Financial Statements

Ferris Foundation

Years Ended June 30, 2016 and 2015
with Report of Independent Auditors

CPAs & ADVISORS
ANDREWS HOOPER PAVLIK PLC

Ferris Foundation

Financial Statements

Years Ended June 30, 2016 and 2015

Contents

ANDREWS HOOPER PAVLIK PLC
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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, 2016 and 2015, 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 financial 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
August 30, 2016

Ferris Foundation

Statements of Financial Position

	June 30	
	2016	**2015**
Assets		
Cash and cash equivalents – Note 3	**$ 760,240**	$ 2,100,990
Investments – Note 3	**65,951,840**	48,015,795
Pledges receivable – Note 6	**3,772,919**	5,551,436
Total assets	**$ 70,484,999**	$ 55,668,221
Liabilities		
Accounts payable	**$ 15,314**	$ 158,388
Annuity liability – Note 2	**110,448**	110,069
Total liablilities	**125,762**	268,457
Net Assets – Note 1		
Unrestricted	**30,745,963**	12,744,978
Temporarily restricted	**14,809,565**	18,768,203
Permanently restricted	**24,803,709**	23,886,583
Total net assets	**70,359,237**	55,399,764
Total liabilities and net assets	**$ 70,484,999**	$ 55,668,221

See accompanying notes.

Ferris Foundation

Statements of Activities

	Year Ended June 30							
	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains (losses)								
Gifts and contributions	**$ 2,502,783**	**$ 2,004,770**	**$ 901,377**	**$ 5,408,930**	$ 1,841,260	$ 7,365,844	$ 2,614,768	$ 11,821,872
Change in split-interest agreement	**-**	**(17,001)**	**-**	**(17,001)**	-	(1,922)	-	(1,922)
Income from investments	**280,995**	**658,511**	**-**	**939,506**	166,276	520,131	-	686,407
Net realized/unrealized gains (losses) on investments	**92,532**	**(1,161,891)**	**-**	**(1,069,359)**	(35,635)	(101,789)	-	(137,424)
Net assets released from restrictions	**5,443,027**	**(5,443,027)**	**-**	**-**	3,318,416	(3,312,011)	(6,405)	-
Total support, revenue, and gains (losses)	**8,319,337**	**(3,958,638)**	**901,377**	**5,262,076**	5,290,317	4,470,253	2,608,363	12,368,933
Expenses – Note 5								
Meals, travel, and entertainment	**43,651**	**-**	**-**	**43,651**	35,946	-	-	35,946
Board expenses	**4,324**	**-**	**-**	**4,324**	3,763	-	-	3,763
Professional fees and other services	**463,828**	**-**	**-**	**463,828**	372,428	-	-	372,428
Supplies	**15,503**	**-**	**-**	**15,503**	20,356	-	-	20,356
Support services donated from Ferris State University – Note 4	**2,345,074**	**-**	**-**	**2,345,074**	1,715,933	-	-	1,715,933
Disbursements to Ferris State University – Note 4	**1,900,926**	**-**	**-**	**1,900,926**	1,899,255	-	-	1,899,255
Support to Ferris State University – Note 4	**3,655,392**	**-**	**-**	**3,655,392**	1,858,622	-	-	1,858,622
Total expenses	**8,428,698**	**-**	**-**	**8,428,698**	5,906,303	-	-	5,906,303
Revenue, gains (losses), and other support over (under) expenses	**(109,361)**	**(3,958,638)**	**901,377**	**(3,166,622)**	(615,986)	4,470,253	2,608,363	6,462,630
Other changes in net assets								
Net transfers from Ferris State University – Note 4	**18,110,346**	**-**	**15,749**	**18,126,095**	1,237,172	-	15,821	1,252,993
Increase (decrease) in net assets	**18,000,985**	**(3,958,638)**	**917,126**	**14,959,473**	621,186	4,470,253	2,624,184	7,715,623
Net assets – beginning of year	**12,744,978**	**18,768,203**	**23,886,583**	**55,399,764**	12,123,792	14,297,950	21,262,399	47,684,141
Net assets – end of year	**$ 30,745,963**	**$ 14,809,565**	**$ 24,803,709**	**$ 70,359,237**	$ 12,744,978	$ 18,768,203	$ 23,886,583	$ 55,399,764

See accompanying notes.

Ferris Foundation

Statements of Cash Flows

	Year Ended June 30	
	2016	**2015**
Operating activities		
Increase in net assets	**$ 14,959,473**	$ 7,715,623
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Provision for losses on accounts receivable	**337,136**	394,010
Net transfer from Ferris State University	**(18,126,095)**	(1,252,993)
Net realized and unrealized losses from security transactions	**1,069,359**	137,424
Contributions restricted for long-term investments	**(901,377)**	(2,614,768)
Decrease (increase) in assets:		
Pledges receivable	**1,441,381**	(5,524,702)
Other receivables	**-**	204,122
Increase (decrease) in liabilities:		
Accounts payable	**(143,074)**	156,323
Annuity liability	**17,001**	13,968
Net cash from operating activities	**(1,346,196)**	(770,993)
Investing activities		
Proceeds from the sale of investments	**16,865,259**	12,313,105
Purchases of investments	**(35,870,663)**	(14,567,793)
Net cash from investing activities	**(19,005,404)**	(2,254,688)
Financing activities		
Transfer from Ferris State University	**18,126,095**	1,252,993
Payment on annuity obligation	**(16,622)**	(15,724)
Investments in endowment	**901,377**	2,614,768
Net cash from financing activities	**19,010,850**	3,852,037
Net change in cash and cash equivalents	**(1,340,750)**	826,356
Cash and cash equivalents – beginning of year	**2,100,990**	1,274,634
Cash and cash equivalents – end of year	**$ 760,240**	$ 2,100,990

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. Unrestricted net assets include funds designated by Ferris State University as endowments and funds the Ferris Foundation Board considers operating funds for the Foundation. The Foundation further classified unrestricted net assets as follows at June 30:

	2016	2015
Quasi-endowment transfer and earnings	**$ 3,954,920**	$ 4,104,710
Funds functioning as quasi-endowments	**26,160,364**	8,042,818
Unrestricted endowments	**30,115,284**	12,147,528
Current funds (non endowment)	**630,679**	597,450
Total unrestricted net assets	**$30,745,963**	$12,744,978

Temporarily restricted net assets are restricted by the donor for a specific purpose or are limited by the donor due to time restrictions. Temporarily restricted net assets include interest earnings and spending on permanent endowments as well as funds held for the charitable gift annuity program, funds held for merit grant awards, funds held for pledges relating to Ferris State University gifts, and other funds considered to be temporarily restricted. Other – time restricted net assets below reflect the change in gift recognition and processing that took effect January 1, 2015 that is more fully explained in Note 4. The Foundation classified temporarily restricted net assets as follows at June 30:

	2016	2015
Scholarships	**$ 6,291,450**	$ 7,611,335
Student loans	**222,206**	254,263
Departmental use	**3,793,562**	4,623,838
Temporarily restricted endowments	**10,307,218**	12,489,436
Other – capital projects	**200**	200
Other – time restricted	**3,753,361**	5,538,663
Other – temporarily restricted	**748,786**	739,904
Other temporarily restricted funds (non endowment)	**4,502,347**	6,278,767
Total temporarily restricted net assets	**$14,809,565**	$18,768,203

1. Summary of Significant Accounting Policies (continued)

Types of Restrictions (continued)

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

	2016	2015
Scholarships	**$18,288,789**	$17,467,151
Student loans	**507,395**	507,395
Departmental use	**6,007,525**	5,912,037
Total permanently restricted endowment net assets	**$24,803,709**	$23,886,583

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, 2016, the Foundation's remaining capital commitment on investments in limited partnerships was $6,385,376 ($5,215,589 at June 30, 2015).

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 $0 in uninsured deposits as of June 30, 2016 and $27,148 as of June 30, 2015.

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.

1. Summary of Significant Accounting Policies (continued)

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.

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, 2016, 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, 2013.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including August 30, 2016, 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 payment stream in exchange for assets conveyed to the Foundation under an annuity contract. The market value of the assets at June 30, 2016 was $242,822 ($260,027 at June 30, 2015.) The liability under the annuity contracts was $110,448 at June 30, 2016 ($110,069 at June 30, 2015.) The liability is recorded at its present value based on the donors' life expectancy.

2. Liability for Charitable Gift Annuity Program (continued)

During the year ended June 30, 2016, payments in the amount of $16,622 were made to the donors and have been recorded as a reduction in the annuity liability ($15,724 during the year ended June 30, 2015). The discount rates used to compute the annuity liability ranged from 4.9 percent to 9.4 percent for 2016 and 2015. Under the terms of the contracts, 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:

	2016	**2015**
Bank balance	**$157,603**	$ 293,437
Money market funds	**602,637**	1,807,553
Total cash and cash equivalents	**$760,240**	$2,100,990

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

	2016	**2015**
Mutual funds:		
Equity funds	**$24,933,058**	$21,235,422
Bond funds	**7,503,076**	5,314,600
Limited partnerships – real estate	**2,611,450**	2,259,833
Limited partnerships – hedge funds	**18,263,652**	11,953,207
Limited partnerships – natural resources	**6,823,370**	2,993,001
Limited partnerships – private equity/distressed	**4,520,012**	2,894,584
Limited partnerships – commodities	**1,054,400**	1,105,121
Charitable gift annuity funds	**242,822**	260,027
Total investments	**$65,951,840**	$48,015,795

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

	2016	**2015**
Investment income – interest and dividends	**$ 939,506**	$ 686,407
Realized gains	**1,149,998**	3,272,181
Unrealized losses	**(2,219,357)**	(3,409,605)
Total	**$ (129,853)**	$ 548,983

4. Related Party Transactions

During the year ended June 30, 2016, the University transferred $18,126,095 to the Foundation. This included $17,671,237, which was a refund to the University from the State of Michigan's retirement system. These funds have been designated to provide for a matching gift campaign for endowed scholarships. An additional $454,858 was transferred from designated and expendable restricted fund groups ($1,252,993 during the year ended June 30, 2015). In addition, the Foundation made distributions from the endowment funds and the merit grant program to the University in the amounts of $1,900,926 for the year ended June 30, 2016 and $1,899,255 for the year ended June 30, 2015. These distributions provided support to various University scholarships, loans, and departmental accounts and to fund merit grant awards to faculty and staff.

On January 1, 2015, all gift recognition and processing for Ferris State University moved to the Foundation. Gifts to Ferris State University, Kendall College of Art and Design, the Urban Institute for Contemporary Arts, and the Ferris Foundation are now processed by the Foundation and transferred to the appropriate designation as support to these organizations. This new approach enhances stewardship and communication with donors, creating a more unified approach to philanthropy and further strengthens the Foundation's mission as the fundraising arm of the University. Gift revenue relating to this change is reflected in the temporarily restricted fund of the Statements of Activities. Support designated to Ferris State University for the year ended June 30, 2016 was $3,655,392 and for the year ended June 30, 2015 was $1,858,622.

It is the University's policy to pay substantially all of the Foundation's expenses relating to the soliciting and collecting of donations. FASB accounting standards update (ASU), 2013-06, *Services Received from Personnel of an Affiliate*, requires that affiliated organizations providing support services to the Foundation recognize the related personnel costs of those services on the financial statements on a prospective basis beginning July 1, 2014. As a result, Ferris State University staff completed a calculation that indicates its overall support to the Ferris Foundation. This figure measured for the year ended June 30, 2016 is $2,345,074 and for the year ended June 30, 2015 is $1,715,933. This amount is reported in the Statements of Activities as gifts and contributions revenue and under expenses as support services donated from Ferris State University in the unrestricted fund and has no effect on net assets.

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 (see Note 4 for further

5. Functional Expenses (continued)

information); 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. Support services are identified as those services donated by Ferris State University and considered to be expensed in the year the service is provided (see Note 4 for further information). 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:

	2016	**2015**
Program services	**$5,556,318**	$3,757,877
Management and general	**237,288**	194,622
Fundraising	**290,018**	237,871
Support services	**2,345,074**	1,715,933
Total expenses	**$8,428,698**	$5,906,303

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, 2016 and 2015. For financial reporting purposes, any University outstanding pledges at January 1, 2015 were transferred to the Foundation under the new gift recognition and processing approach. These include pledges made for the Michigan College of Optometry, College of Pharmacy, Urban Institute for Contemporary Arts, Kendall College of Art & Design, and other pledges of support made to Ferris State University. The fair value of pledges also includes adjusting for amounts not deemed collectible totaling $337,136 for June 30, 2016 and $394,010 for June 30, 2015.

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

	2016	**2015**
Pledges receivable in less than one year	**$2,239,252**	$2,451,335
Pledges receivable in one to five years	**1,659,530**	3,386,666
Pledges receivable in more than five years	**76,253**	53,382
Present value discount	**(202,116)**	(339,947)
Total	**$3,772,919**	$5,551,436

7. Fair Value Measurements

The following present information about the Foundation's assets measured at fair value on a recurring basis and the valuation techniques used 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, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

Assets measured at fair value on a recurring basis at June 30, 2016 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, 2016
Public equity mutual funds	**$24,933,058**	**$ –**	**$ –**	**$24,933,058**
Fixed income mutual funds	**2,556,517**	**4,946,559**	**–**	**7,503,076**
Charitable gift annuity funds	**242,822**	**–**	**–**	**242,822**
Pledges receivable	**–**	**–**	**3,772,919**	**3,772,919**
Total	**$27,732,397**	**$4,946,559**	**$3,772,919**	**36,451,875**
Limited partnerships that calculate net asset value per share				**33,272,884**
Balance at June 30, 2016				**$69,724,759**

7. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis at June 30, 2015 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, 2015
Public equity mutual funds	$21,235,422	$ –	$ –	$21,235,422
Fixed income mutual funds	1,578,514	3,736,086	–	5,314,600
Charitable gift annuity funds	260,027	–	–	260,027
Pledges receivable	–	–	5,551,436	5,551,436
Total	$23,073,963	$3,736,086	$5,551,436	32,361,485
Limited partnerships that calculate net asset value per share				21,205,746
Balance at June 30, 2015				$53,567,231

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.

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.

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

Pledges receivable at July 1, 2014	$ 420,744
Net pledges received	5,130,692
Pledges receivable at June 30, 2015	5,551,436
Net pledges collected	**(1,778,517)**
Pledges receivable at June 30, 2016	**$ 3,772,919**

8. 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, 2016 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	**$ 2,611,450**	**$ 93,344**
Limited partnerships – private equity/distressed	**4,520,012**	**5,976,073**
Limited partnerships – hedge funds	**18,263,652**	**–**
Limited partnerships – natural resources/commodities	**7,877,770**	**315,959**
Balance at June 30, 2016	**$33,272,884**	**$6,385,376**

Investments held at June 30, 2015 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 2,259,833	$ 253,750
Limited partnerships – private equity/distressed	2,894,584	4,579,680
Limited partnerships – hedge funds	11,953,207	–
Limited partnerships – natural resources/commodities	4,098,122	382,159
Balance at June 30, 2015	$21,205,746	$5,215,589

Real Estate

Four 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.

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

Real Estate (continued)

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. The partnership continues to liquidate holdings beyond its initial termination date of December 31, 2013.

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. The partnership continues to liquidate holdings beyond its initial termination date of December 31, 2014.

Investment manager (d) will take advantage of opportunities in real estate such as development opportunities, property management, deal structuring, markets that are out of favor, and acquiring assets at discounts to their intrinsic value. The term of the partnership is 10 years from the last closing date offered to partners, expected to be in 2025 or as soon as reasonable thereafter. This direct manager will provide diversification through various real estate opportunities, various geographies, and through the use of both equity and debt instruments in the placement and purchase of investments.

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 utilizes three managers to invest in seven private equity funds and one additional manager and fund that invests in emerging Asia markets. This provides 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. Both distressed investment funds are considered a fund of funds with emphasis on investing in private companies undergoing financial distress.

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

Hedge Funds

Six limited partnerships make up the investments in hedge funds.

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) identifies investment opportunities where valuation discrepancy exists between the fundamental value and the market value of a security. The fund primarily purchases and sells publicly traded securities, both long and short, as well as a broad array of other securities in both private and public markets.

Investment manager (c) seeks to generate positive long-term returns with little or no correlation to equity markets and other traditional investments. The manager invests in a diversified portfolio of equity, currency, fixed-income, and commodity-linked instruments, both long and short. The manager tries to exploit short and intermediate price trends in global markets, while mitigating risk by identifying trends that have become over-extended and may be due for a reversal.

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.

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

Hedge Funds (continued)

Investment manager (f) uses a disciplined proprietary investment process using fundamental, opportunistic, risk-managed and thematic analysis that crosses companies, industries, and geographies. The manager uses long and short positions in equities, fixed income securities and/or derivatives. The investment manager may invest in currencies, commodities, futures, forward contracts, investments in special purpose vehicles, co-investment vehicles, managed accounts, and underlying funds managed by third parties. The managers style is consider flexible and opportunistic.

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 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.

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

Natural Resources/Commodities (continued)

Investment manager (d) invests in income-generating publicly traded Master Limited Partnerships (MLPs), either directly or via equity swaps, with a focus on energy sector MLPs and other C-Corporation energy infrastructure companies. Securities held may include common, preferred and subordinated units of partnership interest and general partner interests in MLPs. The fund may invest in other private placements and other non-public offerings of securities of MLPs.

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 Foundation 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

Investments in entities that calculate net asset value per share 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 exist for certain types of investment vehicles.

For private equity, real estate, and natural resource investments that calculate net asset value per share, 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 Foundation’s investments with hedge funds also have written notification requirements to access to 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 other provisions on liquidity to meet annual audit requirements.

9. 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.

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

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	**$ –**	**$10,307,218**	**$24,803,709**	**$35,110,927**
Quasi-endowment	**30,115,284**	**–**	**–**	**30,115,284**
Total funds	**$30,115,284**	**$10,307,218**	**$24,803,709**	**$65,226,211**

Changes in endowment net assets for the fiscal year ended June 30, 2016 include:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – beginning of year	**$12,147,528**	**$12,489,436**	**$23,886,583**	**$48,523,547**
Investment return:				
Investment income	**274,905**	**638,651**	**–**	**913,556**
Net realized/unrealized gain (loss)	**70,666**	**(1,115,704)**	**–**	**(1,045,038)**
Total investment return	**345,571**	**(477,053)**	**–**	**(131,482)**
Contributions	**7,200**	**–**	**901,377**	**908,577**
Appropriation of endowment assets for expenditures	**(445,351)**	**(1,705,165)**	**–**	**(2,150,516)**
Other changes:				
Transfers to create endowment funds	**18,060,336**	**–**	**15,749**	**18,076,085**
Endowment net assets – end of the year	**$30,115,284**	**$10,307,218**	**$24,803,709**	**$65,226,211**

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

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$ –	$12,489,436	$23,886,583	$36,376,019
Quasi-endowment	12,147,528	–	–	12,147,528
Total funds	$12,147,528	$12,489,436	$23,886,583	$48,523,547

Changes in endowment net assets for the fiscal year ended June 30, 2015 include:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – beginning of year	$11,594,831	$13,464,931	$21,262,399	$46,322,161
Investment return:				
Investment income	164,385	498,749	–	663,134
Net realized/unrealized loss	(36,107)	(92,761)	–	(128,868)
Total investment return	128,278	405,988	–	534,266
Contributions	3,600	–	2,614,768	2,618,368
Appropriation of endowment assets for expenditures	(816,353)	(1,381,483)	(6,405)	(2,204,241)
Other changes:				
Transfers to create endowment funds	1,237,172	–	15,821	1,252,993
Endowment net assets – end of the year	$12,147,528	$12,489,436	$23,886,583	$48,523,547

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

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

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 material deficiencies reported in unrestricted net assets as of June 30, 2016 and 2015. Deficiencies can result from unfavorable market fluctuations that occur.

9. 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, as calculated at December 31 of each calendar year. 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.