Ferris Foundation

Financial Report

June 30, 2011

Contents

plante moran

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Ferris Foundation

We have audited the accompanying statement of financial position of Ferris Foundation (a component unit of Ferris State University) (the "Foundation") as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 audits 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.

As explained in Notes 3 and 7, the financial statements include investments valued at $10,511,695 (27.9 percent of net assets) and $5,570,136 (18.7 percent of net assets) at June 30, 2011 and 2010, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

As explained in Notes 1 and 8 to the financial statements, the Foundation changed its accounting policy to comply with accounting standards for endowments subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as of July 1, 2009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferris Foundation at June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

August 22, 2011

Ferris Foundation

Statement of Financial Position

	June 30, 2011	June 30, 2010
ASSETS		
Cash and cash equivalents - Note 3	$ 1,550,131	$ 480,924
Investments - Note 3	35,915,100	28,981,246
Pledges receivable - Note 6	289,490	356,150
Other receivables	16,260	-
TOTAL ASSETS	**$ 37,770,981**	**$ 29,818,320**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 927	$ 9,258
Annuity liability - Note 2	89,459	83,145
TOTAL LIABILITIES	90,386	92,403
NET ASSETS - Note 1		
Unrestricted	10,107,334	7,826,815
Temporarily restricted	9,343,574	4,824,956
Permanently restricted	18,229,687	17,074,146
TOTAL NET ASSETS	37,680,595	29,725,917
TOTAL LIABILITIES AND NET ASSETS	**$ 37,770,981**	**$ 29,818,320**

Ferris Foundation

Statement of Activities

For the Years Ended June 30

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010
SUPPORT, REVENUE, AND GAINS (LOSSES)								
Gifts and contributions	$ 99,629	$ 157,480	$ 1,110,541	$ 1,367,650	$ 131,741	$ 88,674	$ 389,770	$ 610,185
Change in split-interest agreement	-	-	-	-	-	(9,779)	-	(9,779)
Income from investments	419,093	1,169,870	-	1,588,963	696,294	738,328	-	1,434,622
Net realized/unrealized gains on investments	1,922,194	4,345,120	-	6,267,314	2,173,229	853,499	-	3,026,728
Net assets released from restrictions	1,153,852	(1,153,852)	-	-	518,123	(518,123)	-	-
TOTAL SUPPORT, REVENUE, AND GAINS (LOSSES)	3,594,768	4,518,618	1,110,541	9,223,927	3,519,387	1,152,599	389,770	5,061,756
EXPENSES - Note 5								
Meals, travel, and entertainment	5,755	-	-	5,755	11,866	-	-	11,866
Board expenses	2,319	-	-	2,319	2,085	-	-	2,085
Professional fees and other services	288,732	-	-	288,732	411,279	-	-	411,279
Supplies	12,943	-	-	12,943	14,524	-	-	14,524
Disbursements to Ferris State University - Note 4	1,074,500	-	-	1,074,500	1,030,455	-	-	1,030,455
TOTAL EXPENSES	1,384,249	-	-	1,384,249	1,470,209	-	-	1,470,209
SUPPORT, REVENUE, AND GAINS (LOSSES) OVER EXPENSES	2,210,519	4,518,618	1,110,541	7,839,678	2,049,178	1,152,599	389,770	3,591,547
OTHER CHANGES IN NET ASSETS								
Net transfers from Ferris State University - Note 4	70,000	-	45,000	115,000	35,000	-	196,000	231,000
Accounting change - Note 8	-	-	-	-	(1,783,293)	1,783,293	-	-
INCREASE IN NET ASSETS	2,280,519	4,518,618	1,155,541	7,954,678	300,885	2,935,892	585,770	3,822,547
NET ASSETS - Beginning of year	7,826,815	4,824,956	17,074,146	29,725,917	7,525,930	1,889,064	16,488,376	25,903,370
NET ASSETS - End of year	**$ 10,107,334**	**$ 9,343,574**	**$ 18,229,687**	**$ 37,680,595**	**$ 7,826,815**	**$ 4,824,956**	**$ 17,074,146**	**$ 29,725,917**

Ferris Foundation

Statement of Cash Flows

	For the Years Ended June 30 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 7,954,678	$ 3,822,547
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Transfer from Ferris State University	(115,000)	(231,000)
Net realized and unrealized gains from security transactions	(6,267,314)	(3,026,728)
Contributions restricted for long-term investments	(1,110,541)	(389,770)
Decrease in pledges receivable	66,660	97,365
Increase in other receivables	(16,260)	-
Increase in annuity liability	12,344	24,508
(Decrease) increase in accounts payable	(8,331)	6,987
NET CASH PROVIDED BY OPERATING ACTIVITIES	516,236	303,909
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	7,081,527	1,548,517
Purchases of investments	(7,748,067)	(2,484,966)
NET CASH USED IN INVESTING ACTIVITIES	(666,540)	(936,449)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer from Ferris State University	115,000	231,000
Payment on annuity obligation	(6,030)	(10,188)
Investments in endowment	1,110,541	389,770
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,219,511	610,582
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,069,207	(21,958)
CASH AND CASH EQUIVALENTS - Beginning of year	480,924	502,882
CASH AND CASH EQUIVALENTS - End of year	**$ 1,550,131**	**$ 480,924**

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Operations - Ferris Foundation (the “Foundation”) is a Michigan nonprofit corporation. The Foundation was established to advance the mission and goals of Ferris State University (the “University”) by generating and managing private support for the University and is considered a governmental nonprofit. The Foundation is considered a component unit of the University and is, therefore, included in the financial statements of the University on an annual basis.

Basis of Presentation - The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents - Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Types of Restrictions - The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: 1) unrestricted net assets, 2) temporarily restricted net assets, and 3) permanently restricted net assets.

Restricted net assets are gifts of cash and other assets with donor stipulations that limit the use of the donated assets and, in most cases, the investment earnings on those assets. When a stipulated time or donor restriction expires or when funds are used for the donor-specified purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless otherwise restricted by the donor or by applicable state laws. Permanently restricted net assets result from donor-imposed restrictions that limit the uses of net assets in perpetuity.

Unrestricted net assets are those net assets of the Foundation that are not restricted by donor-imposed stipulations. The Foundation further classifies unrestricted net assets as follows:

	2011	2010
Current funds	$ 380,304	$ 353,994
Donor-restricted underwater endowment	-	(263,680)
Quasi-endowment transfer and earnings	3,990,656	2,120,208
Funds functioning as quasi-endowments	5,736,374	5,616,293
Total unrestricted net assets	$ 10,107,334	$ 7,826,815

Note 1 - Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets are restricted by the donor for a specific purpose or are limited by the donor due to time restrictions. The Foundation classifies temporarily restricted assets as follows:

	2011	2010
Scholarships	$ 4,978,000	$ 2,310,180
Capital projects	200	200
Student loans	609,006	256,203
Time-restricted	3,096,717	1,832,598
Other - Departmental	142,496	52,514
Other - Temporarily restricted	517,155	373,261
Total temporarily restricted net assets	$ 9,343,574	$ 4,824,956

Permanently restricted net assets are restricted by the donor in perpetuity with the earnings available for the following purposes:

	2011	2010
Scholarships	$ 12,066,316	$ 10,971,481
Student loans	1,334,843	1,284,843
Other	4,452,992	4,452,991
Departmental use	375,536	364,831
Total permanently restricted net assets	$ 18,229,687	$ 17,074,146

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments - Investments are stated at fair value. Investments in bond and equity mutual funds are based on quoted market prices. Investments in limited partnerships are valued at the most recent valuation adjusted for capital calls and distributions. Investment transactions are accounted for on the trade date (date the order to buy or sell is executed). Gains or losses on investments sold are determined using the specific identification method. At June 30, 2011 and 2010, the Foundation's remaining capital commitment on investments in limited partnerships was $2,364,259 and $2,902,259, respectively.

Concentration of Credit Risk Arising From Deposit Accounts - The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2011, the Foundation has $110,976 of uninsured deposits.

Risks and Uncertainties - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least 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 statement of financial position.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes - The Internal Revenue Service has determined that the Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2008.

Note 1 - Summary of Significant Accounting Policies (Continued)

Change in Accounting Policy - During the fiscal year ended June 30, 2010, the Foundation changed its accounting policy to comply with accounting standards for endowments subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which took effect in the state of Michigan in September 2009. The accounting standards require investment earnings on permanently restricted endowment assets subject to UPMIFA to be classified as temporarily restricted until they are appropriated for expenditure by the organization. Prior to the change, investment earnings on permanently restricted endowment assets were classified as unrestricted at the time they were earned if there was no donor restriction on spending the earnings. As a result of the change, $1,783,293 was reclassified from unrestricted to temporarily restricted net assets. This reclassification represents the accumulated unspent earnings on the permanently restricted endowment as of July 1, 2009 previously recorded in unrestricted net assets.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including August 22, 2011, which is the date the financial statements were available to be issued.

Reclassification - Certain prior year amounts have been reclassified to conform to the presentation used in the current year.

Note 2 - Liability for Charitable Gift Annuity Program

The Foundation operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the Foundation under an annuity contract. The market value of the assets at June 30, 2011 and 2010 was $142,345 and $96,291, respectively. The liabilities under the annuity contracts were $89,459 and $83,145 at June 30, 2011 and 2010, respectively. The liability is recorded at its present value based on the donors' life expectancy.

During 2011 and 2010, payments in the amount of $6,030 and $10,188, respectively, were made to the donors and have been recorded as a reduction in the split-interest agreement payable. The discount rates used to compute the liability ranged from 5.8 percent to 9.4 percent for 2011 and 2010. Under the terms of the contract, the assets are restricted until the death of the donors.

Note 3 - Cash and Investments

Cash and cash equivalents consist of the following:

	2011	2010
Bank balance	$ 352,328	$ 82,729
Money market funds	1,197,803	398,195
Total cash and cash equivalents	$ 1,550,131	$ 480,924

Note 3 - Cash and Investments (Continued)

Investments

Market values of investments are summarized as follows:

	2011	2010
Mutual funds:		
Equity funds	$ 22,356,075	$ 19,136,604
Bond funds	2,904,985	4,178,215
Limited partnerships - Real estate	1,610,057	1,083,307
Limited partnerships - Hedge funds	5,959,643	2,119,097
Limited partnerships - Natural resources	1,093,659	799,630
Limited partnerships - Private equity/Distressed	1,848,336	1,568,102
Charitable gift annuity funds	142,345	96,291
Total investments	$ 35,915,100	$ 28,981,246

Income from investments consists of the following:

	2011	2010
Investment income (interest and dividends)	$ 1,588,963	$ 1,434,622
Realized gains	260,586	37,726
Unrealized gain	6,006,728	2,989,002
Total	$ 7,856,277	$ 4,461,350

Note 4 - Related Party Transactions

Transfers and Support - During the years ended June 30, 2011 and 2010, the University transferred $115,000 and $231,000, respectively, from the University's designated fund to the Foundation. Both the University and Foundation boards believe that the investment strategy of the Foundation will provide higher investment income yields over time. In addition, the Foundation made distributions to the University in the amount of $1,074,500 and $1,030,455 for the years ended June 30, 2011 and 2010, respectively.

It is the University's policy to pay substantially all of the Foundation's expenses relating to the soliciting and collecting of donations. Also, as a service to the Foundation, the University maintains the detailed accounting records of the Foundation.

Note 5 - Functional Expenses

The Foundation is required to provide information about expenses by their functional classification. Functional classifications most likely to be used by the Foundation include program services, management, general, and fundraising. Program service expenses result from goods and services being distributed in support of the mission; management and general expenses result from administrative activities; and fundraising expenses result from the costs of fundraising campaigns and other activities involved in soliciting gifts from donors. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Total expenses of the Foundation by their functional classification are summarized as follows:

	2011	2010
Program services	$ 1,074,500	$ 1,030,455
Management and general	142,484	202,287
Fundraising	167,265	237,467
Total expenses	$ 1,384,249	$ 1,470,209

Note 6 - Pledges Receivable

The fair value of pledges receivable is estimated by discounting expected cash inflows and outflows to their present value using appropriate rates with the risk of realizing such cash inflows and outflows, which was 3.0 percent at June 30, 2011 and 2010. The fair value also includes adjusting for amounts not deemed collectible of $59,284 and $56,632 for June 30, 2011 and 2010, respectively.

The following shows the balance due of unconditional promises to give to the Foundation at June 30, 2011 and 2010.

	2011	2010
Pledges receivable in less than one year	$ 43,409	$ 54,043
Pledges receivable in one to five years	194,813	178,696
Pledges receivable in more than five years	51,268	123,411
Total	$ 289,490	$ 356,150

Note 7 - Fair Value Measurements

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2011 and 2010 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. The Foundation has classified fund of funds with Level 2 inputs, due to liquidity restraints on selling these mutual funds.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

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

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2011 and 2010, there were no transfers between levels of the fair value hierarchy.

Note 7 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2011
Public equity mutual funds	$ 22,356,075	$ -	$ -	$ 22,356,075
Fixed-income mutual funds	810,165	2,094,820	-	2,904,985
Limited partnerships - Real estate	-	939,547	670,510	1,610,057
Limited partnerships - Private equity/ Distressed	-	-	1,848,336	1,848,336
Limited partnerships - Hedge funds	-	-	5,959,643	5,959,643
Limited partnerships - Natural resources	-	-	1,093,659	1,093,659
Charitable gift annuity funds	142,345	-	-	142,345
Pledges receivable	-	-	289,490	289,490
Balance at June 30, 2011	$ 23,308,585	$ 3,034,367	$ 9,861,638	$ 36,204,590

Assets Measured at Fair Value on a Recurring Basis at June 30, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2010
Public equity mutual funds	$ 19,136,604	$ -	$ -	$ 19,136,604
Fixed-income mutual funds	2,223,950	1,954,265	-	4,178,215
Limited partnerships - Real estate	-	683,512	399,795	1,083,307
Limited partnerships - Private equity/ Distressed	-	-	1,568,102	1,568,102
Limited partnerships - Hedge funds	-	-	2,119,097	2,119,097
Limited partnerships - Natural resources	-	-	799,630	799,630
Charitable gift annuity funds	96,291	-	-	96,291
Pledges receivable	-	-	356,150	356,150
Balance at June 30, 2010	$ 21,456,845	$ 2,637,777	$ 5,242,774	$ 29,337,396

Note 7 - Fair Value Measurements (Continued)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Limited Partnerships - Real Estate	Limited Partnerships - Private Equity/Distressed	Limited Partnerships - Hedge Funds	Limited Partnerships - Natural Resources	Pledges Receivable	Total
Balance at June 30, 2009	$ 408,367	$ 959,823	$ 1,928,905	$ 346,856	$ 453,515	$ 4,097,466
Total realized and unrealized (losses) gains	(162,322)	228,279	190,192	80,272	-	336,421
Net purchases, sales, calls, and maturities	153,750	380,000	-	372,502	-	906,252
Net pledges collected	-	-	-	-	(97,365)	(97,365)
Balance at June 30, 2010	399,795	1,568,102	2,119,097	799,630	356,150	5,242,774
Total realized and unrealized gains	26,965	238,373	240,546	194,093	-	699,977
Purchases	-	-	3,600,000	-	-	3,600,000
Capital calls	243,750	95,000	-	199,250	-	538,000
Maturities	-	(53,139)	-	(99,314)	-	(152,453)
Net pledges collected	-	-	-	-	(66,660)	(66,660)
Balance at June 30, 2011	$ 670,510	$ 1,848,336	$ 5,959,643	$ 1,093,659	$ 289,490	$ 9,861,638

During 2011, the Foundation adopted, on a prospective basis, new accounting standards which require additional classifications in disclosures of the changes in Level 3 assets measured at fair value on a recurring basis.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

Real estate, private equity, absolute return hedge fund, and natural resources investment securities categorized as Level 3 assets primarily consist of limited partnerships. The Foundation estimates the fair value of these funds based on fund investment statements.

Pledges receivable categorized as Level 3 assets consist of pledge receivable balances discounted at the Foundation’s borrowing rate each fiscal year end and adjusted for amounts not deemed collectible.

Note 7 - Fair Value Measurements (Continued)

Investment in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Investments Held at June 30, 2011

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Limited partnerships - Real estate	$ 1,610,057	$ 375,000	Varies	15 days or none
Limited partnerships - Private equity/ Distressed	1,848,336	403,700	N/A	N/A
Limited partnerships - Hedge funds	5,959,643	-	Varies	100/75/45 days
Limited partnerships - Natural resources	1,093,659	1,585,559	N/A	N/A
Balance at June 30, 2011	$ 10,511,695	$ 2,364,259		

Investments Held at June 30, 2010

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Limited partnerships - Real estate	$ 1,083,307	$ 618,750	Varies	15 days or none
Limited partnerships - Private equity/ Distressed	1,568,102	498,700	N/A	N/A
Limited partnerships - Hedge funds	2,119,097	-	Semiannual	75 days
Limited partnerships - Natural resources	799,630	1,784,809	N/A	N/A
Balance at June 30, 2010	$ 5,570,136	$ 2,902,259		

Note 7 - Fair Value Measurements (Continued)

Real Estate - Three limited partnerships comprise the total investment in real estate. Investment manager (a) invests in a diversified portfolio of equities issued by real estate investment trusts (REITs) and other real estate operating entities and employs a value-oriented investment philosophy, fundamentally research-driven, bottom-up investing. Investments are placed in three regions, North America, Europe, and Asia Pacific. The goal is to construct a diverse pool of global real property securities. Investment manager (b) invests in office, apartment, industrial and other commercial real estate properties located primarily in the United States and in real estate-related securities. It is anticipated that investments will be made in a minimum of three major property types and in 15 national property markets with ownership in over 100 commercial types of properties. Partnership will terminate December 31, 2013 or as reasonable thereafter with limited liquidity. Investment manager (c) will invest in certain private real estate funds investing in office, retail, industrial or other commercial properties and selected residential properties or real estate-related securities, made primarily in Europe, with secondary focus on properties in certain Asian markets. Partnership will terminate December 31, 2014 or as reasonable thereafter with limited liquidity.

Private Equity/Distressed - Combined for financial statement presentation purposes, the private equity manager is a fund of funds manager investing in a program of venture capital, domestic private equity and international private capital investments using a value-added approach. The fund manager has allocated approximately 20 percent of capital to venture capital funds, 18 percent of capital to private equity funds, 30 percent to international private capital partnerships and funds and 32 percent to manager selected fund managers. The distressed manager makes investments in privately placed pooled investment vehicles (private equity funds) that primarily make direct investments in privately owned companies. This is considered a fund of funds with emphasis in investing in private companies undergoing financial distress, with a termination date of December 31, 2019.

Hedge Fund - Three limited partnerships make up the investments in hedge funds. The first is a diversifying strategy using a fund of funds partnership. The partners invest in relative value and arbitrage strategies. Risk is limited by investing in long and short related securities and other financial instruments that reduce overall market sensitivity. The partnership also invests in other strategies including risk arbitrage, distressed securities, bankruptcies and reorganizations. The second two funds are hedged equity funds. The first hedged equity fund constructs portfolios of long/short equity managers. The fund is diversified by sector, market capitalization, geographic region and manager profile. The team has a global perspective to manager sourcing, traveling extensively outside of the U.S. for investment opportunities. In addition, most managers in the portfolio are smaller in size and can nimbly adjust exposures to the market in times of risk and opportunity. The second hedged equity fund is a directional fund that specializes in smaller equity hedge fund managers. The Fund is long biased. The firm has a long track record with investing in smaller, more nimble managers. Most research indicates a performance advantage with investing with smaller managers. The fund has often been contrarian with manager allocations by trimming managers who have realized positive performance and adding to those that have been out of favor.

Note 7 - Fair Value Measurements (Continued)

Natural Resources - Three limited partnerships comprise the total of investments in natural resources. Investment manager (a) invests in a multi-fund manager approach in the areas of oil and gas production, energy services and other natural resource-related industries including timber, power services, infrastructure and manufacturing, mining and mineral extraction, and renewable and alternative energy technology. Diversification occurs through private equity strategies and property acquisition strategies. Partnership will terminate 12 years after official partnership filing or approximately December 31, 2018 and liquidation is limited. Investment manager (b) invests in a multi-fund manager approach in the areas of oil and gas production, energy services and other natural resource-related industries including timber, power services, infrastructure and manufacturing, mining and mineral extraction, and renewable and alternative energy technology. Diversification occurs through private equity strategies and property acquisition strategies. Partnership will terminate 12 years after official partnership filing or approximately December 31, 2021 and liquidation is limited. Investment manager (c) is a fund of funds manager investing in seven to 10 energy funds engaged in acquisition and exploitation of proved oil and natural gas reserves in North America. Modest exposure to energy infrastructure, technology, services and international reserve-based opportunities are allowed. Fund will terminate in 15 years or approximately December 31, 2021. Limited partners may seek liquidation through the general partner by selling their partnership share to other limited partners, the general partners or a third party.

Note 8 - Donor- and Board-restricted Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Foundation has reviewed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and established investment and spending policies requiring the preservation of the fair value of the original gift(s) as of the gift date of the donor-restricted endowment fund. The Foundation 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(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 Foundation
(7) The investment policies of the Foundation

UPMIFA was signed into law in Michigan on September 15, 2009 and therefore, a reclassification between net assets is reflected as a change in accounting to properly account for earnings on the endowment funds.

Note 8 - Donor- and Board-restricted Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$ -	$ 8,746,516	$ 18,229,687	$ 26,976,203
Quasi-endowment	9,727,030	-	-	9,727,030
Total Funds	$ 9,727,030	$ 8,746,516	$ 18,229,687	$ 36,703,233

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
Beginning of the year	$ 7,472,821	$ 4,402,189	$ 17,074,146	$ 28,949,156
Investment return:				
Investment income	418,419	1,145,954	-	1,564,373
Net appreciation	1,922,193	4,250,455	-	6,172,648
Total investment return	2,340,612	5,396,409	-	7,737,021
Contributions	65,082	-	1,110,541	1,175,623
Appropriation of endowment assets for expenditures	(206,485)	(1,052,082)	-	(1,258,567)
Other changes:				
Transfers to create endowment funds	55,000	-	45,000	100,000
Endowment net assets,				
End of the year	$ 9,727,030	$ 8,746,516	$ 18,229,687	$ 36,703,233

Note 8 - Donor- and Board-restricted Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment (Deficiency)	$ (263,680)	$ 4,402,189	$ 17,074,146	$ 21,212,655
Quasi-endowment	7,736,501	-	-	7,736,501
Total Funds	$ 7,472,821	$ 4,402,189	$ 17,074,146	$ 28,949,156

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
Beginning of the year	$ 7,104,491	$ 1,549,048	$ 16,488,376	$ 25,141,915
Net asset reclass based on				
change in law	(1,783,293)	1,783,293	-	-
Investment return:				
Investment income	714,129	717,639	-	1,431,768
Net appreciation	2,161,253	804,721	-	2,965,974
Total investment return	2,875,382	1,522,360	-	4,397,742
Contributions	-	8,279	389,770	398,049
Appropriation of endowment				
assets for expenditures	(758,759)	(460,791)	-	(1,219,550)
Other changes:				
Transfers to create				
endowment funds	35,000	-	196,000	231,000
Endowment net assets,				
End of the year	$ 7,472,821	$ 4,402,189	$ 17,074,146	$ 28,949,156

Note 8 - Donor- and Board-restricted Endowments (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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $0 and $263,680 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending 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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of the Consumer Price Index (CPI) plus 4 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation 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.

Note 8 - Donor- and Board-restricted Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation’s investment and spending policy stipulates that 4 percent of a 12-quarter moving average of the market value of the endowment be available to spend and the remaining income is to be reinvested; however, an additional 1 percent of the 12-quarter moving average may be used to offset Foundation administration. If an investment loss is incurred, the loss is allocated entirely as currently expendable. Further, if an endowment is considered underwater, the spending policy restricts the Foundation from spending from that fund. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of CPI annually. This is consistent with the Foundation’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 return.