

Financial Statements

**Ferris Foundation**

*Years Ended June 30, 2018 and 2017  
with Report of Independent Auditors*

Ferris Foundation

Financial Statements

Years Ended June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 Paulik PLC*

Grand Rapids, Michigan  
August 28, 2018

Ferris Foundation

Statements of Financial Position

	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents – Note 3	\$ 1,285,158	\$ 3,153,501
Investments – Note 3	77,431,951	71,307,226
Accounts receivable	33,021	-
Pledges receivable – Note 6	3,439,123	3,732,690
Total assets	<u>\$ 82,189,253</u>	<u>\$ 78,193,417</u>
<b>Liabilities</b>		
Accounts payable	\$ 64,603	\$ 299,225
Annuity liability – Note 2	113,328	130,064
Total liabilities	<u>177,931</u>	<u>429,289</u>
<b>Net Assets – Note 1</b>		
Unrestricted	30,068,384	31,382,788
Temporarily restricted	16,080,149	15,710,833
Permanently restricted	35,862,789	30,670,507
Total net assets	<u>82,011,322</u>	<u>77,764,128</u>
Total liabilities and net assets	<u>\$ 82,189,253</u>	<u>\$ 78,193,417</u>

*See accompanying notes.*

## Ferris Foundation

### Statements of Activities

	Year Ended June 30							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains (losses)								
Gifts and contributions	\$ 2,458,443	\$ 2,491,970	\$ 2,926,928	\$ 7,877,341	\$ 2,357,481	\$ 3,292,265	\$ 4,027,977	\$ 9,677,723
Change in split-interest agreement	-	(3,099)	-	(3,099)	-	(25,239)	-	(25,239)
Income from investments	818,660	1,227,497	-	2,046,157	483,232	641,337	-	1,124,569
Net realized/unrealized gains on investments	1,276,831	1,807,529	-	3,084,360	2,340,564	3,029,865	-	5,370,429
Net assets released from restrictions	5,154,581	(5,154,581)	-	-	6,067,898	(6,067,898)	-	-
<b>Total support, revenue, and gains (losses)</b>	<b>9,708,515</b>	<b>369,316</b>	<b>2,926,928</b>	<b>13,004,759</b>	<b>11,249,175</b>	<b>870,330</b>	<b>4,027,977</b>	<b>16,147,482</b>
Expenses – Note 5								
Meals, travel, and entertainment	31,556	-	-	31,556	33,824	-	-	33,824
Board expenses	3,000	-	-	3,000	4,913	-	-	4,913
Professional fees and other services	587,655	-	-	587,655	557,648	-	-	557,648
Supplies	5,246	-	-	5,246	9,893	-	-	9,893
Support services donated from Ferris State University – Note 4	2,305,588	-	-	2,305,588	2,247,326	-	-	2,247,326
Disbursements to Ferris State University – Note 4	2,761,744	-	-	2,761,744	1,778,819	-	-	1,778,819
Support to Ferris State University – Note 4	3,183,457	-	-	3,183,457	4,426,562	-	-	4,426,562
<b>Total expenses</b>	<b>8,878,246</b>	<b>-</b>	<b>-</b>	<b>8,878,246</b>	<b>9,058,985</b>	<b>-</b>	<b>-</b>	<b>9,058,985</b>
Revenue, gains, and other support over expenses	830,269	369,316	2,926,928	4,126,513	2,190,190	870,330	4,027,977	7,088,497
Other changes in net assets								
Net transfers for Ferris Futures Endowment – Note 4	(2,195,078)	-	2,195,078	-	(1,556,690)	30,938	1,525,752	-
Net transfers from Ferris State University – Note 4	50,405	-	70,276	120,681	3,325	-	313,069	316,394
<b>Increase (decrease) in net assets</b>	<b>(1,314,404)</b>	<b>369,316</b>	<b>5,192,282</b>	<b>4,247,194</b>	<b>636,825</b>	<b>901,268</b>	<b>5,866,798</b>	<b>7,404,891</b>
Net assets – beginning of year	31,382,788	15,710,833	30,670,507	77,764,128	30,745,963	14,809,565	24,803,709	70,359,237
<b>Net assets – end of year</b>	<b>\$30,068,384</b>	<b>\$ 16,080,149</b>	<b>\$ 35,862,789</b>	<b>\$ 82,011,322</b>	<b>\$31,382,788</b>	<b>\$ 15,710,833</b>	<b>\$ 30,670,507</b>	<b>\$ 77,764,128</b>

See accompanying notes.

## Ferris Foundation

### Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Increase in net assets	\$ 4,247,194	\$ 7,404,891
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Provision for losses on pledges receivable	18,254	75,012
Net transfer from Ferris State University	(120,681)	(316,394)
Net realized and unrealized gains from security transactions	(3,084,360)	(5,370,429)
Contributions restricted for long-term investments	(2,926,928)	(4,027,977)
Decrease (increase) in assets:		
Pledges receivable	275,313	(34,783)
Accounts receivable	(33,021)	-
Increase (decrease) in liabilities:		
Accounts payable	(234,622)	283,911
Annuity liability	21,513	36,975
Net cash from operating activities	(1,837,338)	(1,948,794)
<b>Investing activities</b>		
Proceeds from the sale of investments	44,728,030	7,555,082
Purchases of investments	(47,768,395)	(7,540,039)
Net cash from investing activities	(3,040,365)	15,043
<b>Financing activities</b>		
Net transfer from Ferris State University	120,681	316,394
Payment on annuity obligation	(38,249)	(17,359)
Investments in endowment	2,926,928	4,027,977
Net cash from financing activities	3,009,360	4,327,012
Net change in cash and cash equivalents	(1,868,343)	2,393,261
Cash and cash equivalents – beginning of year	3,153,501	760,240
Cash and cash equivalents – end of year	\$ 1,285,158	\$ 3,153,501

*See accompanying notes.*

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### **1. Summary of Significant Accounting Policies**

#### **Nature of Operations**

The Ferris Foundation (Foundation) is a Michigan not-for-profit 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 high 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.



# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### 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 as of June 30:

	<u>2018</u>	<u>2017</u>
Quasi-endowment transfer and earnings	\$ 7,147,446	\$ 6,236,304
Funds functioning as quasi-endowments	22,397,611	24,603,063
Unrestricted endowments	<u>29,545,057</u>	<u>30,839,367</u>
Current funds (non endowment)	523,327	543,421
Total unrestricted net assets	<u>\$ 30,068,384</u>	<u>\$ 31,382,788</u>

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. The Foundation classified temporarily restricted net assets as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 8,776,398	\$ 7,817,423
Student loans	284,774	268,387
Departmental use	<u>4,280,319</u>	<u>4,229,198</u>
Temporarily restricted endowments	13,341,491	12,315,008
Other – capital projects	200	200
Other – time restricted	1,805,362	2,544,982
Other – temporarily restricted	<u>933,096</u>	<u>850,643</u>
Other temporarily restricted funds (non-endowment)	2,738,658	3,395,825
Total temporarily restricted net assets	<u>\$ 16,080,149</u>	<u>\$ 15,710,833</u>

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### 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 as of June 30:

	<u>2018</u>	<u>2017</u>
Scholarships	\$29,177,239	\$24,093,914
Student loans	507,395	507,395
Departmental use	6,178,155	6,069,198
Total permanently restricted endowment net assets	<u>\$35,862,789</u>	<u>\$30,670,507</u>

#### 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. As of June 30, 2018, the Foundation's remaining capital commitment on investments in limited partnerships was \$8,310,227 (\$7,367,989 as of June 30, 2017).

#### Concentration of Credit Risk Arising From Deposit Accounts

The Foundation maintains cash balances at a local bank. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation had \$0 in uninsured deposits as of June 30, 2018 and \$170,360 as of June 30, 2017.

#### 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.

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### **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, 2018, 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, 2015.

#### **Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including August 28, 2018, 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 as of June 30, 2018 was \$259,801 (\$280,445 as of June 30, 2017). The liability under the annuity contracts was \$113,328 as of June 30, 2018 (\$130,064 as of June 30, 2017). The liability is recorded at its present value based on the donors' life expectancy.

Ferris Foundation

Notes to Financial Statements

June 30, 2018

**2. Liability for Charitable Gift Annuity Program (continued)**

During the year ended June 30, 2018, payments in the amount of \$38,249 were made to the donors and have been recorded as a reduction in the annuity liability (\$17,359 during the year ended June 30, 2017). The discount rates used to compute the annuity liability ranged from 4.3 percent to 9.4 percent for 2018 and 2017. 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 as of June 30:

	<u>2018</u>	<u>2017</u>
Bank balance	\$ 224,229	\$ 440,122
Money market funds	1,060,929	2,713,379
Total cash and cash equivalents	<u>\$ 1,285,158</u>	<u>\$ 3,153,501</u>

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

	<u>2018</u>	<u>2017</u>
Mutual funds:		
Equity funds	\$39,061,152	\$29,686,257
Bond funds	10,403,966	7,895,791
Limited partnerships – real estate	2,745,025	2,609,339
Limited partnerships – hedge funds	10,911,497	18,431,868
Limited partnerships – natural resources/commodities	6,799,401	7,258,656
Limited partnerships – private equity/distressed	7,251,109	5,144,870
Charitable gift annuity funds	259,801	280,445
Total investments	<u>\$77,431,951</u>	<u>\$71,307,226</u>

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

	<u>2018</u>	<u>2017</u>
Investment income – interest and dividends	\$ 2,046,157	\$ 1,124,569
Realized gains	7,730,665	122,926
Unrealized gains (losses)	(4,646,305)	5,247,503
Total	<u>\$ 5,130,517</u>	<u>\$ 6,494,998</u>

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### **4. Related Party Transactions**

During the year ended June 30, 2018, the Foundation matched \$2,195,078 in Ferris Futures Endowment funds and \$1,556,690 during the year ended June 30, 2017. The University transferred \$120,681 for the year ended June 30, 2018 and \$316,394 for the year ended June 30, 2017 to the Foundation from designated and expendable restricted fund groups. In addition, the Foundation made distributions from the endowment funds and the merit grant program to the University in the amounts of \$2,761,744 for the year ended June 30, 2018 and \$1,778,819 for the year ended June 30, 2017. These distributions provided support to various University scholarships, loans, and departmental accounts and to fund merit grant awards to faculty and staff.

Gifts to Ferris State University, Kendall College of Art and Design, the Urban Institute for Contemporary Arts, and the Ferris Foundation are processed by the Foundation and transferred to the appropriate designation as support to these organizations. This 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 is reflected in the temporarily restricted fund of the statements of activities. Support designated to Ferris State University for the year ended June 30, 2018 was \$3,183,457 and for the year ended June 30, 2017 was \$4,426,562.

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 require that affiliated organizations providing support services to the Foundation recognize the related personnel costs of those services on the financial statements. 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, 2018 is \$2,305,588 and for the year ended June 30, 2017 is \$2,247,326. 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.

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### 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 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 as of June 30:

	<u>2018</u>	<u>2017</u>
Program services	<b>\$5,945,201</b>	\$6,205,381
Management and general	<b>249,380</b>	272,825
Fundraising	<b>378,077</b>	333,453
Support services	<b>2,305,588</b>	2,247,326
Total expenses	<b><u>\$8,878,246</u></b>	<u>\$9,058,985</u>

### 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 as of June 30, 2018 and 2017. The fair value of pledges also includes adjusting for amounts not deemed collectible totaling \$18,254 for June 30, 2018 and \$75,012 for June 30, 2017.

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

	<u>2018</u>	<u>2017</u>
Pledges receivable in less than one year	<b>\$1,494,796</b>	\$1,964,068
Pledges receivable in one to five years	<b>2,134,450</b>	1,936,998
Pledges receivable in more than five years	<b>30,227</b>	42,904
Present value discount	<b>(220,350)</b>	(211,280)
Total	<b><u>\$3,439,123</u></b>	<u>\$3,732,690</u>

Approximately 35% of the Foundation's pledges receivable was from two donors as of June 30, 2018.

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### 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, 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

Assets measured at fair value on a recurring basis as of June 30, 2018 included the following:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance at June 30, 2018</b>
Public equity mutual funds	\$39,061,152	\$ —	\$ —	\$39,061,152
Fixed-income mutual funds	8,016,092	2,387,874	—	10,403,966
Charitable gift annuity funds	259,801	—	—	259,801
Pledges receivable	—	—	3,439,123	3,439,123
Total	<u>\$47,337,045</u>	<u>\$2,387,874</u>	<u>\$3,439,123</u>	<u>53,164,042</u>
Limited partnerships that calculate net asset value per share				<u>27,707,032</u>
Balance as of June 30, 2018				<u><u>\$80,871,074</u></u>

Ferris Foundation

Notes to Financial Statements

June 30, 2018

**7. Fair Value Measurements (continued)**

Assets measured at fair value on a recurring basis as of June 30, 2017 included the following:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance at June 30, 2017</b>
Public equity mutual funds	\$29,686,257	\$ —	\$ —	\$29,686,257
Fixed-income mutual funds	2,859,640	5,036,151	—	7,895,791
Charitable gift annuity funds	280,445	—	—	280,445
Pledges receivable	—	—	3,732,690	3,732,690
<b>Total</b>	<b>\$32,826,342</b>	<b>\$5,036,151</b>	<b>\$3,732,690</b>	<b>41,595,183</b>
Limited partnerships that calculate net asset value per share				<u>33,444,733</u>
Balance as of June 30, 2017				<u><u>\$75,039,916</u></u>

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 as of July 1, 2016	\$3,772,919
Net pledges collected	<u>(40,229)</u>
Pledges receivable as of June 30, 2017	3,732,690
Net pledges collected	<u>(293,567)</u>
Pledges receivable as of June 30, 2018	<u><u>\$3,439,123</u></u>



Ferris Foundation

Notes to Financial Statements

June 30, 2018

**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 as of June 30, 2018 included the following:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>
Limited partnerships – real estate	\$ 2,745,025	\$1,158,757
Limited partnerships – private equity/distressed	7,251,109	5,955,511
Limited partnerships – hedge funds	10,911,497	–
Limited partnerships – natural resources/commodities	6,799,401	1,195,959
Balance as of June 30, 2018	<u>\$27,707,032</u>	<u>\$8,310,227</u>

Investments held as of June 30, 2017 included the following:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>
Limited partnerships – real estate	\$ 2,609,339	\$ –
Limited partnerships – private equity/distressed	5,144,870	5,968,530
Limited partnerships – hedge funds	18,431,868	–
Limited partnerships – natural resources/commodities	7,258,656	1,399,459
Balance as of June 30, 2017	<u>\$33,444,733</u>	<u>\$7,367,989</u>

**Real Estate**

Five 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.

## Ferris Foundation

### Notes to Financial Statements

June 30, 2018

#### **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) invests 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) invests in 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.

Investment manager (e) is focused on absolute return with three key strengths to their investment approach: experience management team and alignment of interests, flexibility to invest across geographies and product types, and focus on risk-adjusted returns. The fund invests domestically primarily in multifamily, retail, industrial, and office. The fund closed in January 2018 and has a 10 year term with option to extend.

##### **Private Equity/Distressed**

Combined for financial statement presentation purposes, the private equity manager(s) are fund of funds managers and direct placement fund 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 private capital program is designed to also invest in opportunistic funds. The Foundation utilizes eight managers to invest in fourteen private equity funds. Investment commitments are spread across multiple years to create vintage year diversification in addition to program diversification. Both distressed investment funds are considered a fund of funds with emphasis on investing in private companies undergoing financial distress.

## Ferris Foundation

### Notes to Financial Statements

June 30, 2018

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

##### **Hedge Funds**

Two limited partnerships make up the investments in hedge funds.

Investment manager (a) is focused on generating attractive, low volatility returns in a consistent repeatable manner with limited dependence on broader debt and equity markets. The fund focuses on four primary hedge fund sectors: relative value, equity market neutral and low net equity, event driven, and distressed and credit securities. The fund does not typically invest in more volatile strategies such as directional long/short equity, global macro, commodity trading advisors, or managed futures.

Investment manager (b) employs an opportunistic strategy designed to generate long-term capital appreciation by investing in securities that have strong risk-reward characteristics. The Fund primarily focuses on equities, but may opportunistically invest globally across the capital structure. The fund tends to focus on value driven investments mispriced relative to intrinsic value or special situations characterized by a substantial degree of complexity such as spin-offs, liquidations, litigation, bankruptcies, corporate restructurings, takeover bids, rights offerings, exchange offers, tender offers, special dividends, and other similar transactions.

##### **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. The 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. The partnership will terminate 12 years after official partnership filing, or approximately December 31, 2021, and liquidation is limited.

## Ferris Foundation

### Notes to Financial Statements

June 30, 2018

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

##### **Natural Resources/Commodities (continued)**

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. The 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 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 partnership 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 primary or secondary acquisitions of non-marketable limited partnerships that invest in the energy, mining, and/or minerals industries, or through co-investments alongside the managers of the partnerships or alongside other persons or entities. The general purpose of this partnership is to hold its interests and manage its interests to realize significant long-term capital appreciation in a variety of security types either purchased through public or private markets, or in connection with a loan.

##### **Liquidity and Redemption Notice Requirements**

Investments in entities that calculate net asset value per share have illiquid properties associated with the 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's investments with hedge funds also have written notification requirements to access the 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.

Ferris Foundation

Notes to Financial Statements

June 30, 2018

**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.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment	\$ –	\$13,341,491	\$35,862,789	\$49,204,280
Quasi-endowment	29,545,057	–	–	29,545,057
Total funds	<u>\$29,545,057</u>	<u>\$13,341,491</u>	<u>\$35,862,789</u>	<u>\$78,749,337</u>

Changes in endowment net assets for the fiscal year ended June 30, 2018 include:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets – beginning of year	\$30,839,367	\$12,315,008	\$30,670,507	\$73,824,882
Investment return:				
Investment income	809,424	1,179,010	–	1,988,434
Net realized/unrealized gain	1,308,561	1,759,314	–	3,067,875
Total investment return	2,117,985	2,938,324	–	5,056,309
Contributions	8,308	–	2,926,928	2,935,236
Appropriation of endowment assets for expenditures	(1,275,930)	(1,911,841)	–	(3,187,771)
Matching gifts for Ferris Futures Endowment	(2,195,078)	–	2,195,078	–
Transfers to create endowment funds	50,405	–	70,276	120,681
Endowment net assets – end of the year	<u>\$29,545,057</u>	<u>\$13,341,491</u>	<u>\$35,862,789</u>	<u>\$78,749,337</u>

Ferris Foundation

Notes to Financial Statements

June 30, 2018

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

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment	\$ –	\$12,315,008	\$30,670,507	\$42,985,515
Quasi-endowment	30,839,367	–	–	30,839,367
Total funds	<u>\$30,839,367</u>	<u>\$12,315,008</u>	<u>\$30,670,507</u>	<u>\$73,824,882</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017 include:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets – beginning of year	\$30,115,284	\$10,307,218	\$24,803,709	\$65,226,211
Investment return:				
Investment income	477,432	602,079	–	1,079,511
Net realized/unrealized gain	2,348,394	2,972,110	–	5,320,504
Total investment return	2,825,826	3,574,189	–	6,400,015
Contributions	3,865	–	4,027,977	4,031,842
Appropriation of endowment assets for expenditures	(552,243)	(1,566,399)	–	(2,118,642)
Matching gifts for Ferris Futures Endowment	(1,556,690)	–	1,525,752	(30,938)
Transfers to create endowment funds	3,325	–	313,069	316,394
Endowment net assets – end of the year	<u>\$30,839,367</u>	<u>\$12,315,008</u>	<u>\$30,670,507</u>	<u>\$73,824,882</u>

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### **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, 2018 and 2017. Deficiencies can result from unfavorable market fluctuations that occur.

# Ferris Foundation

## Notes to Financial Statements

June 30, 2018

### **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.

### **10. Subsequent Event**

The Foundation received partial proceeds of \$5,052,656 from a trust on August 17, 2018. Receipt of the remaining proceeds from the trust estimated at \$1,100,000 is expected in late 2018 or early 2019.