Financial Statements

Ferris Foundation

Years ended June 30, 2014 and 2013
with Report of Independent Auditors

CPAs & ADVISORS
ANDREWS HOOPER PAVLIK PLC

Ferris Foundation

Financial Statements

Years ended June 30, 2014 and 2013

Contents

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CPAs & ADVISORS

ANDREWS HOOPER PAVLIK PLC
3333 DEPOSIT DRIVE NE | SUITE 310 | GRAND RAPIDS, MI 49546
p: 616.942.6440 | f: 616.942.6095 | www.ahpplc.com

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, 2014 and 2013, 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, 2014 and 2013, 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 28, 2014

Ferris Foundation

Statements of Financial Position

	June 30 2014	June 30 2013
Assets		
Cash and cash equivalents - Note 3	**$ 1,274,634**	$ 1,039,265
Investments - Note 3	**45,898,531**	39,897,751
Pledges receivable - Note 6	**420,744**	559,884
Other receivables	**204,122**	7,506
Total assets	**$ 47,798,031**	$ 41,504,406
Liabilities		
Accounts payable	**$ 2,065**	$ 1,647
Annuity liability - Note 2	**111,825**	114,349
Total liablilities	**113,890**	115,996
Net Assets - Note 1		
Unrestricted	**12,123,792**	10,625,260
Temporarily restricted	**14,297,950**	10,340,546
Permanently restricted	**21,262,399**	20,422,604
Total net assets	**47,684,141**	41,388,410
Total liabilities and net assets	**$ 47,798,031**	$ 41,504,406

See accompanying notes.

Ferris Foundation

Statements of Activities

	Year ended June 30							
	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains (losses)								
Gifts and contributions	**$ 127,139**	**$ 69,041**	**$ 800,870**	**$ 997,050**	$ 118,879	$ 138,421	$ 1,647,877	$ 1,905,177
Change in split-interest agreement	**-**	**(11,967)**	**-**	**(11,967)**	-	(13,872)	-	(13,872)
Income from investments	**250,692**	**742,473**	**-**	**993,165**	142,536	406,139	-	548,675
Net realized/unrealized gains on investments	**1,456,431**	**4,359,875**	**-**	**5,816,306**	1,106,059	3,174,128	-	4,280,187
Net assets released from restrictions	**1,202,548**	**(1,202,548)**	**-**	**-**	1,153,781	(1,153,781)	-	-
Total support, revenue, and gains (losses)	**3,036,810**	**3,956,874**	**800,870**	**7,794,554**	2,521,255	2,551,035	1,647,877	6,720,167
Expenses - Note 5								
Meals, travel, and entertainment	**31,246**	**-**	**-**	**31,246**	11,197	-	-	11,197
Board expenses	**3,976**	**-**	**-**	**3,976**	2,965	-	-	2,965
Professional fees and other services	**343,696**	**-**	**-**	**343,696**	315,403	-	-	315,403
Supplies	**9,676**	**-**	**-**	**9,676**	25,811	-	-	25,811
Disbursements to Ferris State University - Note 4	**1,152,129**	**-**	**-**	**1,152,129**	1,229,582	-	-	1,229,582
Total expenses	**1,540,723**	**-**	**-**	**1,540,723**	1,584,958	-	-	1,584,958
Support, revenue, and gains (losses) over expenses	**1,496,087**	**3,956,874**	**800,870**	**6,253,831**	936,297	2,551,035	1,647,877	5,135,209
Other changes in net assets								
Net transfers from Ferris State University - Note 4	**2,445**	**530**	**38,925**	**41,900**	-	-	79,515	79,515
Increase in net assets	**1,498,532**	**3,957,404**	**839,795**	**6,295,731**	936,297	2,551,035	1,727,392	5,214,724
Net assets - Beginning 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
Net assets - End of year	**$12,123,792**	**$14,297,950**	**$ 21,262,399**	**$ 47,684,141**	$10,625,260	$10,340,546	$ 20,422,604	$ 41,388,410

See accompanying notes.

Ferris Foundation

Statements of Cash Flows

	Year ended June 30 2014	2013
Operating activities		
Increase in net assets	**$ 6,295,731**	$ 5,214,724
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Transfer from Ferris State University	**(41,900)**	(79,515)
Net realized and unrealized gains from security transactions	**(5,816,306)**	(4,280,187)
Contributions restricted for long-term investments	**(800,870)**	(1,647,877)
Decrease (increase) in assets:		
Pledges receivable	**139,140**	(359,637)
Other receivables	**(196,616)**	20,790
Increase (decrease) in liabilities:		
Annuity liability	**11,968**	31,922
Accounts payable	**418**	(2,900)
Net cash used in operating activities	**(408,435)**	(1,102,680)
Investing activities		
Proceeds from the sale of investments	**9,052,186**	3,306,499
Purchases of investments	**(9,236,660)**	(3,605,419)
Net cash used in investing activities	**(184,474)**	(298,920)
Financing activities		
Transfer from Ferris State University	**41,900**	79,515
Payment on annuity obligation	**(14,492)**	(14,477)
Investments in endowment	**800,870**	1,647,877
Net cash provided by financing activities	**828,278**	1,712,915
Net change in cash and cash equivalents	**235,369**	311,315
Cash and cash equivalents - beginning of year	**1,039,265**	727,950
Cash and cash equivalents - end of year	**$ 1,274,634**	$ 1,039,265

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 following accounting policies established by the Financial Accounting Standards Board (FASB).

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:

	2014	2013
Current funds	**$ 528,961**	$ 454,978
Quasi-endowment transfer and earnings	**5,808,733**	4,389,606
Funds functioning as quasi-endowments	**5,786,098**	5,780,676
Total unrestricted net assets	**$ 12,123,792**	$ 10,625,260

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:

	2014	2013
Scholarships	**$ 8,238,217**	$ 5,714,355
Capital projects	**200**	200
Student loans	**266,377**	204,495
Department	**4,960,337**	3,704,681
Other - departmental	**140,108**	127,543
Other - temporarily restricted	**692,711**	589,272
Total temporarily restricted net assets	**$ 14,297,950**	$ 10,340,546

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

	2014	2013
Scholarships	**$ 15,012,223**	$ 14,524,121
Student loans	**507,395**	224,490
Departmental use	**5,742,781**	5,673,993
Total permanently restricted net assets	**$ 21,262,399**	$ 20,422,604

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, 2014, the Foundation's remaining capital commitment on investments in limited partnerships was $4,550,403 ($1,772,028 at June 30, 2013).

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 $72,270 in uninsured deposits as of June 30, 2014 and zero as of June 30, 2013.

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 accounting principles generally accepted in the United States of America (U.S. GAAP) 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, 2014, 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, 2011.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including August 28, 2014, which is the date the financial statements were available to be issued.

Reclassification

Certain amounts in 2013 have been reclassified to conform with the 2014 presentation.

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, 2014 was $246,498 ($225,573 at June 30, 2013). The liability under the annuity contracts was $111,825 at June 30, 2014 ($114,349 at June 30, 2013). The liability is recorded at its present value based on the donors' life expectancy.

During the year ended June 30, 2014, payments in the amount of $14,492 were made to the donors and have been recorded as a reduction in the split-interest agreement payable ($14,477 during the year ended June 30, 2013). The discount rates used to compute the liability ranged from 4.9 percent to 9.4 percent for 2014 and 2013. 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:

	2014	2013
Bank balance	**$ 321,616**	$ 226,886
Money market funds	**953,018**	812,379
Total cash and cash equivalents	**$ 1,274,634**	$ 1,039,265

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

	2014	2013
Mutual funds:		
Equity funds	**$ 22,709,610**	$ 21,761,583
Bond funds	**4,030,429**	3,259,441
Limited partnerships – real estate	**2,197,268**	2,036,386
Limited partnerships – hedge funds	**10,559,468**	6,868,120
Limited partnerships – natural resources	**3,026,112**	2,795,868
Limited partnerships – private equity/distressed	**2,290,578**	2,014,499
Limited partnerships – commodities	**1,042,690**	936,281
Charitable gift annuity funds	**246,498**	225,573
Total investments *	**$ 46,102,653**	$ 39,897,751

* The Statement of Financial Position indicated investment assets of $45,898,531. Other receivables of $204,122 represent the audit hold back positions on liquidated hedge funds. The market value reflected above presents all invested assets held with investment managers.

Income from investments consists of the following at June 30:

	2014	2013
Investment income – interest and dividends	**$ 993,165**	$ 548,675
Realized gains	**2,402,930**	820,532
Unrealized gains	**3,413,376**	3,459,655
Total	**$ 6,809,471**	$ 4,828,862

4. Related Party Transactions

During the year ended June 30, 2014, the University transferred $41,900 from the University's designated and expendable restricted funds to the Foundation ($79,515 during the year ended June 30, 2013). In addition, the Foundation made distributions to the University in the amounts of $1,152,129 for the year ended June 30, 2014 and $1,229,582 for the year ended June 30, 2013. These distributions provided support to various University scholarships, loans, and departmental accounts and to fund merit grant awards to faculty and staff.

During the fiscal year ended June, 30 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:

	2014	2013
Program services	**$ 1,152,129**	$ 1,229,582
Management and general	**178,753**	163,473
Fundraising	**209,841**	191,903
Total expenses	**$ 1,540,723**	$ 1,584,958

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, 2014 and 2013. The fair value also includes adjusting for amounts not deemed collectible of $19,136 for June 30, 2014 and $53,181 for June 30, 2013.

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

	2014	2013
Pledges receivable in less than one year	**$ 145,019**	$ 177,096
Pledges receivable in one to five years	**304,538**	426,644
Pledges receivable in more than five years	**500**	864
Present value discount	**(29,313)**	(44,720)
Total	**$ 420,744**	$ 559,884

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, 2014 and 2013 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.

7. Fair Value Measurements (continued)

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, 2014 and 2013, there were no transfers between levels of the fair value hierarchy.

Assets measured at fair value on a recurring basis at June 30, 2014 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, 2014**
Public equity mutual funds	**$ 22,709,610**	**$ -**	**$ -**	**$ 22,709,610**
Fixed income mutual funds	**1,119,686**	**2,910,743**	**-**	**4,030,429**
Limited partnerships – real estate	**-**	**1,242,531**	**954,737**	**2,197,268**
Limited partnerships – private equity/distressed	**-**	**-**	**2,290,578**	**2,290,578**
Limited partnerships – hedge funds	**-**	**-**	**10,559,468**	**10,559,468**
Limited partnerships – natural resources/commodities	**-**	**-**	**4,068,802**	**4,068,802**
Charitable gift annuity funds	**246,498**	**-**	**-**	**246,498**
Pledges receivable	**-**	**-**	**420,744**	**420,744**
Balance at June 30, 2014	**$ 24,075,794**	**$ 4,153,274**	**$ 18,294,329**	**$ 46,523,397**

7. Fair Value Measurements (continued)

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

	Level 1	**Level 2**	**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

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, 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, net	-	-	-	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 received	-	-	-	-	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**
Total realized and unrealized gains	**126,346**	**302,143**	**730,013**	**438,324**	**-**	**1,596,826**
Interest and dividends, net	**-**	**1,062**	**-**	**(4,417)**	**-**	**(3,355)**
Purchases	**-**	**-**	**6,700,000**	**-**	**-**	**6,700,000**
Capital calls	**-**	**519,369**	**-**	**183,650**	**-**	**703,019**
Maturities	**(126,142)**	**(546,495)**	**(3,738,665)**	**(280,904)**	**-**	**(4,692,206)**
Net pledges collected	**-**	**-**	**-**	**-**	**(139,140)**	**(139,140)**
Balance at June 30, 2014	**$ 954,737**	**$ 2,290,578**	**$ 10,559,468**	**$ 4,068,802**	**$ 420,744**	**$ 18,294,329**

7. Fair Value Measurements (continued)

The Foundation has adopted, on a prospective basis, 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, 2014 included the following:

	Fair Value	**Unfunded Commitments**
Limited partnerships – real estate	**$ 2,197,268**	**$ 637,999**
Limited partnerships – private equity/distressed	**2,290,578**	**3,411,495**
Limited partnerships – hedge funds	**10,559,468**	**-**
Limited partnerships – natural resources/commodities	**4,068,802**	**500,909**
Balance at June 30, 2014	**$ 19,116,116**	**$ 4,550,403**

7. Fair Value Measurements (continued)

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

Investments held at June 30, 2013 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 2,036,386	$ 158,625
Limited partnerships – private equity/distressed	2,014,499	928,844
Limited partnerships – hedge funds	6,868,120	-
Limited partnerships – natural resources/commodities	3,732,149	684,559
Balance at June 30, 2013	$14,651,154	$ 1,772,028

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. This partnership has terminated and is in the process of being closed. 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, distressed and buyout strategies and international private capital investments using a value-added approach. The Foundation utilized two existing managers to increase its allocation to private equity funds during fiscal year 2014. An additional fund of funds manager was chosen during fiscal year 2014 that will invest in emerging Asia markets. This will provide geographical diversification within the private equity portion of the portfolio. 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.

Hedge Funds

Seven limited partnerships make up the investments in hedge funds. The Foundation has liquidated two hedged equity managers during its fiscal year. Small balances remain in these two liquidated funds that reflect required audit hold back requirements and follow distribution requirements set forth in partnership documentation. The remaining investments in hedge funds are described below.

Investment manager (a) employs 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.

Manager (b) invest in a diversified portfolio of equity, currency, fixed income and commodity linked instruments designed to provide long term returns with a low correlation to public equity markets. Investment managers try to exploit short and intermediate price trends in global markets, while trying to identify trends that have become over-extended and may be due for a reversal.

7. Fair Value Measurements (continued)

Hedge Funds (continued)

Investment manager (c) focuses on shorting stocks that the manager expects will significantly under-perform the market. These stocks will be of companies undergoing the type of significant negative change that will likely cause earnings to be impacted dramatically. Examples of this could be technological obsolescence, change in the product’s value chain, regulatory changes and mergers and acquisitions activity. Other types of hedge shorts may be used when ideas for its main strategy have been exhausted or otherwise do not merit placement in the portfolio.

Investment manager (d) is a discretionary global macro fund that uses a fundamental approach to identify and exploit imbalances in global economies and asset classes. It will assess investment and trading activities across global asset classes and will allocate funds to a diversified portfolio of global interest rate and fixed income instruments, currencies, commodities, equities and their associated derivatives. They will utilize long and short positions and trade financial instruments on exchanges, over the counter markets and in private transactions.

Investment manager (e) is a hedged equity strategy that reviews five factors of a company to determine why there is a market variance either in expectations or valuations. The five factors that drive investment ideas are the quality of the business, quality of the management, the investment managers understanding of the key drivers of the business, the investment manager’s perception of the variation to the market and the valuation of the business relative to the market. The manager expects to invest primarily in public equity securities of the U.S. and non-U.S. markets. Other investments are allowed into private and other over the counter and exchange traded instruments.

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.

7. Fair Value Measurements (continued)

Natural Resources/Commodities (continued)

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 after official partnership filing 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.

Liquidity and Redemption Notice Requirements

Category level 3 investments have illiquid properties associated with nature and type of investment in private capital and hedge funds. Certain lock up periods and redemption notification requirements are mandatory to liquidate these funds. Limited secondary markets exists for certain types of investments vehicles.

7. Fair Value Measurements (continued)

Liquidity and Redemption Notice Requirements (continued)

For level 3 investments in private equity/distressed, real estate, and natural resources, the Foundation must hold these assets and receive distributions through the period of investment until the partnership terminates. Although distributions are made throughout the period of time the investment is held this is not considered a liquid market. The Foundation holds a commodity fund that allows weekly redemptions. The Foundations' investments with hedge funds also have written notification requirements to access funds. Funds requested for liquidation are made available depending on partnership agreements; currently this range is between 30 – 100 days. Hedge funds may also have provisions on liquidity to meet annual audit requirements.

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.

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

Interpretation of Relevant Law (continued)

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

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$ -	$ 13,464,931	$ 21,262,399	$ 34,727,330
Quasi-endowment	11,594,831	-	-	11,594,831
Total funds	$ 11,594,831	$ 13,464,931	$ 21,262,399	$ 46,322,161

Changes in endowment net assets for the fiscal year ended June 30, 2014 include:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	$ 10,170,282	$ 9,623,531	$ 20,422,604	$ 40,216,417
Investment return:				
Investment income	249,922	723,645	-	973,567
Net appreciation	1,456,498	4,246,091	-	5,702,589
Total investment return	1,706,420	4,969,736	-	6,676,156
Contributions	3,768	-	800,870	804,638
Appropriation of endowment assets for expenditures	(288,084)	(1,128,336)	-	(1,416,420)
Other changes:				
Transfers to create endowment funds	2,445	-	38,925	41,370
Endowment net assets, End of the year	$ 11,594,831	$ 13,464,931	$ 21,262,399	$ 46,322,161

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

Interpretation of Relevant Law (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

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, 2014 and 2013. 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.