

Michigan Tech Fund

**Audited Financial Statements
June 30, 2019 and 2018**

Michigan Tech Fund

Financial Statement Contents

For the Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 1 to the financial statements, the Michigan Tech Fund implemented FASB Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update changes terminology used for net asset classifications and adds additional disclosures related to liquidity, availability of resources, and expenses. The ASU has been applied retrospectively to all periods presented, as applicable. Our opinion is not modified with respect to this matter.

Andrews Hooper Paulik PLC

Bay City, Michigan
November 19, 2019

Michigan Tech Fund

Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,233,184	\$ 6,258,775
Pledges receivable, net of allowance for uncollectible amounts	923,492	714,693
Interest and dividends receivable	9,165	149,873
Prepaid expenses and other receivables	12,770	29,468
Total current assets	<u>8,178,611</u>	<u>7,152,809</u>
Long-term assets:		
Pledges receivable, net of discount, net of current portion	1,712,253	2,173,258
Amount due from Michigan Technological University	485,000	262,000
Cash surrender value, life insurance	1,022,761	989,861
Contributions receivable from remainder trusts	6,273,104	5,812,167
Investments	139,637,161	138,068,343
Property held for sale	219,000	64,000
Total long-term assets	<u>149,349,279</u>	<u>147,369,629</u>
Total assets	<u>\$ 157,527,890</u>	<u>\$ 154,522,438</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,080,609	\$ 1,060,701
Current portion of annuity obligations	428,477	405,772
Total current liabilities	<u>1,509,086</u>	<u>1,466,473</u>
Long-term liabilities:		
Annuity obligations, net of current portion	5,010,984	4,806,608
Pooled income obligations	602,107	576,096
Total long-term liabilities	<u>5,613,091</u>	<u>5,382,704</u>
Total liabilities	7,122,177	6,849,177
Contingency and commitments (Notes 2 and 11)		
Net assets:		
Without donor restrictions	7,731,763	6,416,832
With donor restrictions	142,673,950	141,256,429
Total net assets	<u>150,405,713</u>	<u>147,673,261</u>
Total liabilities and net assets	<u>\$ 157,527,890</u>	<u>\$ 154,522,438</u>

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

Michigan Tech Fund

Statement of Activities

For the Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support, gains, and revenue:			
Contributions	\$ 1,255,681	\$ 13,354,619	\$ 14,610,300
Investment return (loss), net	4,818,088	(1,775,637)	3,042,451
Other income	-	94,427	94,427
Net assets released from restrictions	10,255,888	(10,255,888)	-
Total support, gains, and revenue	16,329,657	1,417,521	17,747,178
Expenses:			
Program services on behalf of Michigan Technological University:			
Scholarships and fellowships	2,825,649	-	2,825,649
Departmental and other program support	7,545,076	-	7,545,076
Income on assets with donor restrictions distributed for operations	4,002,342	-	4,002,342
	14,373,067	-	14,373,067
Operating expenses:			
Management and general expenses	522,663	-	522,663
Fundraising expenses	118,996	-	118,996
	641,659	-	641,659
Total expenses	15,014,726	-	15,014,726
Change in net assets	1,314,931	1,417,521	2,732,452
Net assets, beginning of year	6,416,832	141,256,429	147,673,261
Net assets, end of year	\$ 7,731,763	\$ 142,673,950	\$ 150,405,713

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

Michigan Tech Fund

Statement of Activities

For the Year Ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support, gains, and revenue:			
Contributions	\$ 1,938,330	\$ 14,166,332	\$ 16,104,662
Investment return, net	4,870,723	4,924,844	9,795,567
Other income	-	100,285	100,285
Net assets released from restrictions	10,567,257	(10,567,257)	-
Total support, gains, and revenue	17,376,310	8,624,204	26,000,514
Expenses:			
Program services on behalf of Michigan Technological University:			
Scholarships and fellowships	2,542,572	-	2,542,572
Departmental and other program support	8,036,520	-	8,036,520
Income on assets with donor restrictions distributed for operations	4,133,069	-	4,133,069
	14,712,161	-	14,712,161
Operating expenses:			
Management and general expenses	581,971	-	581,971
Fundraising expenses	182,539	-	182,539
	764,510	-	764,510
Total expenses	15,476,671	-	15,476,671
Change in net assets	1,899,639	8,624,204	10,523,843
Net assets, beginning of year	4,517,193	132,632,225	137,149,418
Net assets, end of year	\$ 6,416,832	\$ 141,256,429	\$ 147,673,261

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

Michigan Tech Fund

Statement of Functional Expenses

For the Year Ended June 30, 2019

	2019			
	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Scholarships and fellowships	\$ 2,825,649	\$ -	\$ -	\$ 2,825,649
Departmental and other program support	7,545,076	-	-	7,545,076
Income on assets with donor restrictions distributed for operations	4,002,342	-	-	4,002,342
Contracted employee services	-	390,431	-	390,431
Supplies	-	4,181	-	4,181
Postage and printing	-	4,795	-	4,795
Insurance	-	24,136	-	24,136
Telephone	-	563	-	563
Accounting fees	-	9,000	-	9,000
Travel	-	1,055	10,576	11,631
Entertainment	-	3,459	9,910	13,369
Equipment charges and maintenance	-	8,935	-	8,935
Property taxes	-	2,126	-	2,126
Space rental	-	28,814	58,502	87,316
Stewardship and special events	-	110	32,178	32,288
Professional services	-	9,326	-	9,326
Credit card processing fees	-	27,587	-	27,587
Dues and memberships	-	1,738	945	2,683
Other	-	6,407	6,885	13,292
Total expenses	\$ 14,373,067	\$ 522,663	\$ 118,996	\$ 15,014,726

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

Michigan Tech Fund

Statement of Functional Expenses

For the Year Ended June 30, 2018

	2018			Total
	Program Services	Management & General	Fundraising	
Expenses:				
Scholarships and fellowships	\$ 2,542,572	\$ -	\$ -	\$ 2,542,572
Departmental and other program support	8,036,520	-	-	8,036,520
Income on assets with donor restrictions distributed for operations	4,133,069	-	-	4,133,069
Contracted employee services	-	411,342	-	411,342
Supplies	-	6,810	-	6,810
Postage and printing	-	7,139	-	7,139
Insurance	-	24,407	-	24,407
Telephone	-	553	-	553
Accounting fees	-	12,200	-	12,200
Travel	-	4,662	17,500	22,162
Entertainment	-	14,368	9,226	23,594
Equipment charges and maintenance	-	12,113	-	12,113
Property taxes	-	4,218	-	4,218
Seminars and training	-	3,405	-	3,405
Space rental	-	37,974	113,922	151,896
Stewardship and special events	-	428	39,387	39,815
Professional services	-	6,402	-	6,402
Credit card processing fees	-	29,002	-	29,002
Dues and memberships	-	2,267	945	3,212
Other	-	4,681	1,559	6,240
Total expenses	\$ 14,712,161	\$ 581,971	\$ 182,539	\$ 15,476,671

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

Michigan Tech Fund

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,732,452	\$ 10,523,843
Adjustments to reconcile change in net assets to net cash from operating activities:		
Provision (recovery) for uncollectible pledges	(1,793,890)	504,519
Net realized and unrealized gains	(543,471)	(6,163,332)
Contributions of marketable securities and real property	(1,017,162)	(2,508,797)
Contributions restricted for long-term investment	(2,955,931)	(6,887,865)
Net change in split-interest agreements	665,967	65,137
Net change in contributions receivable from remainder trusts	(460,937)	(151,372)
Net change in cash surrender value, life insurance	(32,900)	(2,219)
Changes in assets and liabilities:		
Interest and dividends receivable	140,708	(24,868)
Prepaid expenses and other receivables	16,698	118
Pledges receivable, net of donor-endowed components	2,091,430	(834,510)
Amount due from Michigan Technological University	(223,000)	(262,000)
Accounts payable and accrued expenses	19,908	(70,549)
Net cash from operating activities	<u>(1,360,128)</u>	<u>(5,811,895)</u>
Cash flows from investing activities:		
Purchase of investments	(163,377,947)	(27,157,466)
Proceeds from sale of investments and property held for sale	163,214,762	27,147,721
Net cash from investing activities	<u>(163,185)</u>	<u>(9,745)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowments	2,647,675	6,750,573
Investment subject to annuity agreements	308,256	137,292
Change in donor-endowed contributions receivable	(45,334)	(129,068)
Payments on annuity obligations	(412,875)	(401,058)
Net cash from financing activities	<u>2,497,722</u>	<u>6,357,739</u>
Net change in cash and cash equivalents	974,409	536,099
Cash and cash equivalents, beginning of year	<u>6,258,775</u>	<u>5,722,676</u>
Cash and cash equivalents, end of year	<u>\$ 7,233,184</u>	<u>\$ 6,258,775</u>

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

Michigan Tech Fund

Notes to 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 the accounting function for the Fund is performed by University employees. The expenses for those employees totaled \$390,431 and \$411,342 for fiscal years 2019 and 2018, respectively, and are included in management and general expenses in 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. Accordingly, the net assets of the Fund have been grouped into the following two categories:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Fund.

Net Assets With Donor Restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Fund or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (donor-endowed funds).

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation. When a donor restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Michigan Tech Fund

Notes to Financial Statements

1. Summary of Significant Accounting Policies, continued:

Functional Expenses: The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include space rental, which is allocated on a square footage basis, while travel, entertainment, stewardship and special events, dues and memberships and other are allocated on a time and effort basis. All other expenses are directly charged to the program being benefited.

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.

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.

Michigan Tech Fund

Notes to Financial Statements

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. Net investment return (loss) is reported in the statements of activities and consists of interest, dividends, and realized and unrealized gains and losses, less external and direct internal investment expenses.
- 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 9 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 statements of activities. As of June 30, 2019 and 2018, 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.

Michigan Tech Fund

Notes to Financial Statements

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 are remitted to the University as expenses and are shown as income on assets with donor restrictions distributed for operations on the statements of activities.
- 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 2015 through 2019, the years which remain subject to examination by major tax jurisdictions as of June 30, 2019 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, 2019 and 2018, 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, 2019, the most recent statement of financial position presented herein, through November 19, 2019, the date these financial statements were available to be issued. No such significant events or transactions were identified.
- k. New Accounting Pronouncement:** On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of new asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Fund has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The changes have the following effect on net assets at June 30, 2018:

	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 5,631,305	\$ -
Temporarily restricted net assets	45,626,171	-
Permanently restricted net assets	96,415,785	-
Net assets without donor restrictions	-	6,416,832
Net assets with donor restrictions	-	141,256,429
Total net assets	\$ 147,673,261	\$ 147,673,261

- l. Reclassifications:** Certain prior year amounts have been reclassified to conform to the current year presentation.

Michigan Tech Fund
Notes to Financial Statements

2. Investments:

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

	<u>2019</u>	<u>2018</u>
Marketable securities		
Equities	\$ 21,366,471	\$ 1,323,537
Mutual funds – equities	47,916,249	88,756,594
Mutual funds – fixed income	48,266,529	9,431,720
Corporate bonds and notes	229,526	204,333
US government obligations	924,401	22,927,678
Total marketable securities	<u>118,703,176</u>	<u>122,643,862</u>
Alternative investments		
Hedge funds	5,114,979	8,356,401
Real estate and natural resources	7,199,218	352,028
Private equity	6,804,866	5,063,184
Total alternative investments	<u>19,119,063</u>	<u>13,771,613</u>
Precious metals	1,794,922	1,632,868
Other investments	20,000	20,000
Total investments	<u>\$ 139,637,161</u>	<u>\$ 138,068,343</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,959,819	\$ 2,921,740
Capital gain distributions	81,440	1,289,478
Net gain on sale of investments	9,191,311	1,175,789
Net unrealized (loss) gain on investments	(8,647,840)	4,987,543
Investment fees	(542,279)	(578,983)
Total investment return, net	<u>\$ 3,042,451</u>	<u>\$ 9,795,567</u>

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:

Michigan Tech Fund

Notes to Financial Statements

3. Fair Value, continued:

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.

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 9.

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 9.

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.

Michigan Tech Fund

Notes to Financial Statements

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:

	2019			
	Fair Value	Level 1	Level 2	Level 3
Marketable securities				
Equities	\$ 21,366,471	\$ 21,366,471	\$ -	\$ -
Mutual funds – equities	47,916,249	47,916,249	-	-
Mutual funds – fixed income	48,266,529	48,266,529	-	-
Corporate bonds and notes	229,526	-	229,526	-
US government obligations	924,401	924,401	-	-
Precious metals	1,794,922	1,794,922	-	-
Other investments	20,000	-	-	20,000
Total investments at fair value	120,518,098	\$ 120,268,572	\$ 229,526	\$ 20,000
Alternative investments that calculate net asset value per share				
Hedge funds	5,114,979			
Real estate and natural resources	7,199,218			
Private equity	6,804,866			
Total alternative investments that calculate net asset value per share	19,119,063			
Balance at June 30, 2019	\$ 139,637,161			
Contributions receivable from remainder trusts	\$ 6,273,104	\$ -	\$ -	\$ 6,273,104

	2018			
	Fair Value	Level 1	Level 2	Level 3
Marketable securities				
Equities	\$ 1,323,537	\$ 1,323,537	\$ -	\$ -
Mutual funds – equities	88,756,594	88,756,594	-	-
Mutual funds – fixed income	9,431,720	9,431,720	-	-
Corporate bonds and notes	204,333	-	204,333	-
US government obligations	22,927,678	14,280,653	8,647,025	-
Precious metals	1,632,868	1,632,868	-	-
Other investments	20,000	-	-	20,000
Total investments at fair value	124,296,730	\$ 115,425,372	\$ 8,851,358	\$ 20,000
Alternative investments that calculate net asset value per share				
Hedge funds	8,356,401			
Real estate and natural resources	352,028			
Private equity	5,063,184			
Total alternative investments that calculate net asset value per share	13,771,613			
Balance at June 30, 2018	\$ 138,068,343			
Contributions receivable from remainder trusts	\$ 5,812,167	\$ -	\$ -	\$ 5,812,167

Michigan Tech Fund

Notes to Financial Statements

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:

	2019	
	Other Investments	Contributions Receivable from Remainder Trusts
Balance, beginning of year	\$ 20,000	\$ 5,812,167
Contribution	-	415,884
Change in value	-	45,053
Balance, end of year	\$ 20,000	\$ 6,273,104

	2018	
	Other Investments	Contributions Receivable from Remainder Trusts
Balance, beginning of year	\$ 20,000	\$ 5,660,795
Change in value	-	151,372
Balance, end of year	\$ 20,000	\$ 5,812,167

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.

Michigan Tech Fund

Notes to Financial Statements

4. Investments in Entities that Calculate Net Asset Value Per Share:

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. 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 following table lists investments in other investment companies (in partnership format) by major category as of June 30, 2019 and 2018:

	Strategy	NAV in Funds FY 2019	NAV in Funds FY 2018	Number of Funds	Remaining Life	Amount of Unfunded Commitments at June 30, 2019	Amount of Unfunded Commitments at June 30, 2018	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Private Equity	Venture, buyout, and special situations, distressed asset funds and credit strategies, primarily in the US	\$ 6,804,866	\$ 5,063,184	9	1 to 12 years	\$ 7,384,643	\$ 9,593,645	1 to 12 years	NA *	NA	NA
Real Estate and Natural Resources	Domestic real estate and domestic and international natural resources	7,199,218	352,028	3	1 to 5 years	139,436	100,870	1 to 5 years	One fund (valued at \$7,000,000) has quarterly redemptions available with 10 business days notification. Two other funds have no redemptions available.	Subject to available cash flow	NA
Hedge Funds	Hedge funds with various strategies	5,114,979	8,356,401	1	NA	NA	NA	NA	Redemptions are available with 90 calendar days + 5 business days notification.	None	None
Total		\$ 19,119,063	\$ 13,771,613	13		\$ 7,524,079	\$ 9,694,515				

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

Michigan Tech Fund

Notes to Financial Statements

5. Liquidity and Availability:

The Fund's financial assets available to meet general expenditures within the next year at June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 7,233,184	\$ 6,258,775
Pledges receivable, net of allowance for uncollectible amounts	923,492	714,693
Interest and dividends receivable	9,165	149,873
	<u>8,165,841</u>	<u>7,123,341</u>
Less amounts subject to donor-imposed restrictions	<u>(7,299,292)</u>	<u>(6,542,548)</u>
Financial assets available to meet general expenditures within the next year	<u>\$ 866,549</u>	<u>\$ 580,793</u>

The Fund's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

As part of the Fund's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Fund invests cash in excess of daily requirements in short-term investments, such as money market funds.

6. Pledges Receivable:

The following table shows the balance due of unconditional promises to give to the Fund at June 30, 2019 and 2018. 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 2019, rates range from 1.96% to 2.75%.

	<u>2019</u>	<u>2018</u>
Pledges receivable in less than one year	\$ 1,945,899	\$ 3,530,990
Pledges receivable in one to five years	1,846,496	2,369,225
Pledges receivable in more than five years	52,000	4,700
	<u>3,844,395</u>	<u>5,904,915</u>
Less:		
Allowance for uncollectible pledges	(1,022,407)	(2,816,297)
Present value discount	<u>(186,243)</u>	<u>(200,667)</u>
Net pledges receivable	<u>\$ 2,635,745</u>	<u>\$ 2,887,951</u>

7. Cash Surrender Value of Life Insurance:

The Fund is the owner and beneficiary of life insurance policies with death benefit values of approximately \$2,101,000 at June 30, 2019 and \$2,061,000 at June 30, 2018. The assignments of these policies were received as gifts for various University programs, scholarships, and other designations.

Michigan Tech Fund

Notes to Financial Statements

8. 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, 2019 and 2018, the Fund received gifted property in the amount of \$1,142,831 and \$247,187, 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 \$987,831 and \$247,187 for the years ended June 30, 2019 and 2018, respectively. Property held for sale was \$219,000 and \$64,000 as of June 30, 2019 and 2018, respectively.

9. 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. The anticipated rate of return for the annuity investment is approximately 6%.

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 \$6,273,104 and \$5,812,167 at June 30, 2019 and 2018, 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.

Michigan Tech Fund

Notes to Financial Statements

9. Split-Interest Agreements, continued:

Amounts included in the accompanying statements of financial position at June 30, 2019 and 2018, from these types of agreements are as follows:

	<u>2019</u>	<u>2018</u>
Assets included in cash and investments	\$ 9,132,714	\$ 8,577,994
Annuity and pooled income obligations to other beneficiaries	\$ 6,041,568	\$ 5,788,476

Included with contribution revenue on the statements of activities for the years ended June 30, 2019 and 2018, are contributions from split-interest agreements and changes in the value of split-interest agreements, as follows:

	<u>2019</u>	<u>2018</u>
Contributions	\$ 308,256	\$ 137,292
Change in value	\$ (227,471)	\$ 302,021

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%. Actuarial tables used come from Internal Revenue Service Publication 1457.

10. Net Asset Categories:

Net assets without donor restrictions were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 7,731,763	\$ 6,416,832
Total net assets without donor restrictions	<u>\$ 7,731,763</u>	<u>\$ 6,416,832</u>

Net assets with donor restrictions were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
University programs	\$ 24,418,578	\$ 20,310,409
Remainder interests in split-interest agreements	4,610,475	5,692,336
Underwater endowments	(1,059,557)	(785,527)
Net appreciation on donor-restricted endowment funds	20,358,785	24,308,588
Corpus of donor-restricted endowment funds	94,345,669	91,730,623
Total net assets with donor restrictions	<u>\$ 142,673,950</u>	<u>\$ 141,256,429</u>

Net assets can be released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

Michigan Tech Fund

Notes to Financial Statements

11. Endowment:

The Fund's endowment consists of 673 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 net assets with donor restrictions 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.

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

Changes in Endowment Net Assets for the Year Ended June 30:

	<u>2019</u>	<u>2018</u>
	<u>With Donor Restrictions</u>	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 115,253,684	\$ 106,418,645
Investment return (loss)	(1,538,465)	4,916,110
Contributions	2,647,675	6,750,573
Appropriation of endowment assets for expenditure	<u>(2,717,997)</u>	<u>(2,831,644)</u>
Endowment net assets, end of year	<u><u>\$ 113,644,897</u></u>	<u><u>\$ 115,253,684</u></u>

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, 2019 and 2018, amounted to \$1,059,557 and \$785,527, respectively. The original gift values of these underwater endowments were \$24,369,489 and \$7,828,768 as of June 30, 2019 and 2018, respectively. The current values of these underwater endowments were \$23,309,932 and \$7,043,241 as of June 30, 2019 and 2018, respectively. These deficiencies resulted from significant unfavorable market fluctuations. Management believes that these deficiencies are temporary in anticipation of a future recovery in the market.

Michigan Tech Fund

Notes to Financial Statements

11. Endowment, continued:

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.

12. Operating Lease:

The Fund leases its office space under an operating lease, which commenced on October 1, 2019 and will terminate on September 30, 2020. Lease expense was \$87,316 and \$151,896 for fiscal years ended June 30, 2019 and 2018, respectively. Minimum future rental payments under the noncancelable operating lease are:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 74,400
2021	18,600
Total minimum future rental payments	<u><u>\$ 93,000</u></u>