Financial Statements

Ferris Foundation

Years ended June 30, 2013 and 2012
with Report of Independent Auditors

AHPA
CPAs & ADVISORS
ANDREWS HOOPER PAVLIK PLC

Ferris Foundation

Financial Statements

Years ended June 30, 2013 and 2012

Contents

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Report of Independent Auditors

Board of Directors
Ferris Foundation
Big Rapids, Michigan

We have audited the accompanying financial statements of the Ferris Foundation, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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 audits to obtain reasonable assurance about whether the statements are free of 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 Ferris Foundation as of June 30, 2013 and 2012 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.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
August 27, 2013

Ferris Foundation

Statements of Financial Position

	June 30 2013	2012
Assets		
Cash and cash equivalents - Note 3	**$ 1,039,265**	$ 727,950
Investments - Note 3	**39,897,751**	35,318,644
Pledges receivable - Note 6	**559,884**	200,247
Other receivables	**7,506**	28,296
Total assets	**$ 41,504,406**	$ 36,275,137
Liabilities		
Accounts payable	**$ 1,647**	$ 4,547
Annuity liability - Note 2	**114,349**	96,904
Total liablilities	**115,996**	101,451
Net Assets - Note 1		
Unrestricted	**10,625,260**	9,688,963
Temporarily restricted	**10,340,546**	7,789,511
Permanently restricted	**20,422,604**	18,695,212
Total net assets	**41,388,410**	36,173,686
Total liabilities and net assets	**$ 41,504,406**	$ 36,275,137

See accompanying notes.

Ferris Foundation

Statements of Activities

	Year ended June 30							
	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains (losses)								
Gifts and contributions	**$ 118,879**	**$ 138,421**	**$ 1,647,877**	**$ 1,905,177**	$ 180,557	$ 34,311	$ 459,525	$ 674,393
Change in split-interest agreement	**-**	**(13,872)**	**-**	**(13,872)**	-	(7,074)	-	(7,074)
Income from investments	**142,536**	**406,139**	**-**	**548,675**	185,350	515,477	-	700,827
Net realized/unrealized gains (losses) on investments	**1,106,059**	**3,174,128**	**-**	**4,280,187**	(405,417)	(1,167,079)	-	(1,572,496)
Net assets released from restrictions	**1,153,781**	**(1,153,781)**	**-**	**-**	929,698	(929,698)	-	-
Total support, revenue, and gains (losses)	**2,521,255**	**2,551,035**	**1,647,877**	**6,720,167**	890,188	(1,554,063)	459,525	(204,350)
Expenses - Note 5								
Meals, travel, and entertainment	**11,197**	**-**	**-**	**11,197**	8,066	-	-	8,066
Board expenses	**2,965**	**-**	**-**	**2,965**	2,495	-	-	2,495
Professional fees and other services	**315,403**	**-**	**-**	**315,403**	298,894	-	-	298,894
Supplies	**25,811**	**-**	**-**	**25,811**	25,806	-	-	25,806
Disbursements to Ferris State University - Note 4	**1,229,582**	**-**	**-**	**1,229,582**	1,005,298	-	-	1,005,298
Total expenses	**1,584,958**	**-**	**-**	**1,584,958**	1,340,559	-	-	1,340,559
Revenue, gains (losses), and other support over (under) expenses	**936,297**	**2,551,035**	**1,647,877**	**5,135,209**	(450,371)	(1,554,063)	459,525	(1,544,909)
Other changes in net assets								
Net transfers from Ferris State University - Note 4	**-**	**-**	**79,515**	**79,515**	32,000	-	6,000	38,000
Increase (decrease) in net assets	**936,297**	**2,551,035**	**1,727,392**	**5,214,724**	(418,371)	(1,554,063)	465,525	(1,506,909)
Net assets - Beginning of year	**9,688,963**	**7,789,511**	**18,695,212**	**36,173,686**	10,107,334	9,343,574	18,229,687	37,680,595
Net assets - End of year	**$10,625,260**	**$10,340,546**	**$ 20,422,604**	**$ 41,388,410**	$ 9,688,963	$ 7,789,511	$ 18,695,212	$ 36,173,686

See accompanying notes.

Ferris Foundation

Statements of Cash Flows

	Year Ended June 30	
	2013	**2012**
Operating activities		
Increase (decrease) in net assets	**$ 5,214,724**	$ (1,506,909)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Transfer from Ferris State University	**(79,515)**	(38,000)
Net realized and unrealized (gains) losses from security transactions	**(4,280,187)**	1,572,496
Contributions restricted for long-term investments	**(1,647,877)**	(459,525)
Decrease (increase) in assets:		
Pledges receivable	**(359,637)**	89,243
Other receivables	**20,790**	(12,036)
Increase (decrease) in liabilities:		
Annuity liability	**31,922**	15,063
Accounts payable	**(2,900)**	3,620
Net cash used in operating activities	**(1,102,680)**	(336,048)
Investing activities		
Proceeds from the sale of investments	**3,306,499**	6,326,405
Purchases of investments	**(3,605,419)**	(7,302,445)
Net cash used in investing activities	**(298,920)**	(976,040)
Financing activities		
Transfer from Ferris State University	**79,515**	38,000
Payment on annuity obligation	**(14,477)**	(7,618)
Investments in endowment	**1,647,877**	459,525
Net cash provided by financing activities	**1,712,915**	489,907
Net change in cash and cash equivalents	**311,315**	(822,181)
Cash and cash equivalents - beginning of year	**727,950**	1,550,131
Cash and cash equivalents - end of year	**$ 1,039,265**	$ 727,950

See accompanying notes.

1. Summary of Significant Accounting Policies

Nature of Operations

The Ferris Foundation (Foundation) is a Michigan nonprofit corporation. The Foundation was established to advance the mission and goals of Ferris State University (University) by generating and managing private support for the University. Both the University and Foundation boards believe that the investment strategy of the Foundation will provide higher investment income yields over time. 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.

1. Summary of Significant Accounting Policies (continued)

Types of Restrictions (continued)

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 at June 30:

	2013	2012
Current funds	**$ 454,978**	$ 421,754
Quasi-endowment transfer and earnings	**4,389,606**	3,490,786
Funds functioning as quasi-endowments	**5,780,676**	5,776,423
Total unrestricted net assets	**$ 10,625,260**	$ 9,688,963

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 at June 30:

	2013	2012
Scholarships	**$ 5,506,179**	$ 3,996,789
Capital projects	**200**	200
Student loans	**634,865**	475,577
Time restricted	**3,482,487**	2,700,643
Other - departmental	**127,543**	110,637
Other - temporarily restricted	**589,272**	505,665
Total temporarily restricted net assets	**$ 10,340,546**	$ 7,789,511

Permanently restricted net assets are restricted by the donor in perpetuity with the earnings available for the following purposes at June 30:

	2013	2012
Scholarships	**$ 13,637,734**	$ 12,523,351
Student loans	**1,334,843**	1,334,843
Departmental use	**5,450,027**	4,837,018
Total permanently restricted net assets	**$ 20,422,604**	$ 18,695,212

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, 2013, the Foundation's remaining capital commitment on investments in limited partnerships was $1,772,028 ($2,463,706 at June 30, 2012.)

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. The Foundation had no uninsured deposits as of June 30, 2013 or June 30, 2012, respectively.

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 financial statements.

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.

1. Summary of Significant Accounting Policies (continued)

Federal Income Taxes (continued)

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, 2013, 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 in progress for any tax periods. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2010.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including August 27, 2013, which is the date the financial statements were available to be issued.

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, 2013 was $225,573 ($143,583 at June 30, 2012.) The liability under the annuity contracts was $114,349 at June 30, 2013 ($96,904 at June 30, 2012.) The liability is recorded at its present value based on the donors' life expectancy.

During the year ended June 30, 2013, payments in the amount of $14,477 were made to the donors and have been recorded as a reduction in the split-interest agreement payable ($7,618 during the year ended June 30, 2012). The discount rates used to compute the liability ranged from 4.9 percent to 9.4 percent for 2013 and 2012. Under the terms of the contract, the assets are restricted until the death of the donors.

3. Cash and Investments

Cash and cash equivalents consist of the following at June 30:

	2013	**2012**
Bank balance	**$ 226,886**	$ 169,605
Money market funds	**812,379**	558,345
Total cash and cash equivalents	**$ 1,039,265**	$ 727,950

3. Cash and Investments (continued)

Market values of investments are summarized as follows at June 30:

	2013	2012
Mutual funds:		
Equity funds	**$ 21,761,583**	$ 20,542,532
Bond funds	**3,259,441**	3,054,413
Limited partnerships – real estate	**2,036,386**	1,841,275
Limited partnerships – hedge funds	**6,868,120**	6,207,561
Limited partnerships – natural resources	**2,795,868**	1,471,359
Limited partnerships – private equity/distressed	**2,014,499**	2,057,921
Limited partnerships – commodities	**936,281**	-
Charitable gift annuity funds	**225,573**	143,583
Total investments	**$ 39,897,751**	$ 35,318,644

Income (losses) from investments consists of the following at June 30:

	2013	2012
Investment income – interest and dividends	**$ 548,675**	$ 700,827
Realized gains (losses)	**820,532**	(842,438)
Unrealized gains (losses)	**3,459,655**	(730,058)
Total	**$ 4,828,862**	$ (871,669)

4. Related Party Transactions

During the year ended June 30, 2013, the University transferred $79,515 from the University's designated fund to the Foundation ($38,000 during the year ended June 30, 2012). In addition, the Foundation made distributions to the University in the amounts of $1,229,582 for the year ended June 30, 2013 and $1,005,298 for the year ended June 30, 2012. These distributions provided support to various University scholarships, loans, and departmental accounts and to fund merit grant awards to faculty and staff.

In 2013, the Foundation board approved the acceptance of gifts from the David Wolcott Kendall Memorial School Foundation of $611,556. Upon this acceptance, ten new endowment funds were established to provide support to students and programs related to the Kendall College of Art & Design at Ferris State University.

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.

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 and general, and fundraising. Program services 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 functional classification are summarized as follows at June 30:

	2013	2012
Program services	**$ 1,229,582**	$ 1,005,298
Management and general	**163,473**	154,221
Fundraising	**191,903**	181,040
Total expenses	**$ 1,584,958**	$ 1,340,559

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, 2013 and 2012. The fair value also includes adjusting for amounts not deemed collectible of $53,181 for June 30, 2013 and $64,871 for June 30, 2012.

The following shows the balance due of unconditional promises to give to the Foundation at June 30:

	2013	**2012**
Pledges receivable in less than one year	**$ 172,904**	$ 98,467
Pledges receivable in one to five years	**386,257**	100,600
Pledges receivable in more than five years	**723**	1,180
Total	**$ 559,884**	$ 200,247

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, 2013 and 2012 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.

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, 2013 and 2012, there were no transfers between levels of the fair value hierarchy.

7. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis at June 30, 2013 included the following:

	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, 2013**
Public equity mutual funds	**$ 21,761,583**	**$ -**	**$ -**	**$ 21,761,583**
Fixed income mutual funds	**951,196**	**2,308,245**	**-**	**3,259,441**
Limited partnerships – real estate	**-**	**1,081,853**	**954,533**	**2,036,386**
Limited partnerships – private equity/distressed	**-**	**-**	**2,014,499**	**2,014,499**
Limited partnerships – hedge funds	**-**	**-**	**6,868,120**	**6,868,120**
Limited partnerships – natural resources/commodities	**-**	**-**	**3,732,149**	**3,732,149**
Charitable gift annuity funds	**225,573**	**-**	**-**	**225,573**
Pledges receivable	**-**	**-**	**559,884**	**559,884**
Balance at June 30, 2013	**$ 22,938,352**	**$ 3,390,098**	**$ 14,129,185**	**$ 40,457,635**

Assets measured at fair value on a recurring basis at June 30, 2012 included the following:

	Level 1	**Level 2**	**Level 3**	**Balance at June 30, 2012**
Public equity mutual funds	$ 20,542,532	$ -	$ -	$ 20,542,532
Fixed income mutual funds	818,057	2,236,356	-	3,054,413
Limited partnerships – real estate	-	969,906	871,369	1,841,275
Limited partnerships – private equity/distressed	-	-	2,057,921	2,057,921
Limited partnerships – hedge funds	-	-	6,207,561	6,207,561
Limited partnerships – natural resources	-	-	1,471,359	1,471,359
Charitable gift annuity funds	143,583	-	-	143,583
Pledges receivable	-	-	200,247	200,247
Balance at June 30, 2012	$ 21,504,172	$ 3,206,262	$ 10,808,457	$ 35,518,891

7. Fair Value Measurements (continued)

Changes in Level 3 assets measured at fair value on a recurring basis included the following:

	Limited Partnerships - Real Estate	Limited Partnerships - Private Equity/Distressed	Limited Partnerships - Hedge Funds	Limited Partnerships - Natural Resources/ Commodities	Pledges Receivable	Total
Balance at June 30, 2011	$ 670,510	$ 1,848,336	$ 5,959,643	$ 1,093,659	$ 289,490	$ 9,861,638
Total realized and unrealized gains (losses)	39,609	139,605	(52,082)	119,248	-	246,380
Purchases	-	-	300,000	-	-	300,000
Capital calls	161,250	270,804	-	468,500	-	900,554
Maturities	-	(200,824)	-	(210,048)	-	(410,872)
Net pledges collected	-	-	-	-	(89,243)	(89,243)
Balance at June 30, 2012	**871,369**	**2,057,921**	**6,207,561**	**1,471,359**	**200,247**	**10,808,457**
Total realized and unrealized gains	**28,039**	**187,848**	**660,559**	**18,443**	**-**	**894,889**
Interest and dividends	**-**	**-**	**-**	**665**	**-**	**665**
Purchases	**-**	**-**	**-**	**2,000,000**	**-**	**2,000,000**
Capital calls	**55,125**	**194,052**	**-**	**432,500**	**-**	**681,677**
Maturities	**-**	**(425,322)**	**-**	**(190,818)**	**-**	**(616,140)**
Net pledges collected	**-**	**-**	**-**	**-**	**359,637**	**359,637**
Balance at June 30, 2013	**$ 954,533**	**$ 2,014,499**	**$ 6,868,120**	**$ 3,732,149**	**$ 559,884**	**$14,129,185**

7. Fair Value Measurements (continued)

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 tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Real estate, private equity/distressed, hedge funds, and natural resources/commodities 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 dated March 31 with the only adjustments being those actual transactions that occur from the funds investment statement date to June 30.

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.

Investments 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, 2013 included the following:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Limited partnerships – real estate	**$ 2,036,386**	**$ 158,625**	Varies	15 days or none
Limited partnerships – private equity/distressed	**2,014,499**	**928,844**	N/A	N/A
Limited partnerships – hedge funds	**6,868,120**	**-**	Varies	100/75/45 days
Limited partnerships – natural resources/commodities	**3,732,149**	**684,559**	N/A	N/A
Balance at June 30, 2013	**$14,651,154**	**$ 1,772,028**		

7. Fair Value Measurements (continued)

Investments in Entities that Calculate Net Asset Value per Share (continued)

Investments held at June 30, 2012 included the following:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Limited partnerships – real estate	$1,841,275	$ 213,750	Varies	15 days or none
Limited partnerships – private equity/distressed	2,057,921	1,132,897	N/A	N/A
Limited partnerships – hedge funds	6,207,561	-	Varies	100/75/45 days
Limited partnerships – natural resources	1,471,359	1,117,059	N/A	N/A
Balance at June 30, 2012	$11,578,116	$ 2,463,706		

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 (REIT) 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 soon as is 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 soon as is reasonable thereafter with limited liquidity.

7. Fair Value Measurements (continued)

Private Equity/Distressed

Combined for financial statement presentation purposes, the private equity manager(s) are fund of funds managers investing in a program of venture capital, domestic private equity, and international private capital investments using a value-added approach. 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 on investing in private companies undergoing financial distress, with a termination date of December 31, 2019.

Hedge Funds

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 remaining 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. Management believes most research indicates a performance advantage by 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.

7. Fair Value Measurements (continued)

Natural Resources/Commodities

Five limited partnerships comprise the total of investments in natural resources/commodities.

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 7 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 its partnership share to other limited partners, the general partners, or a third party.

Investment manager (d) invests in marketable securities of midstream energy master limited partnerships and affiliates and could also invest in equity securities of other energy related companies, i.e., marine transportation and distribution. The partnership has provisions to terminate by December 31, 2038.

Investment manager (e) invests in commodities using exchange traded commodity futures contracts. The manager equally weighs the pool into six primary commodity sectors including energy, livestock, grains, industrial metals, precious metals, and softs. The fund uses a dual rebalancing mechanism to rebalance the over sector and individual allocations within each sector. The partnership has provisions that allow the University to withdraw at the end of each month, upon prior written instructions at least five days prior to month end.

8. Donor- and Board-restricted Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of directors or management 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 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

8. Donor- and Board-restricted Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	**$ -**	**$ 9,623,531**	**$ 20,422,604**	**$ 30,046,135**
Quasi-endowment	**10,170,282**	**-**	**-**	**10,170,282**
Total funds	**$ 10,170,282**	**$ 9,623,531**	**$ 20,422,604**	**$ 40,216,417**

Changes in endowment net assets for the fiscal year ended June 30, 2013 include:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	**$ 9,267,209**	**$ 7,220,183**	**$ 18,695,212**	**$ 35,182,604**
Investment return:				
Investment income	**141,496**	**392,301**	**-**	**533,797**
Net appreciation	**1,106,059**	**3,099,265**	**-**	**4,205,324**
Total investment return	**1,247,555**	**3,491,566**	**-**	**4,739,121**
Contributions	**6,767**	**-**	**1,647,877**	**1,654,644**
Appropriation of endowment assets for expenditures	**(351,249)**	**(1,088,218)**	**-**	**(1,439,467)**
Other changes:				
Transfers to create endowment funds	**-**	**-**	**79,515**	**79,515**
Endowment net assets, End of the year	**$ 10,170,282**	**$ 9,623,531**	**$ 20,422,604**	**$ 40,216,417**

8. Donor- and Board-restricted Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$ -	$ 7,220,183	$ 18,695,212	$ 25,915,395
Quasi-endowment	9,267,209	-	-	9,267,209
Total funds	$ 9,267,209	$ 7,220,183	$ 18,695,212	$ 35,182,604

Changes in endowment net assets for the fiscal year ended June 30, 2012 include:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	$ 9,727,030	$ 8,746,516	$ 18,229,687	$ 36,703,233
Investment return:				
Investment income	184,571	503,657	-	688,228
Net depreciation	(405,418)	(1,142,300)	-	(1,547,718)
Total investment return	(220,847)	(638,643)	-	(859,490)
Contributions	8,048	-	459,525	467,573
Appropriation of endowment assets for expenditures	(279,022)	(887,690)	-	(1,166,712)
Other changes:				
Transfers to create endowment funds	32,000	-	6,000	38,000
Endowment net assets, End of the year	$ 9,267,209	$ 7,220,183	$ 18,695,212	$ 35,182,604

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, there were no deficiencies reported in unrestricted net assets as of June 30, 2013 and 2012. Deficiencies can result from unfavorable market fluctuations that occur.

8. Donor- and Board-restricted Endowments (continued)

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 a target-weighted index in proportion to invested assets, while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return that exceeds the Consumer Price Index (CPI) plus 5.0 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 public and private based equity investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation investment and spending policy stipulates that 4.0 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 1.0 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 a rate that exceeds the 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.