



**Combined Financial Statements and Report of  
Independent Certified Public Accountants**

**University of Northern Iowa Foundation  
University of Northern Iowa Properties Corporation  
University of Northern Iowa Research Foundation**

**June 30, 2016 and 2015**

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**University of Northern Iowa Foundation  
Cedar Falls, Iowa**

**Officers and Trustees  
Year ended June 30, 2016**

**Officers:**

Mark Oman '76

Lisa Baronio \*

Frank Esser '73 '87 \*

Noreen Hermansen '71 \*

Michael Hager \*

Gina Trimble '98 \*

Jean Carlisle '78 '81 \*

Chair of the Board

President of the Board

Vice President and Treasurer of the Board

Vice President and Secretary of the Board

**Trustees:**

Ben Allen

UNI President Emeritus, Honorary Trustee

Ruth Ann Meyer '58

Jim Mudd, Sr.

Robert Beach '51, Honorary Trustee

Jan Bittner

Pat Cobb

Richard Redfern '74

Constantine Curris

UNI President Emeritus, Honorary Trustee

Eugene Dietz '60

Rex Eno \*\*

Senator Charles Grassley '55, Honorary Trustee

Guang Jin '92

Robert Koob '62

UNI President Emeritus, Honorary Trustee

Kevin Harberts

Tim Williams '71

Rose Lorenz

David Mason

Steve Anderson '88

Dennis Mullen '66

David Oman '74

Joy Corning '54

Reid Richards '71

Bev Riess '78

Bill Ruud\*

Richard Savage '63

Steve Segebarth '67

Jorgen Heidemann '68

Gary Shontz \*\*

Duane Smith '80

Sandy Stevens '62

Dave Takes '81

Bobbie Williams '86

\* Ex officio members

\*\* Resigned from the board during the year

**University of Northern Iowa Properties Corporation  
Cedar Falls, Iowa**

**Officers and Trustees  
Year ended June 30, 2016**

**Officers:**

Ruth Ann Meyer '58	Chair of the Board
Lisa Baronio	President/CEO of the Board
Jim Jermier '95 **	Vice President of the Board
Gina Trimble '98 *	Vice President and Treasurer of the Board
Jean Carlisle '78 '81 *	Vice President and Secretary of the Board

**Trustees:**

Doug Jensen \*\*  
Bill Ruud \*  
Steve Segebarth

**University of Northern Iowa Research Foundation  
Cedar Falls, Iowa**

**Officers and Trustees  
Year ended June 30, 2016**

**Officers:**

Jorgen Heidemann '69	Co-Chair of the Board
Randy Pilkington '80 '98	Co-Chair of the Board
Lisa Baronio	President/CEO of the Board
Gina Trimble '98 *	Vice President and Treasurer of the Board
Jean Carlisle '78 '81 *	Vice President and Secretary of the Board
Hillery Oberle	Vice President of the Board

**Trustees:**

Bill Ruud *	Richard Savage '63
Pat Cobb	Craig Schmeiser
Katherine Cota-Uyar '95 '12 *	Guang Jin '92
Kevin Harberts	Duane Smith '80
Tolif Hunt *	David Takes '81
Mark Kittrell '86	Dave Vonderhaar '93
Rose Lorenz	

\*Ex officio members

\*\* Resigned from the board during the year



Grant Thornton LLP  
200 South Sixth Street, Suite 1400  
Minneapolis, MN 55402-1434

T 612.332.0001  
F 612.332.8361  
[www.GrantThornton.com](http://www.GrantThornton.com)

## **Report of Independent Certified Public Accountants**

**The Board of Trustees**

**University of Northern Iowa Foundation**

**University of Northern Iowa Properties Corporation and**

**University of Northern Iowa Research Foundation**

### **Report on the financial statements**

We have audited the accompanying combined financial statements of University of Northern Iowa Foundation, University of Northern Iowa Properties Corporation and University of Northern Iowa Research Foundation, (a nonprofit organization) (the "Organization"), which comprise the combined statement of financial position as of June 30, 2016, and the related combined statement of activities and cash flows for the year 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 combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of University of Northern Iowa Foundation, University of Northern Iowa Properties Corporation and University of Northern Iowa Research Foundation as of June 30, 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The combined financial statements of University of Northern Iowa Foundation, University of Northern Iowa Properties Corporation and University of Northern Iowa Research Foundation as of June 30, 2015 and for the period then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those combined financial statements in their report dated October 15, 2015.

*Grant Thornton LLP*

Minneapolis, Minnesota  
November 14, 2016

**COMBINED FINANCIAL STATEMENTS**

**University of Northern Iowa Foundation**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

**June 30,**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,280,914	\$ 930,207
Investments	128,435,722	128,523,268
Pledges receivable, net	8,056,851	6,825,462
Life insurance, cash value	1,426,005	1,385,701
Building, equipment and leasehold improvements, net	672,100	794,416
Beneficial interest in trust	1,349,848	-
Other	<u>281,570</u>	<u>538,682</u>
Total assets	<u>\$ 141,503,010</u>	<u>\$ 138,997,736</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable, accrued expenses and other liabilities	\$ 705,949	\$ 692,779
Annuities payable	1,577,131	1,758,917
Annuity trusts payable	700,256	756,460
Unitrusts payable	<u>400,132</u>	<u>412,259</u>
Total liabilities	<u>3,383,468</u>	<u>3,620,415</u>
<b>NET ASSETS</b>		
Unrestricted	6,421,164	8,507,362
Temporarily restricted	40,201,156	40,417,265
Permanently restricted	<u>91,497,222</u>	<u>86,452,694</u>
Total net assets	<u>138,119,542</u>	<u>135,377,321</u>
Total liabilities and net assets	<u>\$ 141,503,010</u>	<u>\$ 138,997,736</u>

The accompanying notes are an integral part of these combined financial statements.

**University of Northern Iowa Foundation**  
**COMBINED STATEMENTS OF ACTIVITIES**

**June 30, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, support and reclassifications:</b>				
Contribution revenue	\$ 3,131,629	\$ 13,025,724	\$ 5,206,309	\$ 21,363,662
Investment return	(813,284)	(2,108,354)	(87,464)	(3,009,102)
Miscellaneous income	39,783	12,106	-	51,889
Change in donor intent	(76,960)	23,343	53,617	-
Reclassifications attributed to underwater endowments	(523,039)	523,039	-	-
Net assets released from restrictions	<u>11,498,639</u>	<u>(11,498,639)</u>	<u>-</u>	<u>-</u>
<b>Total revenues, support and reclassifications</b>	<u><b>13,256,768</b></u>	<u><b>(22,781)</b></u>	<u><b>5,172,462</b></u>	<u><b>18,406,449</b></u>
<b>Expenses and adjustments:</b>				
Scholarship expenses	4,675,855	-	-	4,675,855
Programming expenses	5,281,215	-	-	5,281,215
Administrative expenses	2,308,343	-	-	2,308,343
Fundraising expenses	2,943,786	-	-	2,943,786
Uncollectible pledges	20,421	169,994	15,411	205,826
Depreciation expense	122,316	-	-	122,316
Present value liability actuarial adjustment	(8,970)	23,334	112,523	126,887
<b>Total expenses and adjustments</b>	<u><b>15,342,966</b></u>	<u><b>193,328</b></u>	<u><b>127,934</b></u>	<u><b>15,664,228</b></u>
<b>Change in net assets</b>	<u><b>(2,086,198)</b></u>	<u><b>(216,109)</b></u>	<u><b>5,044,528</b></u>	<u><b>2,742,221</b></u>
<b>Net assets, beginning of year</b>	<u><b>8,507,362</b></u>	<u><b>40,417,265</b></u>	<u><b>86,452,694</b></u>	<u><b>135,377,321</b></u>
<b>Net assets, end of year</b>	<u><u><b>\$ 6,421,164</b></u></u>	<u><u><b>\$ 40,201,156</b></u></u>	<u><u><b>\$ 91,497,222</b></u></u>	<u><u><b>\$ 138,119,542</b></u></u>

The accompanying notes are an integral part of these combined financial statements.

**University of Northern Iowa Foundation**  
**COMBINED STATEMENTS OF ACTIVITIES**

**June 30, 2015**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, support and reclassifications:</b>				
Contribution revenue	\$ 2,784,548	\$ 8,394,383	\$ 4,067,368	\$ 15,246,299
Investment return	517,390	2,135,756	216,106	2,869,252
Miscellaneous income	33,891	12,000	-	45,891
Change in donor intent	(16,050)	(327,311)	343,361	-
Reclassifications attributed to underwater endowments	(25,061)	25,061	-	-
Net assets released from restrictions	10,752,504	(10,752,504)	-	-
Total revenues, support and reclassifications	14,047,222	(512,615)	4,626,835	18,161,442
<b>Expenses and adjustments:</b>				
Scholarship expenses	4,357,658	-	-	4,357,658
Programming expenses	5,089,266	-	-	5,089,266
Administrative expenses	1,912,508	-	-	1,912,508
Fundraising expenses	3,027,956	-	-	3,027,956
Uncollectible pledges	36,731	43,130	25,770	105,631
Depreciation expense	107,458	-	-	107,458
Present value liability actuarial adjustment	(99,418)	13,273	141,140	54,995
Total expenses and adjustments	14,432,159	56,403	166,910	14,655,472
Change in net assets	(384,937)	(569,018)	4,459,925	3,505,970
Net assets, beginning of year	8,892,299	40,986,283	81,992,769	131,871,351
Net assets, end of year	\$ 8,507,362	\$ 40,417,265	\$ 86,452,694	\$ 135,377,321

The accompanying notes are an integral part of these combined financial statements.

**University of Northern Iowa Foundation**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**Years ended June 30,**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,742,221	\$ 3,505,970
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	122,316	107,458
Donated assets	(974,192)	(1,532,222)
Investment losses (gains), net	4,009,608	(1,504,050)
Gains in cash value of life insurance	(51,207)	(370,233)
(Gains) losses on sale of donated assets	22,419	(5,581)
Net cash (used in) proceeds from purchase and sale of unrestricted donated assets	(15,991)	4,081
Change in annuity and unitrust obligations	171,244	54,995
Uncollectible pledges	205,826	105,631
Net contributions restricted for long-term investment	(4,800,532)	(1,961,509)
Changes in assets and liabilities		
Increase in pledges receivable	(1,437,215)	(873,403)
(Increase) decrease in other	188,584	(127,000)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	13,170	(692,168)
Net cash used in operating activities	196,251	(3,288,031)
Cash flows from investing activities:		
Purchases of investments	(40,175,278)	(55,077,381)
Sale of investments	34,903,368	55,350,653
Cash proceeds from sale of donated assets	376,393	847,958
Purchase of building, equipment, and leasehold improvements	-	(208,009)
Net cash (used in) provided by investing activities	(4,895,517)	913,221
Cash flows from financing activities:		
Net contributions restricted for long-term investments	4,800,532	1,961,509
Net cash proceeds from termination of restricted life insurance policies	10,903	429,086
Net payments of annuities, annuity trust and unitrust obligations	(421,361)	(414,917)
Cash proceeds from sale of restricted donated assets	659,899	707,373
Net cash provided by investing activities	5,049,973	2,683,051
NET INCREASE IN CASH AND CASH EQUIVALENTS	350,707	308,241
Cash and cash equivalents, beginning of year	930,207	621,966
Cash and cash equivalents, end of year	\$ 1,280,914	\$ 930,207

The accompanying notes are an integral part of these combined financial statements.

## University of Northern Iowa Foundation

### NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2016 and 2015

#### NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization

The University of Northern Iowa Foundation (the Foundation) is organized and operated exclusively for educational and scientific purposes. It is authorized to accept, hold, administer, invest and disburse monies for the direct benefit of the University of Northern Iowa (the University).

The University of Northern Iowa Properties Corporation is organized to receive, hold, manage and administer real property and tangible personal property for the use and benefit of the Foundation.

The University of Northern Iowa Research Foundation is organized to advance, develop, increase and extend the progress of science and useful arts through encouraging and assisting investigation, research, and education at the University. This is accomplished by furnishing the means, methods and agencies by which ideas, creations, discoveries, inventions and processes may be protected and the uses thereof determined and safeguarded for the public, and to manage, license, and dispose of proprietary rights in ideas, creations, discoveries and inventions and processes of any nature.

##### Basis of combination

The accompanying combined financial statements include the activities of the Foundation, University of Northern Iowa Properties Corporation and University of Northern Iowa Research Foundation (collectively, the Organization). All material transactions between these entities have been eliminated. Combined financial statements are presented because the entities share the objectives of promoting and benefiting the University.

##### Basis of accounting

The Foundation classifies its activities and net assets into three categories: unrestricted, temporarily restricted, or permanently restricted, based on the absence or existence of external (donor) imposed restrictions. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified into funds established according to their nature and purpose. Separate funds are maintained for each purpose; however, in the accompanying combined financial statements, funds that have similar characteristics have been combined.

##### Contributions and net assets

Contributions received and unconditional promises to give are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. The Board of Trustees (the Board) of the Foundation may designate a portion of its unrestricted net assets for various purposes. A description of the three net asset categories follows:

*Unrestricted net assets* include contributions for which there are no donor imposed restrictions. They include net assets designated to carry out the general mission of the Foundation, plant net assets for the construction and maintenance of capital projects and net assets that have not yet been designated by the Board as to where they will be spent.

## University of Northern Iowa Foundation

### NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

#### NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*Temporarily restricted net assets* include contributions for which donor imposed restrictions have not been met and charitable gift annuities and charitable remainder trusts for which proceeds have not been realized. Purpose restrictions include support for student scholarships, department programs and capital projects. Temporarily restricted contributions whose restriction is met in the same year received are recorded as unrestricted contributions.

*Permanently restricted net assets* include contributions for which donor imposed restrictions require investment in perpetuity and only the agreed upon payout be made available to carry out the mission of the Foundation. For permanent endowments, earnings in excess of the corpus are temporarily restricted until appropriated by the board. Also included are charitable gift annuities and charitable remainder trusts in which the donor has permanently restricted the use of the Foundation's interest in the assets.

#### Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

#### Investments

Investments are managed by the Foundation Treasurer and external managers, in accordance with the Board's policy. The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the combined statements of financial position. The Foundation reports the fair value of market alternatives, also known as alternative investments, using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the Foundation based on various factors, to determine fair value, under certain conditions. Unrealized gains and losses and management fees are included in investment return in the change in net assets in the accompanying combined statements of activities.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

#### Pledges receivable

Pledges receivable are recorded at their net present value using an effective interest rate, less an allowance for doubtful pledges. Conditional promises to give are not recorded until the condition is met.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Contribution of non-monetary assets and donated services

Donated securities, equipment, artwork, and other non-monetary assets are recorded in the combined financial statements at their estimated fair value at the date of receipt based primarily on publicly available information. The Foundation's policy is to sell donated securities soon after receipt to be able to use the funds for their specified purpose, unless management determines that the security should be retained as an investment. The Foundation's policy is to transfer donated equipment, artwork, museum pieces and other non-monetary assets to the University.

The Foundation recognizes revenue for certain services received at the fair value based on the current rate for such services. These include professional assistance donated by doctors, consultants, and other specialized service providers. The Foundation recorded salaries and benefits of University employees that perform duties for the Foundation without compensation from the Foundation as well as office space and equipment costs for the years ended June 30, 2016 and 2015. The fair value of the non-monetary assets and donated services is reflected in revenue and included in expenses in the following functional categories:

	<u>2016</u>	<u>2015</u>
Department programs	\$ 64,379	\$ 165,511
Administrative and fundraising	<u>1,475,950</u>	<u>1,483,065</u>
	<u>\$1,540,329</u>	<u>\$1,648,576</u>

In addition, the Foundation receives donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the combined statements of activities since these services are not specialized services that would otherwise be purchased.

University commitments

From time to time the administration of the University asks the Foundation to raise funds and provide financial support for given projects. Such requests are not recorded as liabilities of the Foundation until the Board votes to accept them.

Functional allocation of expense

The costs of providing programs and other services have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Building, equipment, and leasehold improvements

Purchased or constructed buildings, equipment and leasehold improvements are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which vary from 5 to 20 years.

Split interest agreements

Contributions received under lifetime charitable gift annuity, remainder and unitrust agreements are recorded at fair value at the inception of the trust and a liability is recorded equal to the present value of the expected future payments to the life tenant. Annuity and life income obligations are determined annually based on the ages and life expectancies of the donors using applicable interest rates, at the date of the contribution, established by the Internal Revenue Service. Beneficial interest in trusts are recorded at fair value at the inception of the trust, based upon the underlying assets.

Income taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Thus, no provision for income taxes is included in the accompanying combined financial statements.

The Organization follows the accounting guidance for accounting for uncertainty in income taxes. The Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Organization applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of that date. The Organization does not believe there is any uncertainty with respect to its tax position which would result in a material change to the financial statements.

The Organization is subject to federal and state income taxes to the extent it has unrelated business income. In accordance with the guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to its financial statements. The Organization is no longer subject to examination by federal authorities for years prior to June 30, 2013. For state authorities, the statute of limitations is generally three or four years; however, the statute of limitations will remain open for any state returns not filed.

The Organization recognizes any interest and penalties related to income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the year ended June 30, 2016.

## University of Northern Iowa Foundation

### NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

#### NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Legal fees

Legal costs associated with loss contingencies are expensed as incurred.

##### Endowments

The Foundation's endowment funds consist of numerous individual funds established to support the mission of the University. These funds include both donor-restricted endowment funds and funds designated by the Foundation's Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the state Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation has classified 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 funds 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 considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the Foundation.

##### Investment return objectives, risk parameters and strategies

The Foundation has adopted endowment investment and spending policies which have been approved by the Board. The objective is to provide a predictable stream of funding to programs supported by endowment funds while maintaining the purchasing power of those assets over the long-term. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds annual distributions with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes public and private equities, private real estate, hedge funds, fixed income funds and cash. This diversified asset allocation is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make distributions, while growing the funds, if possible. Investment risk is measured in terms of the total

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

endowment fund; investment assets and allocation between asset classes and strategies are managed to reduce risk to the overall fund.

Spending policy

The Foundation's Board recognizes their fiduciary responsibility to prudently manage the funds that have been and will be given to the Foundation. Spending from these funds is intended to benefit the University in perpetuity; therefore, the spending policy is intended to achieve a balance between preserving the purchasing power of the endowment principal and maximizing current distributions to support the programs designated by the contributors. A weighted average spending formula, comprised of market and inflation elements, is used to determine annual spending.

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. Deficiencies of this nature, which result primarily from unfavorable market fluctuations and continued appropriations deemed prudent by the Foundation's Board, are reported as a reduction of unrestricted net assets.

Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of the Foundation's financial instruments at June 30, 2016 and 2015:

Cash and cash equivalents, pledge receivables, accounts payable and other liabilities

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities, except market alternatives

The fair values of equity investments, mutual funds, and money market investments are based on quoted market prices at the reporting date for those or similar investments (Level 1). The fixed income investments are valued based on quoted prices for similar instruments in active markets (Level 2).

Market alternatives

The Foundation reports the fair value of market alternative investments using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or adjusted by the Foundation based on various factors, to determine fair value, under certain conditions.

## University of Northern Iowa Foundation

### NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

#### NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

These investments would have significant redemption and other restrictions that would limit the Foundation's ability to redeem out of the fund at report date NAV. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. The practical expedient may not be used on funds intended to liquidate, or in the process of liquidation. Such funds are valued based on the fund manager's expectation of liquidation proceeds.

##### Annuity, annuity trusts and unitrusts payable

The fair value of obligations related to split interest agreements is determined as the present value of expected future cash flows discounted at an appropriate interest rate.

##### Beneficial interest in trust

The fair value of recorded beneficial interest in a non-custodial perpetual trust is recorded based on the fair value of the underlying assets.

##### Fair value measurements

The Foundation accounts for its investments at fair value. The Foundation estimates fair value using the guidance established by the accounting guidance for *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the asset or liability. In accordance with the guidance, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique which give the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, into a three-level fair value hierarchy. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is based upon significant unobservable inputs that reflect the Foundation's own assumptions, including discount cash flow models. Level 3 investments also include beneficial interests in trusts as the Foundation has no redemption rights with respect to trust assets and is valued based on the underlying trust assets, which are primarily publicly traded.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Concentrations of credit risk

The Foundation maintains cash balances at various financial institutions. From time to time, the cash balances may exceed the amounts insured by the Federal Deposit Insurance Corporation, however management believes the Foundation is not exposed to any significant credit risk related to those accounts.

Use of estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Accordingly, actual results could differ from those estimates.

Current and pending accounting pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU changes the net asset classification requirements from unrestricted, temporarily and permanently restricted to net assets without donor restrictions and net assets with donor restrictions. In addition, the ASU expands a not-for-profit entity's disclosures surrounding liquidity, financial performance, and cash flows. This guidance is effective for annual periods beginning after December 15, 2017, with early application permitted. The Organization does not expect the adoption of this guidance to have a material impact on its combined financial statements.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE B – INVESTMENTS**

A summary of the investments held at June 30, 2016 and 2015, segregated by the valuation inputs under the fair value hierarchy, is as follows:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
<b>Investments:</b>				
<b>Equities:</b>				
Large cap	\$ 18,897,168	\$ -	\$ -	\$ 18,897,168
Mid/small cap	10,244,296	-	-	10,244,296
International	11,994,786	-	-	11,994,786
Mutual funds	38,230,899	-	-	38,230,899
Fixed income	-	194,000	-	194,000
Money market	6,087,017	-	-	6,087,017
<b>Living trusts and gift annuities:</b>				
Fixed income	161,948	-	-	161,948
Domestic equities	1,901,643	-	-	1,901,643
International equities	2,181,393	-	-	2,181,393
Mutual funds	552,381	-	-	552,381
Beneficial interest in trust	-	-	1,349,848	1,349,848
Other	-	100,733	-	100,733
	<u>\$ 90,251,531</u>	<u>\$ 294,733</u>	<u>\$ 1,349,848</u>	<u>\$ 91,896,112</u>
<b>Market alternatives, at NAV:</b>				
Real estate investments				3,964,948
Fund of funds				15,348,269
Commonfund limited partnerships				1,445,923
Other limited partnerships				16,219,440
				36,978,580
<b>Cash equivalents</b>				910,878
<b>Total</b>				<u>\$129,785,570</u>

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE B – INVESTMENTS - Continued**

	<u>June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equities and mutual funds:				
Large cap	\$20,002,092	\$ -	\$ -	\$20,002,092
Mid/small cap	18,647,551	-	-	18,647,551
International	21,606,138	-	-	21,606,138
Fixed income mutual funds	17,844,576	207,443	-	18,052,019
Money market	6,014,061	-	-	6,014,061
Living trusts and gift annuities:				
Fixed income	1,549,485	171,787	-	1,721,272
Domestic equities	1,329,913	-	-	1,329,913
International equities	521,350	-	-	521,350
Mutual funds	1,511,862	-	-	1,511,862
Beneficial interest in trust	-	-	1,456,789	1,456,789
Other	-	100,733	-	100,733
	<u>\$89,027,028</u>	<u>\$ 479,963</u>	<u>\$ 1,456,789</u>	<u>\$90,963,780</u>
Market alternatives, at NAV:				
Real estate investments				4,797,540
Fund of funds				14,306,477
Common fund limited partnerships				1,521,925
Other limited partnerships				<u>16,933,546</u>
Total				<u>\$128,523,268</u>

The following table provide a summary of changes in fair value of the Foundation's investments classified as Level 3 within the fair value hierarchy for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$1,456,789	\$1,510,694
Unrealized gains (losses)	(106,941)	(53,905)
Purchases of securities	-	-
Ending balance	<u>\$1,349,848</u>	<u>\$1,456,789</u>

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE B – INVESTMENTS - Continued**

The following table provides a summary of market alternatives at June 30, 2016 and 2015, by net asset class, whose fair value is calculated using NAV per share, or its equivalent:

Description	2016 <u>Fair Value</u>	2015 <u>Fair Value</u>	<u>June 30, 2016</u>		Redemption Notice Period
			Unfunded Commitments (Approximate)	Redemption Frequency (if available)	
Real estate investments (a)	\$ 3,964,948	\$ 4,797,540	\$4,059,910	Not allowed	Not applicable
Fund of funds (b)	15,348,269	14,306,477	-	See below	60-105 days
Commonfund limited partnerships(c)	1,445,923	1,521,925	285,400	Not allowed	Not applicable
Other limited partnerships (d)	<u>16,219,440</u>	<u>16,933,546</u>	<u>2,115,651</u>	See below	See below
	<u>\$36,978,580</u>	<u>\$37,559,488</u>	<u>\$6,460,961</u>		

- (a) Represents fund of funds investments with a concentration in real estate with no particular geographic concentration. Redemptions are not allowed; distributions, if any, are based on the sales of the underlying assets.
- (b) Includes funds of funds invested in private investment companies and hedge funds with no particular industry or geographic concentration. Approximately \$8,100,000 of the fund is subject to quarterly redemption notices between 65-90 days. The remaining funds are redeemable semi-annually.
- (c) Represents limited partnership investments focused on private equity and emerging markets. Redemptions are not allowed; distributions, if any, are based on the sales of the underlying assets.
- (d) Partnership investments are primarily swaps, debt and equity securities, options, foreign currency and private investment pools, distressed securities and securitized assets with no particular industry or geographic concentration. Approximately \$10,500,000 is subject to quarterly redemption notices between 60-90 days. Approximately \$2,500,000 is subject to semi-annually redemption notices with approximately \$1,800,000 in a two year lockup; distributions, if any, are based on the sales of the underlying assets. Redemptions are not allowed for the remaining funds.

Market alternatives are redeemable with the investee fund at NAV under the original terms of the subscription agreement but are subject to significant redemption and other restrictions that would limit the Foundation's ability to redeem out of the fund at a report date NAV. Due to the nature of these investments, changes in market conditions and the overall economic environment may significantly impact the NAV of the funds, and therefore the value of the Foundation's interest. It is therefore reasonably possible that, if the Foundation were to sell all or a portion its market alternatives, the transaction value could be significantly different than the fair value reported as of June 30.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE B – INVESTMENTS - Continued**

Interest, dividends, realized and unrealized gains and losses and management fees are recognized and allocated to the various designated funds based on each individual funds' average balance. The following summarizes the investment return and its classification on the combined statements of activities for the years ended June 30, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 352,893	\$ 1,606,643	\$ 87,015	\$ 2,046,551
Realized and unrealized gains	(995,738)	(2,859,639)	(154,231)	(4,009,608)
Management fees	(170,440)	(855,357)	(20,248)	(1,046,045)
	<u>\$ (813,285)</u>	<u>\$ (2,108,353)</u>	<u>\$ (87,464)</u>	<u>\$ (3,009,102)</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 449,631	\$1,938,804	\$ 84,133	\$2,472,568
Realized and unrealized gains	244,902	1,104,875	154,273	1,504,050
Management fees	(177,143)	(907,923)	(22,300)	(1,107,366)
	<u>\$ 517,390</u>	<u>\$2,135,756</u>	<u>\$216,106</u>	<u>\$2,869,252</u>

**NOTE C – PLEDGES RECEIVABLE**

Unconditional promises are included in the combined financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises are recorded at their net unrealizable value at the time the promise is made. Those promises expected to be collected in more than one year are discounted at various rates based on the length of time the payments are to be received. Unconditional promises are expected to be realized in the following periods:

	2016	2015
In one year or less	\$ 2,494,968	\$ 2,107,033
Between one year and five years	4,897,372	3,969,550
More than five years	<u>1,260,816</u>	<u>1,378,958</u>
	8,653,156	7,455,541
Less discounts to net present value	(397,806)	(430,939)
Less allowance for uncollectible pledges	<u>(198,499)</u>	<u>(199,139)</u>
	<u>\$ 8,056,851</u>	<u>\$ 6,825,463</u>

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE C – PLEDGES RECEIVABLE - Continued**

The discount rate was 1.0% for pledges due between one year and five years and 1.5% for pledges due in more than five years for the year ended June 30, 2016 and 1.7% for pledges due between one year and five years and 2.4% for pledges due in more than five years for the year ended June 30, 2015.

Pledges receivable at June 30, 2016 and 2015 have the following restrictions:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Undesignated	\$ 60,473	\$ 134,978
Temporarily restricted:		
Scholarships and department programs	4,822,596	3,639,675
Building, equipment and leasehold improvements	1,344,677	997,890
Permanently restricted:		
Endowments - scholarships and department programs	<u>1,829,105</u>	<u>2,052,919</u>
	<u>\$8,056,851</u>	<u>\$6,825,462</u>

The Foundation also maintains a planned giving program through which contributors promise to give amounts to be donated upon their death. These promises are not reflected in the combined financial statements because they are subject to retraction at the discretion of the contributor. Any amounts reflected as income in the combined financial statements are the amounts received during the year. As of June 30, 2016 and 2015, conditional promises to give total approximately \$132,000,000 (unaudited) and \$123,000,000, respectively.

Conditional promises to give are only recognized when the conditions on which they depend are substantially met and the promises become unconditional.

**NOTE D – BUILDING, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

The Foundation constructed a building to be used for the Freeburg Early Childhood Education Program. The building is located on land owned by Allen Health Systems, Inc., and will be leased by the Foundation for one dollar per year under an agreement expiring July 31, 2016. The building is used by the Tri-County Child and Family Development Council, Inc. under an agreement expiring July 31, 2016. Rental income of \$12,000 was recognized for each of the years ending June 30, 2016 and 2015.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE D – BUILDING, EQUIPMENT AND LEASEHOLD IMPROVEMENTS – Continued**

Components of the building, equipment and leasehold improvements include the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<b>Rental:</b>		
Buildings	\$ 1,820,427	\$1,820,427
Landscaping and walkways	26,671	26,671
Fence and playground equipment	69,129	69,129
Furniture and fixtures	<u>122,390</u>	<u>122,390</u>
Total rental building and equipment	2,038,617	2,038,617
Leasehold improvements	208,009	208,009
Less accumulated depreciation	<u>(1,574,526)</u>	<u>(1,452,210)</u>
Net buildings, equipment, leasehold improvements	<u>\$ 672,100</u>	<u>\$ 794,416</u>

**NOTE E – RECURRING OBLIGATIONS – SPLIT INTEREST AGREEMENTS**

The Foundation is obligated to pay approximately \$301,000 under existing lifetime charitable gift annuities based on original contributions of approximately \$3,767,000 and \$87,000 under charitable remainder annuity trust agreements based on original contributions of \$1,432,000. The Foundation is obligated under charitable remainder unitrust agreements to make payments based on trust income or on a fixed percentage of the asset values. The Foundation's obligation for the unitrust agreements was approximately \$68,000 and \$64,000 during the years ended June 30, 2016 and 2015, respectively. Asset values for all split interest agreements were approximately \$4,797,000 and \$5,193,000 as of June 30, 2016 and 2015, respectively.

In accordance with state law, to qualify and provide charitable gift annuities an organization must be in continuous operation for three years and have a minimum value of unrestricted assets equal to the lesser of \$300,000 or five times the total amount of outstanding annuities (\$8,176,814 at June 30, 2016 and \$14,638,180 at June 30, 2015). The Foundation was in compliance with all aforementioned state requirements during both the years ended June 30, 2016 and 2015.

**NOTE F – RELATED PARTY TRANSACTIONS**

As disclosed in Note A, the University compensates Foundation employees which is not reimbursed by the Foundation and provides office space, equipment maintenance, telephone support, and other miscellaneous office supplies. At June 30, 2016 and 2015, approximately \$162,474 and \$161,374, respectively, were due from the University were included in pledges receivable. Additionally, the Foundation reimburses the University for the salaries and benefits of the Foundation's employees. At June 30, 2016 and 2015, approximately \$156,326 and \$202,800, respectively, due to the University were included in accounts payable.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE G – RESTRICTIONS ON NET ASSETS**

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished:		
Scholarships and department programs	\$11,498,639	\$ 9,803,241
Plant	<u>          -</u>	<u>    949,263</u>
Total restrictions released	<u>\$11,498,639</u>	<u>\$10,752,504</u>

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Program activities:		
Scholarships and department programs	\$34,536,646	\$38,910,122
Plant	5,029,543	677,804
Charitable gift annuities	14,598	23,276
Charitable remainder unitrusts	<u>    620,369</u>	<u>    644,715</u>
Total temporarily restricted net assets	<u>\$40,201,156</u>	<u>\$40,255,917</u>

Permanently restricted net assets are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Endowment	\$87,876,205	\$82,619,158
Charitable gift annuities	10,555	58,711
Charitable remainder trust annuities	200,044	243,270
Charitable remainder unitrusts	1,241,202	1,283,494
Life insurance fund	819,368	791,272
Beneficial interest in trust	<u>1,349,848</u>	<u>1,456,789</u>
Total permanently restricted net assets	<u>\$91,497,222</u>	<u>\$86,452,694</u>

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE G – RESTRICTIONS ON NET ASSETS - Continued**

The following schedule provides information on permanent donor-restricted and board-designated endowments. The composition of and changes in permanent endowments as of and for the years ended June 30, 2016 and 2015, are as follows:

	June 30, 2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,802,569	\$11,428,928	\$82,619,158	\$95,850,655
Contributions, net	21,921	66,873	5,425,951	5,514,745
Investment return	(225,082)	(1,790,421)	(1,612)	(2,017,115)
Reclassification attributed to underwater endowments	(523,039)	523,039	-	-
Foundation expenditures and fees	(216,790)	(1,296,481)	(167,292)	(1,680,563)
Amounts appropriated for expenditure	<u>(293,060)</u>	<u>(2,854,494)</u>	<u>-</u>	<u>(3,147,554)</u>
Endowment net assets, end of year	<u>\$ 566,519</u>	<u>\$ 6,077,444</u>	<u>\$87,876,205</u>	<u>\$94,520,168</u>
Endowment net assets consist of the following:				
Donor-restricted funds	(1,672,670)	6,077,444	87,876,205	92,280,979
Board-designated funds	<u>2,239,189</u>	<u>-</u>	<u>-</u>	<u>2,239,189</u>
	<u>\$ 566,519</u>	<u>\$ 6,077,444</u>	<u>\$87,876,205</u>	<u>\$94,520,168</u>
	June 30, 2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,086,977	\$13,168,571	\$77,213,307	\$92,468,855
Contributions, net	7,422	114,892	2,657,285	2,779,599
Investment return	181,029	1,723,686	113,604	2,018,319
Reclassification attributed to underwater endowments	(25,061)	25,061	-	-
Foundation expenditures and fees	(229,607)	(1,135,622)	582,043	(783,186)
Amounts appropriated for expenditure	<u>(218,191)</u>	<u>(2,467,660)</u>	<u>-</u>	<u>(2,685,851)</u>
Endowment net assets, end of year	<u>\$1,802,569</u>	<u>\$11,428,928</u>	<u>\$80,566,239</u>	<u>\$93,797,736</u>
Endowment net assets consist of the following:				
Donor-restricted funds	(552,651)	11,428,928	80,566,239	91,442,516
Board-designated funds	<u>2,355,220</u>	<u>-</u>	<u>-</u>	<u>2,355,220</u>
	<u>\$1,802,569</u>	<u>\$11,428,928</u>	<u>\$80,566,239</u>	<u>\$93,797,736</u>

Underwater endowments of approximately \$1,669,000 and \$549,000 are included in unrestricted net assets as of June 30, 2016 and 2015, respectively.

**University of Northern Iowa Foundation**

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016 and 2015**

**NOTE H – COMMITMENTS AND CONTINGENCIES**

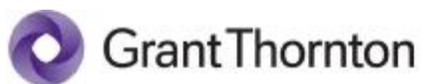
The Foundation entered into an agreement with a bank effective August 2013 which would provide the Foundation with liquidity and flexibility in managing their investment portfolio. The agreement allows the Foundation borrowings, if needed, up to \$5,000,000 via a variable rate advance, fixed rate advance or letter of credit at a rate of LIBOR plus 1.25 percent, reset daily. The agreement is collateralized by the Foundation's investment accounts held with the bank. No borrowings were outstanding at both June 30, 2016 and 2015. No interest expense was incurred for the years ending June 30, 2016 and 2015.

In July 2012, a major past donor and his Company declared bankruptcy. As of the date of release of the Foundation's financial statements, there is not enough information to assess the likelihood of a contingent liability for return of contributions related to this event, if any. As a result, no amounts have been recorded in the Foundation's financial statements as of June 30, 2016, and 2015. As of June 30, 2016 and 2015 the Foundation had no pledge receivable outstanding related to the major past donor.

**NOTE I – SUBSEQUENT EVENTS**

The Organization evaluated subsequent events through November 14, 2016, the date the combined financial statements are available for issuance, noting the following event.

On August 1, 2016, in conjunction with the expiring lease agreement with Tri-County Child and Family Development Council, the Foundation sold the building used for the Freeburg Early Childhood Education Program referred to in Note D. The building was located on the campus of Allen hospital and was sold to the hospital's parent company, UnityPoint Health. The sales price was \$740,000.



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