

# **Michigan Tech Fund**

**Report on Audits of Financial Statements  
For the years ended June 30, 2006 and 2005**

**Michigan Tech Fund**  
Financial Statement Contents  
For the years ended June 30, 2006 and 2005

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## **Report of Independent Auditors**

To the Board of Trustees  
Michigan Tech Fund  
Houghton, Michigan

We have audited the accompanying statement of financial position of Michigan Tech Fund (the "Fund") (a not-for-profit organization and a discretely presented component unit of Michigan Technological University) as of June 30, 2006 and 2005 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, which 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, 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 Michigan Tech Fund at June 30, 2006 and 2005 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.

*Plante & Moran, PLLC*

August 25, 2006

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**Michigan Tech Fund**  
**Statements of Financial Position**  
**June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,071,167	\$ 10,854,936
Investments (Note 2)	41,192,704	27,810,888
Pledges receivable, net of allowance for uncollectible amounts (Note 3)	4,661,699	6,382,941
Interest and dividends receivable	132,451	56,555
Prepaid expenses and other receivable	<u>65,260</u>	<u>41,475</u>
Total current assets	51,123,281	45,146,795
Other assets:		
Pledges receivable, net of allowance, beyond one year (Note 3)	3,062,222	2,743,396
Cash surrender value, life insurance (Note 4)	796,444	686,332
Contributions receivable from remainder trusts (Note 7)	3,170,146	3,066,726
Investments restricted for permanent endowment (Note 2)	39,625,450	38,892,620
Real property (Note 5)	153,391	179,091
Office equipment and software, net (Note 6)	<u>52,930</u>	<u>66,800</u>
Total other assets	<u>46,860,583</u>	<u>45,634,965</u>
Total assets	<u>\$ 97,983,864</u>	<u>\$ 90,781,760</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 160,077	\$ 251,059
Annuity payment liability (Note 7)	<u>369,374</u>	<u>276,428</u>
Total current liabilities	529,451	527,487
Other liabilities:		
Annuity payment liability, long-term portion (Note 7)	3,069,079	1,804,272
Split-interest agreements (Note 7)	<u>677,416</u>	<u>582,000</u>
Total other liabilities	<u>3,746,495</u>	<u>2,386,272</u>
Total liabilities	<u>4,275,946</u>	<u>2,913,759</u>
Net assets:		
Unrestricted (Note 8)	3,281,956	2,187,620
Temporarily restricted (Note 8)	47,387,912	43,667,880
Permanently restricted (Note 8)	<u>43,038,050</u>	<u>42,012,501</u>
Total net assets	<u>93,707,918</u>	<u>87,868,001</u>
Total liabilities and net assets	<u>\$ 97,983,864</u>	<u>\$ 90,781,760</u>

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

**Michigan Tech Fund**  
**Statement of Activities**  
**For the year ended June 30, 2006**

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Contributions	\$ 2,030,597	\$ 8,263,702	\$ 1,025,549	\$ 11,319,848
Loss on pledge receivable	-	(3,200,000)	-	(3,200,000)
Investment return (Note 2)	1,962,101	6,270,376	-	8,232,477
Other income	131,832	171,442	-	303,274
Net assets released from restrictions	<u>7,785,488</u>	<u>(7,785,488)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>11,910,018</u>	<u>3,720,032</u>	<u>1,025,549</u>	<u>16,655,599</u>
Expenses:				
Grants to and services on behalf of Michigan Technological University:				
Scholarships and fellowships	1,786,487	-	-	1,786,487
Capital projects and equipment	395,282	-	-	395,282
Departmental and other program support	5,285,532	-	-	5,285,532
Office of Development	<u>874,263</u>	<u>-</u>	<u>-</u>	<u>874,263</u>
	8,341,564	-	-	8,341,564
Operating expenses:				
Salaries, wages, and benefits	1,399,134	-	-	1,399,134
Other operating expenses	<u>1,074,984</u>	<u>-</u>	<u>-</u>	<u>1,074,984</u>
	<u>2,474,118</u>	<u>-</u>	<u>-</u>	<u>2,474,118</u>
Total expenses	<u>10,815,682</u>	<u>-</u>	<u>-</u>	<u>10,815,682</u>
Change in net assets	1,094,336	3,720,032	1,025,549	5,839,917
Net assets, beginning of year	<u>2,187,620</u>	<u>43,667,880</u>	<u>42,012,501</u>	<u>87,868,001</u>
Net assets, end of year	<u>\$ 3,281,956</u>	<u>\$ 47,387,912</u>	<u>\$ 43,038,050</u>	<u>\$ 93,707,918</u>

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

**Michigan Tech Fund**  
**Statement of Activities**  
**For the year ended June 30, 2005**

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Contributions	\$ 1,073,983	\$ 5,944,742	\$ 3,113,309	\$ 10,132,034
Investment return (Note 2)	1,744,933	5,532,223	-	7,277,156
Other income	9,713	353,791	-	363,504
Net assets released from restrictions	10,047,898	(10,047,898)	-	-
Total support and revenue	12,876,527	1,782,858	3,113,309	17,772,694
Expenses:				
Program services on behalf of Michigan Technological University:				
Scholarships and fellowships	1,752,951	-	-	1,752,951
Capital projects and equipment	2,965,694	-	-	2,965,694
Departmental and other program support	5,446,960	-	-	5,446,960
	10,165,605	-	-	10,165,605
Operating expenses:				
Salaries, wages, and benefits	1,385,352	-	-	1,385,352
Other operating expenses	860,121	-	-	860,121
	2,245,473	-	-	2,245,473
Total expenses	12,411,078	-	-	12,411,078
Change in net assets	465,449	1,782,858	3,113,309	5,361,616
Net assets, beginning of year	1,722,171	41,784,022	39,000,192	82,506,385
Net assets transfers (Note 9)	-	101,000	(101,000)	-
Net assets, end of year	\$ 2,187,620	\$ 43,667,880	\$ 42,012,501	\$ 87,868,001

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

**Michigan Tech Fund**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2006**

	2006			
	Program Services	Management & General	Fundraising	Total
Expenses:				
Scholarships and fellowships	\$ 1,786,487	\$ -	\$ -	\$ 1,786,487
Capital projects and equipment	395,282	-	-	395,282
Departmental and other program support	5,285,532	-	-	5,285,532
Salaries and wages	731,612	621,488	125,953	1,479,053
Payroll taxes	21,885	51,648	9,249	82,782
Retirement plan contributions	34,395	77,961	14,462	126,818
Other employee fringe benefits	246,889	126,519	17,320	390,728
Contracted services	75,003	2,011	-	77,014
Supplies	18,153	21,709	2,583	42,445
Postage and printing	27,836	66,188	22,608	116,632
Insurance	-	21,175	-	21,175
Telephone	792	7,684	1,985	10,461
Legal fees	3,857	20,134	3,442	27,433
Accounting fees	-	29,000	-	29,000
Travel	135,659	45,901	11,443	193,003
Trustee meetings	-	44,550	-	44,550
Entertainment	39,015	726	49	39,790
Equipment charges and maintenance	-	39,589	1,878	41,467
Depreciation	-	27,831	-	27,831
Property taxes	-	898	-	898
Space rental	-	116,697	-	116,697
Stewardship and special events	38,919	18,729	9,898	67,546
Training and professional development	6,986	7,495	898	15,379
Professional services	207,628	10,222	574	218,424
Recruiting and relocation	113,002	534	-	113,536
Other	4,694	58,294	2,731	65,719
Total expenses	<u>\$ 9,173,626</u>	<u>\$ 1,416,983</u>	<u>\$ 225,073</u>	<u>\$ 10,815,682</u>

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

**Michigan Tech Fund**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2005**

	2005			
	Program Services	Management & General	Fundraising	Total
Expenses:				
Scholarships and fellowships	\$ 1,752,951	\$ -	\$ -	\$ 1,752,951
Capital projects and equipment	2,965,694	-	-	2,965,694
Departmental and other program support	5,446,960	-	-	5,446,960
Salaries and wages	314,406	626,429	87,685	1,028,520
Payroll taxes	24,818	49,306	4,425	78,549
Retirement plan contributions	38,612	70,990	6,854	116,456
Other employee fringe benefits	42,560	115,215	4,052	161,827
Contracted services	9,169	1,618	-	10,787
Supplies	1,105	17,712	11,002	29,819
Postage and printing	48,508	55,874	30,631	135,013
Insurance	-	21,097	-	21,097
Telephone	1,070	6,076	2,752	9,898
Legal fees	-	13,913	-	13,913
Accounting fees	-	27,000	-	27,000
Travel	34,282	43,982	3,396	81,660
Trustee meetings	-	22,790	-	22,790
Entertainment	4,142	11,901	10,739	26,782
Equipment charges and maintenance	2,498	43,781	17,399	63,678
Depreciation	-	30,344	-	30,344
Interest	-	435	-	435
Property taxes	-	1,459	-	1,459
Space rental	22,514	101,703	-	124,217
Stewardship and special events	26,469	7,929	11,648	46,046
Training and professional development	1,864	3,753	388	6,005
Professional services	47,091	31,777	945	79,813
Recruiting and relocation	20,282	68,121	-	88,403
Other	6,805	25,048	9,109	40,962
Total expenses	<u>\$ 10,811,800</u>	<u>\$ 1,398,253</u>	<u>\$ 201,025</u>	<u>\$ 12,411,078</u>

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



**Michigan Tech Fund**  
**Statements of Cash Flows**  
**For the years ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,839,917	\$ 5,361,616
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	27,831	30,344
Net realized and unrealized gains and losses	(4,196,418)	(4,305,845)
Contributions of real property and securities	(1,214,942)	(137,339)
Contributions restricted for long-term investment	(1,122,799)	(3,113,309)
Changes in split-interest agreements	330,986	54,914
Changes in assets and liabilities:		
Interest and dividends receivable	(75,896)	(21,688)
Pledges receivable, net of permanently restricted components	930,701	3,914,364
Prepaid expenses	(23,785)	(8,000)
Cash surrender value, life insurance	(110,112)	(35,912)
Contributions receivable from remainder trusts	(103,420)	(172,306)
Accounts payable and accrued expenses	(88,474)	80,825
Liabilities under split-interest agreements	1,425,456	440,573
Net cash provided by operating activities	<u>1,619,045</u>	<u>2,088,237</u>
Cash flows from investing activities:		
Purchase of equipment	(13,961)	(9,432)
Proceeds from sale of real property	27,786	-
Purchase of investments	(17,877,712)	(15,346,755)
Proceeds from sale of investments	9,172,340	13,966,663
Net cash used in investing activities	<u>(8,691,547)</u>	<u>(1,389,524)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	562,351	2,666,004
Investment subject to annuity agreements	560,448	464,581
Decrease in permanently restricted contributions receivable	471,715	78,607
Payments on note payable	-	(13,535)
Payments on annuity obligations	(305,781)	(194,126)
Net cash provided by financing activities	<u>1,288,733</u>	<u>3,001,531</u>
Net change in cash and cash equivalents	(5,783,769)	3,700,244
Cash and cash equivalents, beginning of year	<u>10,854,936</u>	<u>7,154,692</u>
Cash and cash equivalents, end of year	<u>\$ 5,071,167</u>	<u>\$ 10,854,936</u>

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. This requires 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 fair values of the Fund’s financial instruments are as follows:

- a. Cash and Cash Equivalents:** The carrying amount approximates fair value.
- b. Investments:** A summary of the fair value of various investments is provided in Note 2.
- c. Contributions Receivable:** The carrying amount represents recorded promises to give, measured at present value of future cash flows, net of estimated uncollectible pledges (see Note 3).
- d. Obligations under Split-Interest Agreements:** The carrying amount approximates present value of expected future payments to beneficiaries (see Note 7).
- e. Other:** The Fund’s other financial instruments carried in the accompanying statement of financial position are amounts that approximate fair values.

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 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 and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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

- 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.
- b. Investments:** The Fund reports marketable securities at fair value, based on the quoted market value. Limited partnership and closely held stocks are carried at the current estimated fair value. Realized and unrealized gains and losses are reflected in the statement of activities. 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 Directors 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 assets to departmental funds based on an average of each fund's beginning and ending monthly balances.
- c. Split-Interest Agreements:** Life income trusts, pooled income funds, unitrusts, 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 statements of activity to the Fund. Refer to Note 7 for further details.
- d. Fixed Assets:** The fixed assets of the Fund consist of office equipment, computers, software, and furniture. Fixed assets are recorded at cost at the date of acquisition and are depreciated on a straight-line basis over estimated useful lives of three to seven years. At the time of disposal, fixed assets are removed from the records and any gain or loss is recognized in the statement of activities.
- e. Gifts-in-Kind:** Land, buildings, equipment, and art properties are recorded at estimated fair value at the date of the gift based upon appraised values. The responsibility for having an appraisal completed for the gifted property rests with the donor. 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.
- f. 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 within one year are recorded at their net realizable values. 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.
- g. 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 and permanently restricted net assets.
- h. Reclassification:** Certain reclassifications were made to amounts in the 2005 financial statements to conform to the classifications used in 2006.

**Michigan Tech Fund**  
Notes to Financial Statements

**2. Investments:**

Investments, carried at fair value, at June 30, 2006 and 2005, are categorized as follows:

	<u>2006</u>	<u>2005</u>
Marketable securities:		
Equities	\$ 828,428	\$ 953,920
Mutual funds - equities	39,921,929	33,237,385
Mutual funds - bonds	26,033,201	21,959,943
Corporate bonds and notes	9,702	68,546
US government obligations	<u>1,677,951</u>	<u>1,151,067</u>
Total marketable securities	68,471,211	57,370,861
Limited partnerships		
Hedge funds	6,113,422	5,448,600
Rease assets	3,046,698	1,374,672
Private equity	<u>3,166,823</u>	<u>2,489,375</u>
Total limited partnerships	12,326,943	9,312,647
Closely held stock	<u>20,000</u>	<u>20,000</u>
Total investments	<u>\$ 80,818,154</u>	<u>\$ 66,703,508</u>

At June 30, 2006, the Fund's remaining capital commitment for investment in limited partnerships is \$5,777,164. Subsequent to the end of the fiscal year, the Fund has committed an additional \$3,500,000 to limited partnerships.

Investment return is a net amount and is comprised of the following for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 2,397,155	\$ 1,638,313
Capital gain distributions	1,864,416	1,562,568
Net gain on sale of investments	1,634,940	2,038,574
Net unrealized gain on investments	2,561,478	2,267,271
Asset-based management and administrative fees	<u>(225,512)</u>	<u>(229,570)</u>
Total investment return	<u>\$ 8,232,477</u>	<u>\$ 7,277,156</u>

**Michigan Tech Fund**  
Notes to Financial Statements

**3. Pledges Receivable:**

The following shows the balance due of unconditional promises to give to the Fund at June 30, 2006 and 2005. Pledges are unrestricted, temporarily restricted, and permanently restricted by donors for property and equipment purposes, scholarships, endowed 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 the risk-free rate at the date of the gift. Rates range from 2.50% to 5.16%.

During the year ended June 30, 2006, a donor informed the Fund that payment of his \$3,200,000 pledge had become conditional upon a future event. As a result, the Fund removed his pledge from pledges receivable. A corresponding decrease to contributions is shown on the Statement of Activities for the year ended June 30, 2006, as a change in fair value of pledge receivable.

	<u>2006</u>	<u>2005</u>
Pledges receivable in less than one year	\$ 4,912,247	\$ 7,099,738
Pledges receivable in one to five years	3,389,540	2,840,482
Pledges receivable in more than five years	<u>456,644</u>	<u>356,422</u>
	\$ 8,758,431	\$ 10,296,642
Less:		
Allowance for uncollectible pledges	(250,548)	(716,797)
Present value discount	<u>(783,962)</u>	<u>(453,508)</u>
Net pledges receivable	<u>\$ 7,723,921</u>	<u>\$ 9,126,337</u>

**4. Cash Surrender Value of Life Insurance:**

The Fund is the owner and beneficiary of life insurance policies with a death benefit value of approximately \$2,618,000 and \$2,472,000 at June 30, 2006 and 2005, respectively. The assignments of these policies were received as gifts for various University programs, scholarships, and other designations.

**5. Real Property 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. Activity during the years ended June 30, 2006 and 2005, follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 179,091	\$ 179,091
Additions:		
Real property	49,000	715,584
Gifts-in-kind	645,332	1,141,042
Less:		
Sale of real property	(25,700)	(715,584)
Gifts-in-kind and real property transferred to the University	<u>(694,332)</u>	<u>(1,141,042)</u>
Balance, end of year	<u>\$ 153,391</u>	<u>\$ 179,091</u>

**Michigan Tech Fund**  
Notes to Financial Statements

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**6. Fixed Assets:**

A summary of fixed assets at June 30, 2006 and 2005, follows:

	2006	2005
Leasehold improvements	\$ 62,188	\$ 58,905
Office equipment	54,693	51,788
Computer equipment	121,941	114,168
Software	49,000	49,000
Total	287,822	273,861
Less accumulated depreciation and amortization	(234,892)	(207,061)
Net fixed assets	<u>\$ 52,930</u>	<u>\$ 66,800</u>

**7. Split-Interest Agreements:**

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

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

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

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

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

**Michigan Tech Fund**  
Notes to Financial Statements

**7. Split-Interest Agreements, continued:**

Irrevocable split-interest agreements in which the Fund does not control the trust assets are recognized in the Fund's financial statements when it is notified 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 a remainder trust. Amounts reflected as receivable from these types of agreements were \$3,170,146 and \$3,066,726 at June 30, 2006 and 2005, respectively.

Irrevocable split-interest agreements in which the Fund does control the trust assets are recognized in the Fund's financial statements when the trust is executed. The fair value of the trust assets and the present value of the expected future payments to be made to other beneficiaries are recorded as assets and liabilities, respectively, and the difference is recorded as contribution revenue. Amounts included in the accompanying statement of financial position at June 30, 2006 and 2005, from these types of agreements are as follows:

	<u>2006</u>	<u>2005</u>
Assets—cash and marketable securities	\$ 7,364,900	\$ 5,534,365
Liabilities to other beneficiaries	\$ 4,115,869	\$ 2,662,700

Included with contribution revenue on the Statement of Activities for the years ended June 30, 2006 and 2005, were \$560,448 and \$476,817, respectively, in contributions from split-interest agreements and \$(330,986) and \$(54,914) from changes in the value of split-interest agreements.

The calculations of present value follow the guidelines as set forth in Section 642(c) of the Internal Revenue Code.

**8. Net Asset Categories:**

Unrestricted net assets at June 30, 2006 and 2005, were designated for the following:

	<u>2006</u>	<u>2005</u>
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	\$ (497,605)	\$ (511,053)
Undesignated	3,779,561	2,698,673
	<u>\$ 3,281,956</u>	<u>\$ 2,187,620</u>

Temporarily restricted net assets at June 30, 2006 and 2005, were restricted for the following:

	<u>2006</u>	<u>2005</u>
Capital projects and equipment	\$ 3,754,826	\$ 3,944,689
Departmental support	17,073,986	17,441,753
Remainder interests in split-interest agreements	1,924,788	2,539,344
Net appreciation on donor-restricted endowment funds	24,634,312	19,742,094
	<u>\$ 47,387,912</u>	<u>\$ 43,667,880</u>

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

**Michigan Tech Fund**  
Notes to Financial Statements

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**9. Net Asset Transfers:**

Net assets have been transferred between temporarily restricted and permanently restricted classifications as the result of further analysis of documents and donor clarifications on contributions received by the Fund in prior years.

**10. Operating Lease:**

The Fund leases its office space. The term of this lease commenced on October 1, 2003, and will terminate on September 30, 2008.

Minimum future rental payments under the noncancelable operating lease for each of the next two years and in the aggregate are:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	116,697
2008	116,697
Total minimum future rental payments	<u>\$ 233,394</u>