

University of Northern Iowa Foundation

Combined Financial Report
June 30, 2011

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UNIVERSITY OF NORTHERN IOWA FOUNDATION
CEDAR FALLS, IOWA

Officers and Trustees
Year Ended June 30, 2011

Officers:

| | |
|----------------------------|---|
| Richard Redfern '74 | Chair of the Board |
| Rose Lorenz | 1st Vice Chair of the Board |
| Michael Peterson | 2nd Vice Chair of the Board |
| William Calhoun, Jr. '79 * | President of the Board |
| Frank Esser '73 '87 * | Vice President of the Board |
| Noreen Hermansen '71 * | Vice President of the Board |
| Ruth Ratliff * | Vice President of the Board |
| Gary Shontz '74 '81 * | Vice President of the Board |
| Kristine Even '93 * | Vice President and Treasurer of the Board |
| Jean Carlisle '78 '81 * | Vice President and Secretary of the Board |
| Justin Bierman '99 * | Alumni Association Liaison to the Board |

Trustees:

| | |
|--|--|
| Ben Allen | Robert Koob '62 |
| Robert Beach '51, Honorary Trustee * | UNI President Emeritus, Honorary Trustee * |
| Carl Boyd '87 | David Mason |
| Constantine Curris, | J. Michael McBride '62 |
| UNI President Emeritus, Honorary Trustee * | Ruth Ann Meyer '58 |
| Joy Corning '54 | Jim Mudd, Sr. |
| Eugene Dietz '60 | David Oman '74 |
| Rex Eno | Mark Oman '76 |
| Edward Gallagher, Jr. | Paul Rhines '65 |
| Senator Charles Grassley '55, Honorary Trustee * | Reid Richards '71 |
| William Hager '69 | Bev Riess '78 |
| Donna Harman '47 | James Slife '73 |
| Jorgen Heidemann '68 | Dave Takes '81 |
| Guang Jin '92 | Rick Young |
| John Kamerick | Russell Wasendorf |
| UNI President Emeritus, Honorary Trustee * | |

* Ex officio members

UNIVERSITY OF NORTHERN IOWA PROPERTIES CORPORATION
CEDAR FALLS, IOWA

Officers and Trustees
Year Ended June 30, 2011

Officers:

| | |
|--------------------------|-----------------------------|
| William Calhoun, Jr. '79 | President/CEO of the Board |
| Jim Jermier '95 * | Vice President of the Board |
| Kristine Even '93 * | Treasurer of the Board |
| Jean Carlisle '78 '81 * | Secretary of the Board |

Trustees:

Ben Allen
Donna Harman '47
Doug Jensen
Rick Young

UNIVERSITY OF NORTHERN IOWA RESEARCH FOUNDATION
CEDAR FALLS, IOWA

Officers and Trustees
Year Ended June 30, 2011

Officers:

| | |
|--------------------------|---|
| Dave Takes | Chair of the Board |
| William Calhoun, Jr. '79 | President/CEO of the Board |
| Ruth Ratliff * | Vice President of the Board |
| Kristine Even '93 * | Vice President and Treasurer of the Board |
| Jean Carlisle '78 '81 * | Secretary of the Board |

Trustees:

| | |
|-----------------|--------------------------|
| Ben Allen | Ron Padavich * |
| Robert Bradford | Michael Peterson |
| Clifton Chancey | Randy Pilkington '80 '98 |
| Guang Jin '92 | Christi Twait '92 * |

* Ex officio members



Independent Auditor's Report

To the Board of Trustees
University of Northern Iowa Foundation
University of Northern Iowa Properties Corporation and
University of Northern Iowa Research Foundation
Cedar Falls, Iowa

We have audited the accompanying combined statements of financial position of University of Northern Iowa Foundation, University of Northern Iowa Properties Corporation and University of Northern Iowa Research Foundation, (the Organizations) as of June 30, 2011 and 2010, and the related combined statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organizations' management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Des Moines, Iowa
October 7, 2011

University of Northern Iowa Foundation

Combined Statements of Financial Position
June 30, 2011 and 2010

| | 2011 | 2010 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 129,200 | \$ 298,879 |
| Investments | 89,670,854 | 66,916,851 |
| Pledges receivable, net | 7,970,819 | 8,476,225 |
| Other receivables | 24,576 | 44,141 |
| Prepaid expenses | 75,454 | 6,778 |
| Life insurance cash value | 1,259,585 | 1,138,992 |
| Donated assets | 166,742 | 99,485 |
| Building and equipment, net | 971,898 | 1,065,049 |
| Total assets | \$ 100,269,128 | \$ 78,046,400 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable, accrued expenses and other liabilities | \$ 689,536 | \$ 433,921 |
| Pledges payable to the University of Northern Iowa | 869,383 | 1,503,882 |
| Annuities payable | 1,935,396 | 1,891,937 |
| Annuity trusts payable | 955,086 | 981,236 |
| Unitrusts payable | 531,739 | 602,964 |
| Total liabilities | 4,981,140 | 5,413,940 |
| NET ASSETS | | |
| Unrestricted | 6,223,395 | 2,703,416 |
| Temporarily restricted | 33,258,299 | 27,219,907 |
| Permanently restricted | 55,806,294 | 42,709,137 |
| Total net assets | 95,287,988 | 72,632,460 |
| Total liabilities and net assets | \$ 100,269,128 | \$ 78,046,400 |

See Notes to Combined Financial Statements.

University of Northern Iowa Foundation

Combined Statements of Activities
June 30, 2011 and 2010

| | 2011 | | | |
|--|----------------------------|---|---|------------------------|
| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets |
| Revenue, support and reclassifications: | | | | |
| Contribution revenue | \$ 1,283,291 | \$ 7,504,509 | \$ 11,896,379 | \$ 20,684,179 |
| Investment return | 5,447,496 | 6,274,679 | 826,962 | 12,549,137 |
| Miscellaneous income | 49,074 | 11,193 | - | 60,267 |
| Reclassifications attributed to underwater endowments | (552,298) | 552,298 | - | - |
| Donor redesignations | 1,200,274 | (1,828,463) | 628,189 | - |
| Net assets released from restrictions | 6,278,519 | (6,278,519) | - | - |
| Total revenue, support and reclassifications | 13,706,356 | 6,235,697 | 13,351,530 | 33,293,583 |
| Expenses and adjustments: | | | | |
| Scholarship expenses | 3,335,349 | - | - | 3,335,349 |
| Programming expenses | 3,893,134 | - | - | 3,893,134 |
| Administrative expenses | 886,108 | - | - | 886,108 |
| Fundraising expenses | 1,958,881 | - | - | 1,958,881 |
| Uncollectible pledges | 11,673 | 161,786 | 16,249 | 189,708 |
| Depreciation expense | 93,151 | - | - | 93,151 |
| Present value liability actuarial adjustment | 8,081 | 35,519 | 238,124 | 281,724 |
| Total expenses and adjustments | 10,186,377 | 197,305 | 254,373 | 10,638,055 |
| Change in net assets | 3,519,979 | 6,038,392 | 13,097,157 | 22,655,528 |
| Net assets, beginning of year | 2,703,416 | 27,219,907 | 42,709,137 | 72,632,460 |
| Net assets, end of year | \$ 6,223,395 | \$ 33,258,299 | \$ 55,806,294 | \$ 95,287,988 |

See Notes to Combined Financial Statements.

2010

| Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets |
|----------------------------|---|---|------------------------|
| \$ 3,696,075 | \$ 8,336,797 | \$ 2,207,910 | \$ 14,240,782 |
| 4,660,409 | 2,889,157 | 565,204 | 8,114,770 |
| 311,340 | 101,890 | - | 413,230 |
| (402,442) | 402,442 | - | - |
| 881,174 | (923,740) | 42,566 | - |
| 6,227,008 | (6,227,008) | - | - |
| <u>15,373,564</u> | <u>4,579,538</u> | <u>2,815,680</u> | <u>22,768,782</u> |
| 2,288,804 | - | - | 2,288,804 |
| 5,857,501 | - | - | 5,857,501 |
| 992,247 | - | - | 992,247 |
| 1,736,534 | - | - | 1,736,534 |
| 14,378 | 439,193 | 100,666 | 554,237 |
| 95,180 | - | - | 95,180 |
| - | (16,045) | 339,036 | 322,991 |
| <u>10,984,644</u> | <u>423,148</u> | <u>439,702</u> | <u>11,847,494</u> |
| 4,388,920 | 4,156,390 | 2,375,978 | 10,921,288 |
| (1,685,504) | 23,063,517 | 40,333,159 | 61,711,172 |
| <u>\$ 2,703,416</u> | <u>\$ 27,219,907</u> | <u>\$ 42,709,137</u> | <u>\$ 72,632,460</u> |

University of Northern Iowa Foundation

Combined Statements of Cash Flow
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 22,655,528 | \$ 10,921,288 |
| Adjustments to reconcile change in net assets to net cash (used in) operating activities: | | |
| Depreciation | 93,151 | 95,180 |
| Donated assets | (1,600,863) | (690,424) |
| Investment gains, net | (11,919,075) | (8,102,543) |
| Gains in cash value of life insurance | (72,981) | (74,997) |
| Losses (gains) losses on sale of donated assets | 7,110 | (9,294) |
| Change in annuity and unitrust obligations | 297,916 | 469,290 |
| Uncollectible pledges | 189,708 | 554,237 |
| Net contributions restricted for long-term investment | (11,242,608) | (2,207,910) |
| Changes in assets and liabilities: | | |
| Decrease (increase) in pledges receivable | 315,698 | (2,900,982) |
| Decrease in other receivables | 19,565 | 7,266 |
| (Increase) decrease in prepaid expenses | (68,676) | 14,689 |
| Increase (decrease) in accounts payable, accrued expenses and other | 255,615 | (309,229) |
| Decrease in pledges payable | (634,499) | (827,945) |
| Net cash (used in) operating activities | (1,704,411) | (3,061,374) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (25,780,783) | (21,278,460) |
| Sale of investments | 14,945,855 | 21,893,190 |
| Cash proceeds from sale of donated assets | 1,478,884 | 696,046 |
| Net cash (used in) provided by investing activities | (9,356,044) | 1,310,776 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net contributions restricted for long-term investment | 11,242,608 | 2,207,910 |
| Charitable gift annuities established | 117,680 | - |
| Net payments of annuities, annuity trust and unitrust obligations | (469,512) | (457,539) |
| Net cash provided by financing activities | 10,890,776 | 1,750,371 |
| Net (decrease) in cash and cash equivalents | (169,679) | (227) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 298,879 | 299,106 |
| End of year | \$ 129,200 | \$ 298,879 |

See Notes to Combined Financial Statements.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization: The University of Northern Iowa Foundation (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).

Basis of combination: The accompanying combined financial statements include the activities of the University of Northern Iowa Foundation, University of Northern Iowa Properties Corporation and University of Northern Iowa Research Foundation. All material transactions between these organizations have been eliminated. Combined financial statements are presented because the organizations share common Trustees, management and 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 designated net assets used to carry out the general mission of the University, plant net assets for the construction and maintenance of capital projects and undesignated net assets that have not been designated by the Board of Trustees as to where they will be spent.

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 temporarily restricted 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 University. 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.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

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. Unrealized gains and losses are included 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, interest and other receivables: Pledge receivables 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.

Management considers interest and other receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

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 has been, 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 has been 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 of those services based on the current rate for such services. These services included professional assistance donated by doctors and consultants, and other specialized services. The fair value of the donated services is reflected in revenue and included in expenses in the following functional categories:

| | <u>2011</u> | <u>2010</u> |
|---------------------|-------------------|-------------------|
| Department programs | \$ 133,126 | \$ 125,717 |
| Administrative | 12,017 | 5,000 |
| | <u>\$ 145,143</u> | <u>\$ 130,717</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 of Trustees votes to accept them.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Functional allocation of expenses: 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.

Building and equipment: Purchased or constructed buildings and equipment 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.

Pledges payable: Pledges payable represent agreements with the Board of Regents, State of Iowa (Board of Regents), for the Foundation to make multi-year gifts to the University primarily in support of buildings and improvements. Pledges payable are recorded at the present value of the gifts expected to be made using an appropriate discount factor.

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.

Income taxes: The Organizations are 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 Foundation follows the accounting guidance for accounting for uncertainty in income taxes. The Foundation 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 Foundation is no longer subject to examination by federal or state authorities for years prior to June 30, 2008 nor have we been notified of any impending examination and no examinations are currently in process.

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 of Trustees 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 of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees 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.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

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 organization 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 organization.

Investment return objectives, risk parameters and strategies: The Foundation has adopted endowment investment and spending policies which have been approved by the Board of Trustees. 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 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 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 of Trustees recognizes their fiduciary responsibility to manage prudently 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 of Trustees, are reported as 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, 2011 and 2010:

Cash and cash equivalents, pledges and other receivables, and 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 fixed income, and domestic and international equity investments are based on quoted market prices at the reporting date for those or similar investments (Level 1). A portion of the fixed income investments are valued based on quoted prices for similar instruments in active markets (Level 2).

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Market alternatives: The Foundation reports the fair value of market 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.

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.

Fair value measurements: 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 investment or liability. The Foundation accounts for its investments at fair value. 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 2 investments also include market alternatives, measured using the practical expedient, that do not have any significant redemption restrictions, lock ups, gates or other characteristics that would cause liquidation and report date NAV to be significantly different.

Level 3 - Level 3 investments are valued using the practical expedient. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques. 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.

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.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

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 accounting developments: In January 2010, the Financial Accounting Standards Board (FASB) issued an amendment to the guidance on determining fair value which required new disclosures and reasons for transfers of financial assets and liabilities between Level 1 and 2. This amendment also clarified that fair value measurement disclosures are required for each class of financial assets and liabilities, and disclosures about inputs and valuation techniques are required for both Level 2 and 3 measurements. It further clarified that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances and settlements rather than netting these changes. The Foundation adopted this guidance effective for the year ending June 30, 2011. The adoption of this guidance did not have a material impact on the Foundation's financial statements.

In May 2011, the FASB issued guidance to converge fair value measurement guidance in generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Among other things, the guidance clarifies the application of existing fair value measurement requirements and requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Foundation's management is currently evaluating the effect of this guidance.

Subsequent events: Subsequent events have been evaluated subsequent to June 30, 2011 through October 7, 2011, the date the financial statements are available for issuance. During this period, there were no subsequent events requiring recognition in the combined financial statements. Additionally, there were no nonrecognized subsequent events requiring disclosure subsequent to year-end.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Note 2. Investments

A summary of the investments held at June 30, 2011 and 2010, segregated by the valuation inputs under the fair value hierarchy, is as follows:

| | June 30, 2011 | | | Total |
|-----------------------------------|---|---|--|----------------------|
| | Quoted Market Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Large cap equities | \$ 21,398,513 | \$ - | \$ - | \$ 21,398,513 |
| Mid/small cap equities | 7,649,321 | - | - | 7,649,321 |
| International equities | 5,179,729 | - | - | 5,179,729 |
| Fixed income | 16,210,488 | 255,461 | - | 16,465,949 |
| Money market | 1,940,141 | - | - | 1,940,141 |
| Living trusts and gift annuities: | | | | |
| Fixed income | 2,378,847 | 101,507 | - | 2,480,354 |
| Domestic equities | 2,589,749 | - | - | 2,589,749 |
| International equities | 591,369 | - | - | 591,369 |
| Other | - | 105,733 | - | 105,733 |
| Market alternatives: | | | | |
| Real estate investments | - | - | 1,814,191 | 1,814,191 |
| Fund of funds | - | - | 25,180,885 | 25,180,885 |
| Commonfund limited partnerships | - | - | 1,014,992 | 1,014,992 |
| Other limited partnerships | - | - | 2,777,748 | 2,777,748 |
| International funds | - | - | 482,180 | 482,180 |
| | \$ 57,938,157 | \$ 462,701 | \$ 31,269,996 | \$ 89,670,854 |

University of Northern Iowa Foundation

Notes to Combined Financial Statements

| | June 30, 2010 | | | |
|-----------------------------------|---|---|--|----------------------|
| | Quoted Market Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Large cap equities | \$ 9,389,119 | \$ - | \$ - | \$ 9,389,119 |
| Mid/small cap equities | 4,762,205 | - | - | 4,762,205 |
| International equities | 5,907,756 | - | - | 5,907,756 |
| Fixed income | 13,556,668 | - | - | 13,556,668 |
| Money market | 1,109,269 | - | - | 1,109,269 |
| Certificates of deposit | - | 659,766 | - | 659,766 |
| Living trusts and gift annuities: | | | | |
| Fixed income | 2,225,419 | 108,220 | - | 2,333,639 |
| Domestic equities | 2,250,359 | - | - | 2,250,359 |
| International equities | 412,392 | - | - | 412,392 |
| Other | - | 291,870 | - | 291,870 |
| Market alternatives: | | | | |
| Real estate investments | - | - | 937,755 | 937,755 |
| Fund of funds | - | - | 22,062,241 | 22,062,241 |
| Commonfund limited partnerships | - | - | 658,336 | 658,336 |
| Other limited partnerships | - | - | 2,116,361 | 2,116,361 |
| International funds | - | - | 469,115 | 469,115 |
| | <u>\$ 39,613,187</u> | <u>\$ 1,059,856</u> | <u>\$ 26,243,808</u> | <u>\$ 66,916,851</u> |

University of Northern Iowa Foundation

Notes to Combined Financial Statements

The following tables 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, 2011 and 2010:

Year ended June 30, 2011

| | Real Estate Investments | Fund of Funds | Commonfund Limited Partnerships | Other Limited Partnerships | International Funds | Total |
|---|----------------------------|----------------------|---------------------------------------|----------------------------------|------------------------|----------------------|
| Beginning balance, July 1, 2010 | \$ 937,755 | \$ 22,062,241 | \$ 658,336 | \$ 2,116,361 | \$ 469,115 | \$ 26,243,808 |
| Amounts included in net change in net assets from operations from: | | | | | | |
| Unrealized gains | (50,431) | 2,720,994 | 116,526 | 524,703 | 18,220 | 3,330,012 |
| Realized gains or (losses) | 58,256 | - | 30,028 | 168,844 | - | 257,128 |
| Purchases of securities | 880,000 | 1,200,000 | 290,000 | 365,306 | - | 2,735,306 |
| Proceeds from disposal of securities | (1,891) | (500,004) | (44,232) | (231,657) | - | (777,784) |
| Reinvested interest income (net of management fees) | (9,498) | (302,346) | (35,666) | (165,809) | (5,155) | (518,474) |
| Ending balance, June 30, 2011 | \$ 1,814,191 | \$ 25,180,885 | \$ 1,014,992 | \$ 2,777,748 | \$ 482,180 | \$ 31,269,996 |

Year ended June 30, 2010

| | |
|---|----------------------|
| Beginning balance, July 1, 2009 | \$ 20,318,939 |
| Amounts included in net change in net assets from operations from: | |
| Unrealized gains | 3,596,800 |
| Realized gains or (losses) | (6,607) |
| Purchases of securities | 3,814,845 |
| Proceeds from disposal of securities | (1,153,619) |
| Reinvested interest income (net of management fees) | (326,550) |
| Ending balance, June 30, 2010 | <u>\$ 26,243,808</u> |

Market alternatives are redeemable with the investee fund at NAV under the original terms of the subscription agreement. 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

The following table provides a summary of market alternatives at June 30, 2011, by net asset class, whose fair value is calculated using NAV per share, or its equivalent:

| Description | Fair Value | Unfunded Commitments | Redemption Frequency (if available) | Redemption Notice Period |
|--------------------------------------|----------------------|----------------------|-------------------------------------|--------------------------|
| Real estate investments (a) | \$ 1,814,191 | \$ 1,205,000 | Not allowed | Not applicable |
| Fund of funds (b) | 25,180,885 | - | See below | 65 - 105 days |
| Common fund limited partnerships (c) | 1,014,992 | 1,227,634 | Not allowed | Not applicable |
| Other limited partnerships (d) | 2,777,748 | 1,804,838 | Not allowed | Not applicable |
| Other (e) | 482,180 | - | Quarterly | 60 days notice |
| | <u>\$ 31,269,996</u> | <u>\$ 4,237,472</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 investments companies and hedge funds with no particular industry or geographic concentration. Approximately 50% of the fund is redeemable quarterly with the balance redeemable 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, options, foreign currency and private investment pools with no particular industry or geographic concentration. Redemptions are not allowed; distributions, if any, are based on the sales of the underlying assets.
- (e) Globally diversified portfolio invested in publicly traded equities, debt securities and institutional debt.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

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 two years ended June 30:

| | June 30, 2011 | | | Total |
|--|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Interest and dividends | \$ 290,458 | \$ 1,134,332 | \$ 135,098 | \$ 1,559,888 |
| Realized and unrealized gains and losses | 5,271,382 | 6,001,171 | 715,565 | 11,988,118 |
| Management fees | (114,344) | (860,824) | (23,701) | (998,869) |
| | <u>\$ 5,447,496</u> | <u>\$ 6,274,679</u> | <u>\$ 826,962</u> | <u>\$ 12,549,137</u> |

| | June 30, 2010 | | | Total |
|--|---------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Interest and dividends | \$ 175,794 | \$ 933,575 | \$ 143,976 | \$ 1,253,345 |
| Realized and unrealized gains and losses | 4,565,448 | 2,550,540 | 444,115 | 7,560,103 |
| Management fees | (80,833) | (594,958) | (22,887) | (698,678) |
| | <u>\$ 4,660,409</u> | <u>\$ 2,889,157</u> | <u>\$ 565,204</u> | <u>\$ 8,114,770</u> |

Note 3. 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:

| | 2011 | 2010 |
|--|---------------------|---------------------|
| In one year or less | \$ 2,692,504 | \$ 2,528,287 |
| Between one year and five years | 4,375,854 | 5,086,385 |
| More than five years | 1,951,481 | 2,009,145 |
| | <u>9,019,839</u> | <u>9,623,817</u> |
| Less discounts to net present value | (628,114) | (685,279) |
| Less allowance for uncollectible pledges | (420,906) | (462,313) |
| | <u>\$ 7,970,819</u> | <u>\$ 8,476,225</u> |

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Pledges receivable at June 30, 2011 and 2010 have the following restrictions:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Unrestricted: | | |
| Undesignated | \$ 126,065 | \$ 128,892 |
| Temporarily restricted: | | |
| Scholarships and department programs | 4,412,302 | 4,567,593 |
| Plant | 1,071,662 | 1,398,569 |
| Permanently restricted: | | |
| Endowments - scholarships and department programs | 2,360,790 | 2,381,172 |
| | <u>\$ 7,970,819</u> | <u>\$ 8,476,225</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, 2011 and 2010, promises to give total approximately \$90,000,000 and \$87,900,000, respectively.

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

Note 4. Donated Assets

A summary of donated assets at June 30, 2011 and 2010, is as follows:

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|-------------------|------------------|
| Real estate | \$ 39,400 | \$ 39,400 |
| Marketable securities | 65,565 | 1,079 |
| Remainder interest in residence | 55,384 | 55,384 |
| Other | 6,393 | 3,622 |
| | <u>\$ 166,742</u> | <u>\$ 99,485</u> |

Artwork and museum pieces were transferred to the University during the year.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Note 5. Buildings and Equipment

The Foundation constructed a building to be used for the Freeburg Early Childhood Education Program by the University and Waterloo Community Schools. The building is located on land owned by Allen Health Systems, Inc. and will be leased by the Foundation for one dollar per year as long as it owns the building. A portion of the building is used by the Freeburg Early Childhood Education program through the University of Northern Iowa College of Education. The remaining building space is leased by the Foundation to operate the Allen Hospital Child Care Program under an agreement expiring June 30, 2016 under this agreement rental income of approximately \$11,000 and \$110,000 was recognized during each of the years ending June 30, 2011 and 2010, respectively. Components of buildings and equipment include the following as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|-------------------|---------------------|
| 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 | 122,390 | 122,390 |
| Total building and equipment | 2,038,617 | 2,038,617 |
| Less accumulated depreciation | 1,066,719 | 973,568 |
| Net buildings and equipment | \$ 971,898 | \$ 1,065,049 |

Note 6. Recurring Obligations - Split-interest Agreements

The Foundation is obligated to pay approximately \$281,000 and \$104,000 each year under existing lifetime charitable gift annuities and charitable remainder annuity trust agreements based on original contributions of approximately \$3,786,000 and \$1,668,000, respectively. 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 was approximately \$69,000 and \$75,000 during the years ending June 30, 2011 and 2010, respectively. Asset values were approximately \$2,058,000 and \$1,842,000 as of June 30, 2011 and 2010, respectively.

Note 7. Support Provided by The University of Northern Iowa

The Foundation reimburses the University for the salaries and benefits of the Foundation's employees. The University also provides office space, equipment maintenance, telephone support, and other miscellaneous office supplies. At June 30, 2011 and 2010, approximately \$449,000 and \$174,000, respectively, due to the University were included in accounts payable. Additionally, at June 30, 2010, approximately \$4,000 was due from the University and included in other receivables. There was no receivable for the year ended June 30, 2011.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Note 8. 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>2011</u> | <u>2010</u> |
|--------------------------------------|---------------------|---------------------|
| Purpose restrictions accomplished: | | |
| Scholarships and department programs | \$ 6,163,745 | \$ 5,240,194 |
| Plant | 114,774 | 986,814 |
| Total restrictions released | \$ 6,278,519 | \$ 6,227,008 |

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

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Program activities: | | |
| Scholarships and department programs | \$ 31,807,242 | \$ 25,876,485 |
| Plant | 813,179 | 898,533 |
| Charitable gift annuities | 114,726 | 22,958 |
| Charitable remainder unitrusts | 523,152 | 421,931 |
| Total temporarily restricted net assets | \$ 33,258,299 | \$ 27,219,907 |

Permanently restricted net assets are restricted for the following purposes:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Endowment | \$ 54,116,412 | \$ 41,578,391 |
| Charitable gift annuities | 358,539 | 112,531 |
| Charitable remainder trust annuities | 272,452 | 145,284 |
| Charitable remainder unitrusts | 1,058,891 | 872,931 |
| Total permanently restricted net assets | \$ 55,806,294 | \$ 42,709,137 |

University of Northern Iowa Foundation

Notes to Combined Financial Statements

The composition of and changes in permanent endowments, not total, net assets as of and for the year ended June 30, 2011 and 2010, which reflect the reclassification discussed in Note 10, are as follows:

| | June 30, 2011 | | | Total |
|--|-------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year: | \$ (1,354,176) | \$ 2,899,358 | \$ 41,578,391 | \$ 43,123,573 |
| Contributions, net | 82,498 | 1,063,025 | 11,856,023 | 13,001,546 |
| Reclassification attributed to underwater endowments | (552,298) | 552,298 | - | - |
| Investment return | 3,797,614 | 3,995,838 | 3,345 | 7,796,797 |
| Fees and donor redesignations | (541,465) | (384,179) | (101,627) | (1,027,271) |
| Amounts appropriated for expenditure | (719,735) | (978,722) | - | (1,698,457) |
| Endowment net assets, end of year | \$ 712,438 | \$ 7,147,618 | \$ 53,336,132 | \$ 61,196,188 |

Endowment net assets consist of the following:

| | | | | |
|------------------------|-------------------|---------------------|----------------------|----------------------|
| Donor-restricted funds | \$ (844,042) | \$ 7,147,618 | \$ 53,336,132 | \$ 59,639,708 |
| Board-designated funds | 1,556,480 | - | - | 1,556,480 |
| | \$ 712,438 | \$ 7,147,618 | \$ 53,336,132 | \$ 61,196,188 |

| | June 30, 2010 | | | Total |
|--|-----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year: | \$ (4,558,707) | \$ 2,426,817 | \$ 39,244,773 | \$ 37,112,883 |
| Contributions, net | 1,024,612 | 136,478 | 2,331,208 | 3,492,298 |
| Reclassification attributed to underwater endowments | (402,442) | 402,442 | - | - |
| Investment return | 3,436,649 | 1,255,968 | 16,559 | 4,709,176 |
| Donor redesignations | (710,907) | (593,450) | (14,149) | (1,318,506) |
| Amounts appropriated for expenditure | (143,381) | (728,897) | - | (872,278) |
| Endowment net assets, end of year | \$ (1,354,176) | \$ 2,899,358 | \$ 41,578,391 | \$ 43,123,573 |

Endowment net assets consist of the following:

| | | | | |
|------------------------|-----------------------|---------------------|----------------------|----------------------|
| Donor-restricted funds | \$ (2,679,173) | \$ 2,899,358 | \$ 41,578,391 | \$ 41,798,576 |
| Board-designated funds | 1,324,997 | - | - | 1,324,997 |
| | \$ (1,354,176) | \$ 2,899,358 | \$ 41,578,391 | \$ 43,123,573 |

Underwater endowments of approximately \$844,000 and \$2,679,000 are included in unrestricted net assets as of June 30, 2011 and 2010, respectively.