Michigan Tech Fund

Audited Financial Statements
June 30, 2017 and 2016

Michigan Tech Fund
Financial Statement Contents
For the Years Ended June 30, 2017 and 2016

Report of Independent Auditors

Board of Directors
Michigan Tech Fund
Houghton, Michigan

We have audited the accompanying financial statements of the Michigan Tech Fund, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

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 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 risk 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 the Michigan Tech Fund as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, an error in certain 2016 amounts reported was discovered by management. This error reduced 2016 revenue and increased the pooled income obligation. Accordingly, these amounts have been restated in the 2016 financial statements and beginning net assets was also restated by reducing the July 1, 2015 temporarily restricted and permanently restricted net asset balances. Our opinion is not modified with respect to this matter.

Andrews Hooper Pavlik PLC

Bay City, Michigan
September 13, 2017

Michigan Tech Fund
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,722,676	$ 2,455,886
Pledges receivable, net of allowance for uncollectible amounts	1,236,023	479,668
Interest and dividends receivable	125,005	208,241
Prepaid expenses and other receivables	29,586	36,656
Total current assets	7,113,290	3,180,451
Long-term assets:		
Pledges receivable, net of discount, net of current portion	1,192,869	2,215,007
Cash surrender value, life insurance	987,642	961,090
Contributions receivable from remainder trusts	5,660,795	5,181,700
Investments	129,358,769	122,541,653
Property held for sale	91,700	91,700
Total long-term assets	137,291,775	130,991,150
Total assets	**$ 144,405,065**	**$ 134,171,601**
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,131,250	$ 461,209
Current portion of annuity obligations	412,239	465,401
Total current liabilities	1,543,489	926,610
Long-term liabilities:		
Annuity obligations, net of current portion	3,943,724	3,875,311
Pooled income obligations	1,768,434	1,748,523
Total long-term liabilities	5,712,158	5,623,834
Total liabilities	7,255,647	6,550,444
Contingency and commitments (Notes 2 and 10)		
Net assets:		
Unrestricted	3,740,222	139,332
Temporarily restricted	42,619,727	40,476,202
Permanently restricted	90,789,469	87,005,623
Total net assets	137,149,418	127,621,157
Total liabilities and net assets	**$ 144,405,065**	**$ 134,171,601**

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

Michigan Tech Fund

Statement of Activities

For the Year Ended June 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, gains, and revenue:				
Contributions	$ 1,988,683	$ 7,144,545	$ 3,783,846	$ 12,917,074
Investment return	5,570,022	6,153,766		11,723,788
Other income	200	111,171		111,371
Net assets released from restrictions	11,265,957	(11,265,957)	-	-
Total support, gains, and revenue	18,824,862	2,143,525	3,783,846	24,752,233
Expenses:				
Program services on behalf of Michigan Technological University:				
Scholarships and fellowships	2,151,490	-	-	2,151,490
Departmental and other program support	12,278,315	-	-	12,278,315
	14,429,805	-	-	14,429,805
Management and general expenses	794,167	-	-	794,167
Total expenses	15,223,972	-	-	15,223,972
Change in net assets	3,600,890	2,143,525	3,783,846	9,528,261
Net assets, beginning of year, as restated	139,332	40,476,202	87,005,623	127,621,157
Net assets, end of year	**$ 3,740,222**	**$ 42,619,727**	**$ 90,789,469**	**$ 137,149,418**

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

Michigan Tech Fund
Statement of Activities
For the Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, gains (losses), and revenue:				
Contributions	$ 862,098	$13,323,818	$ 6,390,599	$ 20,576,515
Investment return (loss)	1,663,768	(2,884,555)	-	(1,220,787)
Other income	168,848	124,851	-	293,699
Net assets released from restrictions	11,646,783	(11,789,891)	143,108	-
Total support, gains (losses), and revenue	14,341,497	(1,225,777)	6,533,707	19,649,427
Expenses:				
Program services on behalf of Michigan Technological University:				
Scholarships and fellowships	2,548,167	-	-	2,548,167
Departmental and other program support	12,927,843	-	-	12,927,843
	15,476,010	-	-	15,476,010
Management and general expenses	807,475	-	-	807,475
Total expenses	16,283,485	-	-	16,283,485
Change in net assets	(1,941,988)	(1,225,777)	6,533,707	3,365,942
Net assets, beginning of year, as restated	2,081,320	41,701,979	80,471,916	124,255,215
Net assets, end of year, as restated	**$ 139,332**	**$40,476,202**	**$ 87,005,623**	**$127,621,157**

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

Michigan Tech Fund
Statement of Functional Expenses
For the Year Ended June 30, 2017

	2017		
	Program Services	Management & General	Total
Expenses:			
Scholarships and fellowships	$ 2,151,490	$ -	$ 2,151,490
Departmental and other program support	12,278,315	-	12,278,315
Contracted employee services	-	441,576	441,576
Supplies	-	10,114	10,114
Postage and printing	-	7,430	7,430
Insurance	-	24,269	24,269
Telephone	-	469	469
Accounting fees	-	8,100	8,100
Travel	-	24,218	24,218
Entertainment	-	17,657	17,657
Equipment charges and maintenance	-	11,727	11,727
Property taxes	-	3,829	3,829
Seminars and training	-	961	961
Space rental	-	151,896	151,896
Stewardship and special events	-	37,498	37,498
Professional services	-	4,639	4,639
Credit card processing fees	-	23,099	23,099
Dues and memberships	-	3,011	3,011
Custodian and trustee fees	-	12,177	12,177
Other	-	11,497	11,497
Total expenses	**$ 14,429,805**	**$ 794,167**	**$ 15,223,972**

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

Michigan Tech Fund
Statement of Functional Expenses
For the Year Ended June 30, 2016

	2016		
	Program Services	**Management & General**	**Total**
Expenses:			
Scholarships and fellowships	$ 2,548,167	$ -	$ 2,548,167
Departmental and other program support	12,927,843	-	12,927,843
Contracted employee services	-	438,903	438,903
Supplies	-	8,917	8,917
Postage and printing	-	8,612	8,612
Insurance	-	18,555	18,555
Telephone	-	224	224
Accounting fees	-	8,100	8,100
Travel	-	33,792	33,792
Entertainment	-	25,501	25,501
Equipment charges and maintenance	-	12,936	12,936
Property taxes	-	4,582	4,582
Seminars and training	-	3,825	3,825
Space rental	-	151,896	151,896
Stewardship and special events	-	24,962	24,962
Professional services	-	13,176	13,176
Credit card processing fees	-	21,914	21,914
Dues and memberships	-	9,089	9,089
Custodian and trustee fees	-	12,167	12,167
Other	-	10,324	10,324
Total expenses	**$ 15,476,010**	**$ 807,475**	**$ 16,283,485**

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

Michigan Tech Fund

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 9,528,261	$ 3,365,942
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision (recovery) for uncollectible pledges	(238,052)	495,977
Net realized and unrealized (gains) losses	(8,051,929)	4,090,288
Contributions of marketable securities and real property	(520,975)	(5,231,793)
Contributions restricted for long-term investment	(4,209,019)	(7,280,067)
Net change in split-interest agreements	458,999	370,530
Net change in contributions receivable from remainder trusts	(479,095)	404,694
Net change in cash surrender value, life insurance	(26,552)	48,732
Changes in assets and liabilities:		
Interest and dividends receivable	83,236	(35,668)
Prepaid expenses and other receivables	7,070	19,002
Pledges receivable, net of permanently restricted components	304,644	1,283,447
Accounts payable and accrued expenses	670,041	(30,619)
Net cash from operating activities	(2,473,371)	(2,499,535)
Cash flows from investing activities:		
Purchase of investments	(40,669,065)	(48,402,802)
Proceeds from sale of investments	42,424,853	44,134,736
Net cash from investing activities	1,755,788	(4,268,066)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowments	3,898,904	7,167,586
Investment subject to annuity agreements	310,115	112,481
Change in permanently restricted contributions receivable	199,191	108,992
Payments on annuity obligations	(423,837)	(429,681)
Net cash from financing activities	3,984,373	6,959,378
Net change in cash and cash equivalents	3,266,790	191,777
Cash and cash equivalents, beginning of year	2,455,886	2,264,109
Cash and cash equivalents, end of year	**$ 5,722,676**	**$ 2,455,886**

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 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 Fund personnel are University employees, and the Fund reimburses the University for expenses associated with those employees. Those expenses totaled $441,576 and $438,903 for fiscal years 2017 and 2016, respectively, and are included in management and general expenses on the Statements of Activities.

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.

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 support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

The net assets and support, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions or as stipulated by law. 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 or by law. Temporarily restricted net assets are released from restrictions by the passage of time, by actions of the Fund, pursuant to the donors' stipulations, or by actions of the Board.

1. Summary of Significant Accounting Policies, continued:

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

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

a. **Cash and Cash Equivalents:** Cash and cash equivalents include cash deposits, time deposits, money market funds, and highly liquid debt instruments with original maturities of three months or less. Bank account balances periodically exceed the federal insurance limits for deposits. Management evaluates the financial institutions in which the Fund maintains deposits and assesses the level of risk associated with those institutions. Management does not believe the Fund is exposed to significant financial risk as a result of these deposits.

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 and, 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 that could significantly affect the results of current or future values. For a further discussion of Fair Value Measurements, refer to Note 3.

1. Summary of Significant Accounting Policies, continued:

c. **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. Real estate and natural resources are accounted for on the equity method. Private equity funds that 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 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. 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.

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

e. **Fixed Assets:** The fixed assets of the Fund consist of leasehold improvements, office equipment, computers, and software. Fixed assets are recorded at cost at the date of acquisition and are depreciated on a straight-line basis over estimated useful lives, which range from three to seven years. At the time of disposal, any gain or loss is recognized in the statement of activities. As of June 30, 2017 and 2016, all of the Fund's fixed assets were fully depreciated.

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.

1. Summary of Significant Accounting Policies, continued:

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. Income Taxes: The Fund analyzes 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 also treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its management and general expenses.

The Fund evaluated fiscal years 2013 through 2017, the years which remain subject to examination by major tax jurisdictions as of June 30, 2017 for uncertain tax positions. 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, 2017 and 2016, and it is not aware of any claims for such amounts by federal or state income tax authorities.

j. 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, 2017, the most recent statement of financial position presented herein, through September 13, 2017, the date these financial statements were available to be issued. No such significant events or transactions were identified.

2. Investments:

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

	2017	2016
Marketable securities		
Equities	$ 967,029	$ 852,293
Mutual funds – equities	76,429,449	64,896,146
Mutual funds – fixed income	11,930,529	16,712,914
Corporate bonds and notes	327,461	186,005
US government obligations	24,514,017	26,359,509
Total marketable securities	114,168,485	109,006,867
Alternative investments		
Hedge funds	9,706,173	7,757,681
Real estate and natural resources	464,640	570,478
Private equity	3,371,459	3,436,785
Total alternative investments	13,542,272	11,764,944
Precious metals	1,628,012	1,749,842
Other investments	20,000	20,000
Total investments	**$ 129,358,769**	**$ 122,541,653**

At June 30, 2017, the Fund's remaining future capital commitments for investment in alternative investments (private equity limited partnerships) are $12,104,263.

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

	2017	2016
Interest and dividends	$ 2,558,342	$ 2,497,258
Capital gain distributions	1,628,577	846,738
Net gain on sale of investments	1,358,258	666,453
Net unrealized gain (loss) on investments	6,693,671	(4,756,741)
Asset-based management and administrative fees	(515,060)	(474,495)
Total investment return (loss)	**$ 11,723,788**	**$ (1,220,787)**

The Fund invests in various securities including US government obligations, corporate debt instruments, mutual funds, corporate equities, and alternative investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities.

3. Fair Value:

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

Fair Value Hierarchy

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). Level 2 investments include debt securities (principally US government obligations). Level 3 investments include interests in hedge funds, private equity, real estate, and precious metals (gold and silver coins). 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. The fair value of precious metals is based on appraisals by experts.

Contributions Receivable from Remainder Trusts: Fair value measurement is based upon the fair value of the underlying investments in the trusts, an estimated rate of return, anticipated future payments to be made to beneficiaries, living beneficiaries' life expectancies, and an assumed discount rate as discussed further in Note 7.

3. Fair Value, continued:

Following is a description of the valuation methodologies used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis.

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

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

Cash and Cash Equivalents and Interest and Dividends Receivable: The carrying amounts reported in the statements of financial position for cash and cash equivalents and interest and dividends receivable approximate fair value because of their short-term nature.

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

3. Fair Value, continued:

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

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Marketable securities				
Equities	$ 967,029	$ -	$ -	$ 967,029
Mutual funds – equities	76,429,449	-	-	76,429,449
Mutual funds – fixed income	11,930,529	-	-	11,930,529
Corporate bonds and notes	-	327,461	-	327,461
US government obligations	15,441,637	9,072,380	-	24,514,017
Alternative investments				
Hedge funds	-	-	9,706,173	9,706,173
Real estate and natural resources	-	-	464,640	464,640
Private equity	-	-	3,371,459	3,371,459
Precious metals	-	-	1,628,012	1,628,012
Other investments	-	-	20,000	20,000
Total investments at fair value	**$ 104,768,644**	**$ 9,399,841**	**$ 15,190,284**	**$ 129,358,769**
Contributions receivable from remainder trusts	**$ -**	**$ -**	**$ 5,660,795**	**$ 5,660,795**

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Marketable securities				
Equities	$ 852,293	$ -	$ -	$ 852,293
Mutual funds – equities	64,896,146	-	-	64,896,146
Mutual funds – fixed income	16,712,914	-	-	16,712,914
Corporate bonds and notes	-	186,005	-	186,005
US government obligations	12,776,041	13,583,468	-	26,359,509
Alternative investments				
Hedge funds	-	-	7,757,681	7,757,681
Real estate and natural resources	-	-	570,478	570,478
Private equity	-	-	3,436,785	3,436,785
Precious metals	-	-	1,749,842	1,749,842
Other investments	-	-	20,000	20,000
Total investments at fair value	**$ 95,237,394**	**$ 13,769,473**	**$ 13,534,786**	**$ 122,541,653**
Contributions receivable from remainder trusts	**$ -**	**$ -**	**$ 5,181,700**	**$ 5,181,700**

3. Fair Value, continued:

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

	2017					
	Alternative Investments					
	Hedge Funds	Real Estate and Natural Resources	Private Equity	Precious Metals	Other	Contributions Receivable from Remainder Trusts
Balance, beginning of year	$ 7,757,681	$ 570,478	$ 3,436,785	$1,749,842	$ 20,000	$ 5,181,700
Capital contributions	2,000,000	1,922	914,246	-	-	35,628
Distributions	(634,278)	(133,099)	(1,291,228)	-	-	-
Investment loss	-	(3,184)	(3,112)	-	-	-
Operating income (loss) – limited partnerships	8,482	60,182	(56,101)	-	-	-
Realized gains	294,397	25,445	428,025	-	-	-
Unrealized gains (losses)	394,421	(57,104)	(57,156)	(121,830)	-	-
Redemptions	(114,530)	-	-	-	-	(36,760)
Change in value	-	-	-	-	-	480,227
Balance, end of year	**$ 9,706,173**	**$ 464,640**	**$ 3,371,459**	**$1,628,012**	**$ 20,000**	**$ 5,660,795**

	2016					
	Alternative Investments					
	Hedge Funds	Real Estate and Natural Resources	Private Equity	Precious Metals	Other	Contributions Receivable from Remainder Trusts
Balance, beginning of year	$ 16,522,088	$ 756,463	$ 4,387,447	$ -	$ 20,000	$ 5,586,394
Capital contributions	7,300,000	2,881	191,869	1,728,476	-	-
Distributions	(15,517,595)	(107,321)	(1,063,333)	-	-	-
Investment loss	(511,262)	(49,375)	(2,819)	-	-	-
Operating income (loss) – limited partnerships	74	(72,204)	(74,556)	-	-	-
Realized gains (losses)	(475)	549	305,985	-	-	-
Unrealized gains (losses)	(35,149)	39,485	(307,808)	21,366	-	-
Redemptions	-	-	-	-	-	(195,660)
Change in value	-	-	-	-	-	(209,034)
Balance, end of year	**$ 7,757,681**	**$ 570,478**	**$ 3,436,785**	**$1,749,842**	**$ 20,000**	**$ 5,181,700**

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 Fund uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which (1) do not have a readily determinable fair value, and (2) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category as of June 30, 2017 and 2016:

	Strategy	NAV in Funds FY 2017	NAV in Funds FY 2016	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	$ 3,371,459	$ 3,436,785	9	1 to 12 years	$ 11,999,485	1 to 12 years	NA *	NA	NA
Real Estate and Natural Resources	Domestic real estate and domestic and international natural resources	464,640	570,478	2	4 to 5 years	104,778	1 to 5 years	NA *	NA	NA
Hedge Funds	Hedge funds with various strategies	9,706,173	7,757,681	1	NA	NA	NA	Redemptions are available on a quarterly basis, with a 60-day notice period.	$100,000 minimum redemption amount.	None
Total		**$13,542,272**	**$ 11,764,944**	**12**		**$ 12,104,263**				

* 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, 2017 and 2016. 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 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 2017, rates range from 1.62% to 2.48%.

	2017	2016
Pledges receivable in less than one year	$ 3,547,801	$ 3,029,498
Pledges receivable in one to five years	1,200,837	2,295,147
Pledges receivable in more than five years	126,615	118,760
	4,875,253	5,443,405
Less:		
Allowance for uncollectible pledges	(2,311,778)	(2,549,830)
Present value discount	(134,583)	(198,900)
Net pledges receivable	**$ 2,428,892**	**$ 2,694,675**

5. Cash Surrender Value of Life Insurance:

The Fund is the owner and beneficiary of life insurance policies with death benefit values of approximately $2,200,000 at June 30, 2017 and 2016. 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, 2017 and 2016, the Fund received gifted property in the amount of $147,802 and $784,349, 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 $147,802 and $759,449 for the years ended June 30, 2017 and 2016, respectively. The gifted property not transferred to the University was added to property held for sale on the accompanying statements of financial position. As of June 30, 2017 and 2016, property held for sale was $91,700.

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.

7. Split-Interest Agreements, continued:

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 $5,660,795 and $5,181,700 at June 30, 2017 and 2016, respectively.

Irrevocable split-interest agreements in which the Fund does control the trust assets are recognized in the Fund's financial statements when the trust is executed. The fair value of the trust assets and the present value of the expected future payments to be made to other beneficiaries are recorded as assets and liabilities, respectively, and the difference is recorded as contribution revenue. Amounts included in the accompanying statements of financial position at June 30, 2017 and 2016, from these types of agreements are as follows:

	2017	2016
Assets included in cash and investments	$ 9,672,958	$ 8,927,364
Annuity and pooled income obligations to other beneficiaries	$ 6,124,397	$ 6,098,235

Included with contribution revenue on the statement of activities for the years ended June 30, 2017 and 2016, are contributions from split-interest agreements and changes in the value of split-interest agreements, as follows:

	2017	2016
Contributions	$ 345,743	$ 112,481
Change in value	$ 582,017	$ (386,703)

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 1.2% to 8.2%. Annuitant life expectancy used in the present value calculation is based on information in Internal Revenue Service Publication 590. Anticipated rates of return range from 0% to 6%.

8. Net Asset Categories:

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

	2017	2016
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ (776,971)	$ (1,553,161)
Undesignated	4,517,193	1,692,493
Total unrestricted net assets	**$ 3,740,222**	**$ 139,332**

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

	2017	2016
University programs	$ 19,752,336	$ 22,510,456
Remainder interests in split-interest agreements	1,239,733	454,468
Net appreciation on donor-restricted endowment funds and term endowments	21,627,658	17,511,278
Total temporarily restricted net assets	**$ 42,619,727**	**$ 40,476,202**

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

	2017	2016
Remainder interests in split-interest agreements	$ 5,221,511	$ 5,330,326
Corpus of donor-restricted endowment funds	85,567,958	81,675,297
Total permanently restricted net assets	**$ 90,789,469**	**$ 87,005,623**

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

9. Endowment:

The Fund’s endowment consists of 643 individual, donor-restricted funds established for a variety of purposes and term endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 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.

9. Endowment, continued:

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.

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, 2017				
Investment return:				
Investment income	$ -	$ 2,034,464	$ -	$ 2,034,464
Net appreciation (realized and unrealized)	776,190	4,130,775	-	4,906,965
Net investment return	776,190	6,165,239	-	6,941,429
Contribution receipts	-	6,243	3,892,661	3,898,904
Appropriation of endowment assets for expenditure	-	(2,055,102)	-	(2,055,102)
Changes to endowment net assets	776,190	4,116,380	3,892,661	8,785,231
Endowment net assets (deficit):				
Beginning of year	(1,553,161)	17,511,278	81,675,297	97,633,414
End of year	**$ (776,971)**	**$ 21,627,658**	**$ 85,567,958**	**$106,418,645**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in endowment net assets for the year ended June 30, 2016				
Investment return:				
Investment income	$ -	$ 2,009,549	$ -	$ 2,009,549
Net depreciation (realized and unrealized)	(703,558)	(4,756,591)	-	(5,460,149)
Net investment loss	(703,558)	(2,747,042)		(3,450,600)
Contribution receipts		28,445	7,139,141	7,167,586
Appropriation of endowment assets for expenditure	-	(2,267,441)	-	(2,267,441)
Changes to endowment net assets	(703,558)	(4,986,038)	7,139,141	1,449,545
Endowment net assets (deficit):				
Beginning of year	(849,603)	22,497,316	74,536,156	96,183,869
End of year	**$ (1,553,161)**	**$ 17,511,278**	**$ 81,675,297**	**$ 97,633,414**

9. Endowment, continued:

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Fund to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that were reported in unrestricted net assets as of June 30, 2017 and 2016, amounted to $776,971 and $1,553,161, 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 8.0% annually. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

10. Operating Lease:

The Fund leases its office space under an operating lease, which commenced on October 1, 2003, and will terminate on September 30, 2018. Lease expense was $151,896 for fiscal years ended June 30, 2017 and 2016.

Minimum future rental payments under the noncancelable operating lease are:

Year Ending June 30	Amount
2018	$ 151,896
2019	37,974
Total minimum future rental payments	**$ 189,870**

11. Restatement:

The financial statements as of and for the year ended June 30, 2016, have been restated to properly account for an error in the fair value of Pooled Income Obligations. The fair value of Pooled Income Obligations is calculated using the life expectancies of donors, the fair market values of the property transferred by donors, and the pooled income fund's highest rate of return during the preceding three years. An incorrect rate of return for the preceding three years had been used in the calculation prior to fiscal year 2017.

The effect of the restatement was to reduce temporarily restricted net assets by $587,326 and permanently restricted nets assets by $214,226 as of July 1, 2015. As of June 30, 2016, Pooled Income Obligations liability was increased by $785,759 to $1,748,523 and the change in value of the Pooled Income Obligations decreased by $15,793 to $32,429 for the year ended June 30, 2016.