding deferred inflow was recorded to properly reflect the accounting treatment for split interest agreements under GASB reporting.