Michigan Tech Fund

Financial Statements
For the years ended
June 30, 2010 and 2009

Michigan Tech Fund
Financial Statement Contents
For the years ended June 30, 2010 and 2009

Rehmann

107 S. Cass St., Suite A
Traverse City, MI 49684
Ph: 231.946.3230
Fx: 231.946.3955
www.rehmann.com

Independent Auditors' Report

To the Board of Trustees of
Michigan Tech Fund
Hancock, Michigan

We have audited the accompanying statements of financial position of the ***Michigan Tech Fund*** (the "Fund," a not-for-profit organization and a discretely presented component unit of Michigan Technological University) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Michigan Tech Fund*** as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rehmann Robson

September 28, 2010

Michigan Tech Fund
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,299,043	$ 9,841,214
Pledges receivable, net of allowance for uncollectible amounts	1,755,751	1,354,841
Amount due from Michigan Technological University	500,000	-
Interest and dividends receivable	52,621	90,004
Prepaid expenses	44,908	44,908
Total current assets	7,652,323	11,330,967
Other assets:		
Pledges receivable, net of allowance, net of current portion	1,908,799	1,648,052
Amount due from Michigan Technological University, net of current portion	100,000	600,000
Cash surrender value, life insurance	896,443	863,054
Contributions receivable from remainder trusts	4,171,681	3,597,274
Investments	80,912,107	71,185,941
Fixed assets, net	16,189	22,818
Total other assets	88,005,219	77,917,139
Total assets	$ 95,657,542	$ 89,248,106
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 518,896	$ 747,059
Deferred revenue	1,000,000	1,000,000
Annuity obligations	318,623	348,950
Total current liabilities	1,837,519	2,096,009
Other liabilities:		
Annuity obligations, long-term portion	3,094,424	3,368,335
Pooled income obligations	818,561	487,262
Total other liabilities	3,912,985	3,855,597
Total liabilities	5,750,504	5,951,606
Contingency and commitments (Notes 1, 2, and 12)		
Net assets:		
Unrestricted (deficit)	(640,890)	(1,279,005)
Temporarily restricted	33,206,552	31,665,114
Permanently restricted	57,341,376	52,910,391
Total net assets	89,907,038	83,296,500
Total liabilities and net assets	$ 95,657,542	$ 89,248,106

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

Michigan Tech Fund
Statement of Activities
For the year ended June 30, 2010

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	$ 1,140,907	$ 4,802,063	$ 4,452,419	$ 10,395,389
Investment return	3,366,091	4,228,380	-	7,594,471
Other income	49,284	60,140	-	109,424
Net assets released from restrictions	7,573,079	(7,573,079)	-	-
Total support and revenue	12,129,361	1,517,504	4,452,419	18,099,284
Expenses:				
Program services on behalf of Michigan Technological University:				
Scholarships and fellowships	2,277,204	-	-	2,277,204
Departmental and other program support	8,267,440	-	-	8,267,440
	10,544,644	-	-	10,544,644
Management and general expenses:				
Salaries, wages, and benefits	543,881	-	-	543,881
Other operating expenses	400,221	-	-	400,221
	944,102	-	-	944,102
Total expenses	11,488,746	-	-	11,488,746
Change in net assets	640,615	1,517,504	4,452,419	6,610,538
Net assets (deficit), beginning of year	(1,279,005)	31,665,114	52,910,391	83,296,500
Net asset transfers	(2,500)	23,934	(21,434)	-
Net assets (deficit), end of year	$ (640,890)	$ 33,206,552	$ 57,341,376	$ 89,907,038

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

Michigan Tech Fund
Statement of Activities
For the year ended June 30, 2009

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	$ 1,545,263	$ 4,509,749	$ 1,247,079	$ 7,302,091
Investment loss	(1,778,647)	(13,932,655)	-	(15,711,302)
Other income	50,423	188,314	-	238,737
Net assets released from restrictions	10,283,748	(10,283,748)	-	-
Total support and revenue	10,100,787	(19,518,340)	1,247,079	(8,170,474)
Expenses:				
Program services on behalf of Michigan Technological University:				
Scholarships and fellowships	2,158,205	-	-	2,158,205
Departmental and other program support	11,930,800	-	-	11,930,800
	14,089,005	-	-	14,089,005
Management and general expenses:				
Salaries, wages, and benefits	538,590	-	-	538,590
Other operating expenses	430,005	-	-	430,005
	968,595	-	-	968,595
Total expenses	15,057,600	-	-	15,057,600
Change in net assets	(4,956,813)	(19,518,340)	1,247,079	(23,228,074)
Net assets, beginning of year	3,682,308	51,178,454	51,663,812	106,524,574
Net asset transfers	(4,500)	5,000	(500)	-
Net assets (deficit), end of year	$ (1,279,005)	$ 31,665,114	$ 52,910,391	$ 83,296,500

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

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

	2010		
	Program Services	Management & General	Total
Expenses:			
Scholarships and fellowships	$ 2,277,204	$ -	$ 2,277,204
Departmental and other program support	8,267,440	-	8,267,440
Salaries and wages	-	406,388	406,388
Payroll taxes	-	30,626	30,626
Retirement plan contributions	-	40,613	40,613
Other employee fringe benefits	-	66,254	66,254
Supplies	-	26,507	26,507
Postage and printing	-	11,791	11,791
Insurance	-	18,968	18,968
Telephone	-	1,064	1,064
Accounting fees	-	22,975	22,975
Travel	-	5,112	5,112
Board meetings	-	31,370	31,370
Entertainment	-	20,833	20,833
Equipment charges and maintenance	-	13,042	13,042
Depreciation	-	6,629	6,629
Space rental	-	151,896	151,896
Stewardship and special events	-	6,818	6,818
Professional services	-	13,272	13,272
Custodian and trustee fees	-	27,601	27,601
Other	-	42,343	42,343
Total expenses	$ 10,544,644	$ 944,102	$ 11,488,746

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

Michigan Tech Fund

Statement of Functional Expenses

For the year ended June 30, 2009

	2009		
	Program Services	Management & General	Total
Expenses:			
Scholarships and fellowships	$ 2,158,205	$ -	$ 2,158,205
Departmental and other program support	11,930,800	-	11,930,800
Salaries and wages	-	388,110	388,110
Payroll taxes	-	30,953	30,953
Retirement plan contributions	-	48,483	48,483
Other employee fringe benefits	-	71,044	71,044
Supplies	-	25,517	25,517
Postage and printing	-	11,993	11,993
Insurance	-	18,449	18,449
Telephone	-	1,850	1,850
Legal fees	-	25,231	25,231
Accounting fees	-	19,500	19,500
Travel	-	9,682	9,682
Board meetings	-	23,358	23,358
Entertainment	-	19,787	19,787
Equipment charges and maintenance	-	16,918	16,918
Depreciation	-	10,970	10,970
Space rental	-	151,896	151,896
Stewardship and special events	-	6,894	6,894
Professional services	-	12,615	12,615
Custodian and trustee fees	-	34,268	34,268
Other	-	41,077	41,077
Total expenses	$ 14,089,005	$ 968,595	$ 15,057,600

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

Michigan Tech Fund
Statements of Cash Flows
For the years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 6,610,538	$ (23,228,074)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,629	10,970
Provision for uncollectible pledges	107,111	128,513
Net realized and unrealized (gains) losses	(6,165,619)	17,666,386
Contributions of marketable securities	(230,570)	(87,588)
Contributions restricted for long-term investment	(3,256,841)	(1,922,302)
Changes in present value of split-interest agreements	338,007	266,711
Net change in contributions receivable from remainder trusts	(574,407)	724,507
Increase in cash surrender value, life insurance	(33,389)	(21,702)
Changes in assets and liabilities:		
Interest and dividends receivable	37,383	15,931
Pledges receivable, net of permanently restricted components	(306,013)	1,408,819
Prepaid expenses	-	2,434
Accounts payable and accrued expenses	(228,163)	211,023
Net cash used in operating activities	(3,695,334)	(4,824,372)
Cash flows from investing activities:		
Purchase of equipment	-	(10,731)
Purchase of investments	(14,911,492)	(6,038,466)
Proceeds from sale of investments	11,581,516	13,634,760
Repayment of amount due from Michigan Technological University	-	400,000
Net cash (used in) provided by investing activities	(3,329,976)	7,985,563
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowments	3,229,027	1,888,988
Investment subject to annuity agreements	27,814	33,314
Change in permanently restricted contributions receivable	(462,755)	(87,711)
Payments on annuity obligations	(310,947)	(331,997)
Net cash provided by financing activities	2,483,139	1,502,594
Net change in cash and cash equivalents	(4,542,171)	4,663,785
Cash and cash equivalents, beginning of year	9,841,214	5,177,429
Cash and cash equivalents, end of year	$ 5,299,043	$ 9,841,214

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

1. Summary of Significant Accounting Policies:

The Michigan Tech Fund (the "Fund") is a Michigan not-for-profit organization established to raise, receive, and maintain funds to use or apply the whole or any part of the income therefrom or the principal thereof exclusively to promote the best interest, purposes, and objectives of Michigan Technological University (the "University" or "MTU"). The Fund is a discretely presented component unit of the University. The Fund is organized under the provisions of the Michigan Corporation Act (Act 327, PA of 1931) as amended. The Fund has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In preparing the accompanying financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2010, the most recent statement of financial position presented herein, through September 28, 2010, the date these financial statements were available to be issued. No significant such events or transactions were identified.

The net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Fund have been grouped into the following three classes:

Unrestricted net assets: Generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, less the expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily restricted net assets: Generally result from contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, and other inflows of assets, which are held for specific purposes as stipulated by the donor. Temporarily restricted net assets are released from restrictions by the passage of time or by actions of the Fund, pursuant to the donors' stipulations.

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

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

a. **Cash and Cash Equivalents:** Cash and cash equivalents include cash deposits, time deposits, certificates of deposit, money market funds, and highly liquid debt instruments with original maturities of three months or less. Bank account balances periodically exceed the federal insurance limits for deposits. Management evaluates the financial institutions in which the Fund maintains deposits and assesses the level of risk associated with those institutions.

1. Summary of Significant Accounting Policies, continued:

b. Fair Value Measurements: Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. The Fund may choose to measure eligible items at fair value at specified election dates. The fair value option (1) may be applied instrument by instrument, with certain exceptions, allowing the Fund to record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (2) is irrevocable (unless a new election date occurs), and (3) is applied only to entire instruments and not to portions of instruments. At June 30, 2010 and 2009, the Fund had not elected the fair value option for any financial assets or liabilities.

For assets and liabilities recorded at fair value, it is the Fund's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, the Fund includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. For a further discussion of Fair Value Measurements, refer to Note 3.

c. Investments: Investments in marketable securities including hedge funds are carried at quoted fair market value whenever possible. Private equity and limited partnerships which do not have readily determinable market values as of June 30 are valued based on the most recent available partner capital account balances as reported by the partnerships to the Fund. The partnership valuations involve assumptions and methods that are reviewed by the Fund. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, private equity and limited partnerships' estimated values may differ materially from the values that would have been used if a ready market for the securities existed. Gifts of securities are recorded at their fair value based on the mean of the high and low quoted price of stock transactions at the date of the gift. Except for investments that are not readily marketable or where donors specifically provide otherwise, investments are maintained by a custodial institution responsible for consummating investment transactions at the request of the Fund to facilitate cash flow requirements. The Fund employs an asset allocation investment policy and uses the services of an investment consulting firm to facilitate the implementation of this policy. Asset allocations are reviewed monthly and rebalanced quarterly, when necessary. The Fund's Investment and Finance Committee of the Board of Trustees oversees investment activity and makes recommendations to the Board of Trustees concerning any changes in investments or asset allocation adjustments. Each month, the Fund allocates and credits investment earnings (including realized and unrealized gains and losses) on permanently restricted, temporarily restricted, and unrestricted net assets to departmental funds based on an average of each fund's beginning and ending monthly balances. Any unrealized losses on amounts invested for donor-restricted endowments are recorded as temporarily restricted to the extent of unexpended earnings of the respective endowment fund. Any unrealized losses in excess of that amount are charged to unrestricted net assets. Subsequent unrealized appreciation on the related investments is recorded as unrestricted up to the amount of losses previously absorbed by unrestricted net assets.

1. Summary of Significant Accounting Policies, continued:

d. Split-Interest Agreements: Life income trusts, pooled income funds, remainder trusts, and certain other investments are maintained by a separate trust company. Trustee functions include management of the investments, distributions to donors, complying with tax filing requirements, and providing periodic trust statements to the Fund. Refer to Note 8 for further details.

e. Fixed Assets: The fixed assets of the Fund consist of office equipment, computers, software, and furniture. Fixed assets are recorded at cost at the date of acquisition and are depreciated on a straight-line basis over estimated useful lives, which range from three to seven years. At the time of disposal, any gain or loss is recognized in the statement of activities.

f. Gifts-in-Kind: Land, buildings, and equipment are recorded at estimated fair value at the date of the gift based upon appraised values. In most cases, the Fund serves as an agent for the receipt of property and equipment and immediately transfers these gifts to the University. The Fund has a policy to list for sale any gifts-in-kind received and not subject to immediate transfer to the University.

g. Contributions and Pledges Receivable: Contributions received and unconditional promises to give are recognized at their fair values as revenues in the periods received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. All unconditional promises to give are recorded at their net realizable values.

h. Asset-Based Management and Administrative Fees: The Fund receives monthly management and administrative fees from the various departmental funds for acting as agent-intermediary for assets processed and maintained by the Fund. These fees increase unrestricted net assets and decrease temporarily restricted net assets.

i. Amount Due from Michigan Technological University / Deferred Revenue: During fiscal year ended June 30, 2007, the Fund received a contribution in the amount of $1,000,000, which was immediately lent to the University; repayment to the Fund is based on an agreement as stipulated by the donor which states that the University shall deliver no less than (1) a cumulative total of $400,000 to the Fund by September 30, 2008; (2) a cumulative total of $900,000 to the Fund by September 30, 2010; and (3) a cumulative total of $1,000,000 to the Fund by September 30, 2011. The first payment of $400,000 was made timely by the University. The unpaid balance of $600,000 at June 30, 2010, is recorded as an amount due from the University.

The agreement further stipulates that if the Fund does not receive repayment of the entire $1,000,000 from the University by September 30, 2011, the donor can designate an alternative organization as the beneficiary of the gift and require payment of such by the Fund. Accordingly, contribution revenue will not be recognized until this donor-specified requirement has been fulfilled. Since the requirement has not been met as of June 30, 2010, the entire contribution is classified as deferred revenue on the accompanying statements of financial position.

1. Summary of Significant Accounting Policies, continued:

j. New Accounting Pronouncements: In July 2006, the Financial Accounting Standards Board (FASB) issued a new standard related to *Accounting for Uncertainty in Income Taxes,* now codified as Accounting Standards Codification ("ASC") Topic 740 (formerly FASB Staff Position (FSP) Interpretation No. 48 (FIN48)). ASC Topic 740 seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. Not-for-profit organizations are also within the scope of ASC Topic 740. An organization must consider whether they have engaged in activities that jeopardize their current tax exempt status with the Internal Revenue Service. Furthermore, the organization must determine whether they have any unrelated business income, which may be subject to US federal income tax. The Fund adopted the provisions of ASC Topic 740 effective July 1, 2009, and, accordingly, analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Fund has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any charges for such, to the extent they arise, as a component of its management and general expenses. The adoption of ASC Topic 740 had no significant impact on the Fund's financial statements.

The Fund has evaluated the provisions of ASC Topic 740 for the fiscal years 2007 through 2010, the years which remain subject to examination by major tax jurisdiction as of June 30, 2010. 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 20, 2010, and it is not aware of any claims for such amounts by federal or state income tax authorities.

In August 2008, the FASB issued a new standard related to *Endowments of Not-for-Profit Organizations; Net Asset Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure*, now codified as ASC Topic 958 (formerly FSP FAS 117-1). ASC Topic 958 changes the disclosure requirements and net asset classifications associated with the Fund's endowment funds. The Fund adopted the disclosure requirements of ASC Topic 958 in fiscal year 2009 (refer to Note 11). The provisions of ASC Topic 958 related to net asset classification for donor-restricted endowment funds first applied to the Fund in fiscal year 2010, the year in which the State of Michigan adopted the Uniform Management of Institution Funds Act (became law effective September 10, 2009). The provisions of ASC Topic 958 related to net asset classification did not have a significant impact on the Fund's financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-12, *Investment in Certain Entities that Calculate Net Asset Value per Share* (ASU 2009-12) now codified as ASC Topic 820. ASU 2009-12 amends ASC Topic 820 Fair Value Measurements, adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The Fund adopted ASU 2009-12 effective July 1, 2009, which required additional disclosures as included in Note 3.

k. Reclassifications: Certain amounts as reported in the 2009 financial statements have been reclassified to conform with the 2010 presentation.

2. Investments

Investments, carried at fair value, at June 30, 2010 and 2009, are categorized as follows:

	2010	2009
Marketable securities		
Equities	$ 253,170	$ 339,763
Mutual funds - equities	40,359,102	36,445,505
Mutual funds - fixed income	24,384,871	20,341,837
Corporate bonds and notes	35,901	33,172
US government obligations	1,023,797	1,024,841
Total marketable securities	66,056,841	58,185,118
Alternative investments		
Hedge funds	4,596,947	3,336,553
Real estate and natural resources	3,209,309	2,974,040
Private equity	7,000,010	6,670,230
Total alternative investments	14,806,266	12,980,823
Other investments	49,000	20,000
Total investments	$ 80,912,107	$ 71,185,941

At June 30, 2010, the Fund's remaining future capital commitments for investment in limited partnerships (alternative investments) is approximately $2,300,000.

Investment return (loss) is a net amount and is comprised of the following for the years ended June 30, 2010 and 2009:

	2010	2009
Interest and dividends	$ 1,671,158	$ 1,889,253
Capital gain distributions	2,045	302,901
Net (loss) gain on sale of investments	(1,940,436)	1,530,547
Net unrealized gain (loss) on investments	8,106,055	(19,196,933)
Asset-based management and administrative fees	(244,351)	(237,070)
Total investment return (loss)	$ 7,594,471	$ (15,711,302)

3. Fair Value:

The Fund utilizes fair value measurements to record fair value adjustments to investments and contributions receivable from remainder trusts (these assets are recorded at fair value on a recurring basis), and to determine fair value disclosures.

Fair Value Hierarchy

Under ASC Topic 820, the Fund groups its assets at fair value into three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for assets recorded at fair value.

Investments: Fair value measurement is based upon quoted prices, if available. Level 1 investments include fixed income and equity securities (primarily mutual funds). Level 2 investments include debt securities (principally fixed income mutual funds). Level 3 investments include limited partnership interests in hedge funds, private equity funds, and real estate.

Contributions Receivable from Remainder Trusts: Fair value measurement is based upon the fair value of the underlying investments in the trusts, an estimated rate of return, anticipated future payments to be made to beneficiaries, living beneficiaries' life expectancies, and an assumed discount rate as discussed further in Note 8. As of June 30, 2010, contributions receivable from remainder trusts with fair values of $4,171,681 are classified as Level 3.

3. Fair Value, continued:

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

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

	2009			
	Level 1	Level 2	Level 3	Total
Marketable securities				
Equities	$ 339,763	$ -	$ -	$ 339,763
Mutual funds – equities	36,445,505	-	-	36,445,505
Mutual funds – fixed income	16,999,613	3,342,224	-	20,341,837
Corporate bonds and notes	-	33,172	-	33,172
US government obligations	1,024,841	-	-	1,024,841
Alternative investments				
Hedge funds	-	-	3,336,553	3,336,553
Real estate and natural resources	-	-	2,974,040	2,974,040
Private equity	-	107,052	6,563,178	6,670,230
Other investments	-	-	20,000	20,000
Total investments at fair value	$ 54,809,722	$ 3,482,448	$ 12,893,771	$ 71,185,941

3. Fair Value, continued:

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

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

	2009		
	Investments	Contributions Receivable from Remainder Trusts	Total Level 3 Assets
Balance, beginning of year	$ 19,932,571	$ 4,321,781	$ 24,254,352
Capital contributions	1,009,816	-	1,009,816
Distributions	(3,859,051)	-	(3,859,051)
Investment income	132,841	-	132,841
Operating loss – limited partnerships	(746,483)	-	(746,483)
Realized losses	(218,274)	-	(218,274)
Unrealized losses	(3,357,649)	-	(3,357,649)
Change in value		(724,507)	(724,507)
Balance, end of year	$ 12,893,771	$ 3,597,274	$ 16,491,045

3. Fair Value, continued:

The Fund uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (1) do not have a readily determinable fair value, and (2) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, the following table lists investments in other investment companies (in partnership format) by major category:

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Private Equity	Venture, buyout, and special situations, distressed asset funds and credit strategies, primarily in the US	$ 7,000,010	7	3 to 8 years	$ 1,881,921	1 to 8 years	NA *	NA	NA
Real Assets	Real estate in the US and natural resources in the US and international	3,209,309	4	6 to 8 years	418,194	1 to 8 years	NA for 3 funds *; quarterly for 1 fund	NA for 3 funds; subject to quarterly reviews for 1 fund	NA for 3 funds; none for 1 fund
Absolute Return	Fund of hedge funds with various strategies	4,596,947	1	NA	NA	NA	Calendar year-end redemptions with 100 days' notice	One year lock-up provision	None
Total		$14,806,266	12		$ 2,300,115				

* 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, 2010 and 2009. Pledges are unrestricted, temporarily restricted, and permanently restricted by donors for property and equipment purchases, scholarships, endowed chairs, or designated departments of the University, and have been reported at their estimated fair values. The Fund estimated the present value of future cash flows using .25% over the risk-free rate at the date of the gift. Rates range from .86% to 5.16%.

	2010	2009
Pledges receivable in less than one year	$ 2,032,687	$ 1,563,173
Pledges receivable in one to five years	1,919,697	1,694,421
Pledges receivable in more than five years	526,999	599,864
	4,479,383	3,857,458
Less:		
Allowance for uncollectible pledges	(276,936)	(208,332)
Present value discount	(537,897)	(646,233)
Net pledges receivable	$ 3,664,550	$ 3,002,893

5. Cash Surrender Value of Life Insurance:

The Fund is the owner and beneficiary of life insurance policies with death benefit values of approximately $2,507,000 and $2,522,000 at June 30, 2010 and 2009, respectively. The assignments of these policies were received as gifts for various University programs, scholarships, and other designations.

6. Real Property and Gifts-in-Kind:

The Fund serves as an agent for the receipt of gifted property and in most cases immediately transfers the property to the University. Any gifted property accepted as a contribution and not subject to transfer to the University is listed for sale. It is the Fund's policy to offer such gifted property for sale based on appraised or estimated fair value at the time of the gift. During the years ended June 30, 2010 and 2009, the Fund received gift property in the amount of $457,735 and $1,019,955, respectively, which was immediately transferred to the University. These amounts were recorded as contribution revenue and program services expense in the accompanying statements of activities.

7. Fixed Assets:

A summary of fixed assets at June 30, 2010 and 2009, follows:

	2010	2009
Leasehold improvements	$ 62,188	$ 62,188
Office equipment	57,812	64,315
Computer equipment	21,372	49,351
Software	-	49,000
Total	141,372	224,854
Accumulated depreciation and amortization	(125,183)	(202,036)
Net fixed assets	$ 16,189	$ 22,818

8. Split-Interest Agreements:

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

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

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

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

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

Irrevocable split-interest agreements in which the Fund does not control the trust assets are recognized in the Fund's financial statements when notification is received of the trust's existence. The present value of the estimated future distributions to be received by the Fund is recorded as contribution revenue and a contribution receivable from remainder trust. Amounts reflected as receivable from this type of agreement were $4,171,681 and $3,597,274 at June 30, 2009 and 2009, 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, 2010 and 2009, from these types of agreements are as follows:

	2010	2009
Assets included in cash and marketable securities	$ 6,805,285	$ 6,748,551
Obligations to other beneficiaries	$ 4,231,608	$ 4,204,547

Included with contribution revenue on the statement of activities for the years ended June 30, 2010 and 2009, are contributions from split-interest agreements and changes in the value of split-interest agreements, as follows:

	2010	2009
Contributions	$ 101,356	$ 33,314
Change in value	$ 241,476	$ (872,522)

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 (AFRs) and range from 3.2% to 8.2%.

9. Net Asset Categories:

Unrestricted net assets (deficit) at June 30, 2010 and 2009, consist of the following:

	2010	2009
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ (1,976,021)	$ (2,629,003)
Undesignated	1,335,131	1,349,998
	$ (640,890)	$ (1,279,005)

Temporarily restricted net assets at June 30, 2010 and 2009, were restricted for the following:

	2010	2009
University programs	$ 14,917,378	$ 13,741,451
Remainder interests in split-interest agreements	1,624,305	2,143,168
Net appreciation on donor-restricted endowment funds	16,664,869	15,780,495
	$ 33,206,552	$ 31,665,114

9. Net Asset Categories, continued:

Permanently restricted net assets at June 30, 2010 and 2009, were restricted for the following:

	2010	2009
Remainder interests in split-interest agreements	$ 2,972,546	$ 2,148,589
Corpus of donor-restricted endowment funds	54,368,830	50,761,802
	$ 57,341,376	$ 52,910,391

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

10. Net Asset Transfers:

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

11. Endowment:

The Fund's endowment consists of 542 individual, donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2010, the Board of Trustees of the Fund has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any donor-restricted endowment fund that would not be classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Fund, and (7) the Fund's investment policies.

11. Endowment, continued:

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in endowment net assets for the year ended June 30, 2009				
Invesment return:				
Investment income	$ -	$ 1,310,648	$ -	$ 1,310,648
Net depreciation (realized and unrealized)	(1,903,717)	(14,387,779)	-	(16,291,496)
Net investment loss	(1,903,717)	(13,077,131)	-	(14,980,848)
Contribution receipts	-	-	1,888,488	1,888,488
Appropriation of endowment assets for expenditure	-	(2,370,806)	-	(2,370,806)
Changes to endowment net assets	(1,903,717)	(15,447,937)	1,888,488	(15,463,166)
Endowment net assets (deficit):				
Beginning of year	(725,286)	31,228,432	48,873,314	79,376,460
End of year	$ (2,629,003)	$ 15,780,495	$ 50,761,802	$ 63,913,294

11. Endowment, continued:

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Fund to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that were reported in unrestricted net assets as of June 30, 2010 and 2009, amounted to $1,976,021 and $2,629,003, respectively. These deficiencies resulted from recent significant unfavorable market fluctuations. Management believes that these deficiencies are temporary in anticipation of a future recovery in the market.

Return Objectives and Risk Parameters

The Fund has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Fund expects its endowment funds, over time, to provide an average rate of return of 8.5% annually. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

12. 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. The operating lease is with a party that the chairman of the Fund's Board of Trustees is also a director.

Minimum future rental payments under the noncancelable operating lease for each of the next five years and thereafter are:

Year Ending June 30	Amount
2011	$ 151,896
2012	151,896
2013	151,896
2014	151,896
2015	151,896
Thereafter	493,662
Total minimum future rental payments	$ 1,253,142