

# **University of Northern Iowa Foundation**

Combined Financial Report  
June 30, 2013

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UNIVERSITY OF NORTHERN IOWA FOUNDATION  
CEDAR FALLS, IOWA

Officers and Trustees  
Year Ended June 30, 2013

Officers:

Rose Lorenz	Chair of the Board
David Mason	1st 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
Gary Shontz '74 '81 *	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:

Ben Allen	J. Michael McBride '62 **
Steve Anderson '88	Ruth Ann Meyer '58
Robert Beach '51, Honorary Trustee	Jim Mudd, Sr.
Carl Boyd '87 **	David Oman '74
Joy Corning '54	Mark Oman '76
Constantine Curris, UNI President Emeritus, Honorary Trustee	Richard Redfern '74
Eugene Dietz '60	Reid Richards '71
Rex Eno	Bev Riess '78
Edward Gallagher, Jr.	Paul Rhines '65 **
Senator Charles Grassley '55, Honorary Trustee	Richard Savage '63
Donna Harman '47	Steve Segebarth '67
Jorgen Heidemann '68	James Slife '73
Guang Jin '92	Dave Takes '81
John Kamerick	Bobbie Williams
UNI President Emeritus, Honorary Trustee	Tim Williams
Robert Koob '62	Rick Young
UNI President Emeritus, Honorary Trustee	

\* 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, 2013

Officers:

William Calhoun, Jr. '79	President/CEO of the Board
Jim Jermier '95 *	Vice President of the Board
Gina Trimble '98 *	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, 2013

Dave Takes	Chair of the Board
William Calhoun, Jr. '79	President/CEO of the Board
Gina Trimble '98 *	Vice President and Treasurer of the Board
Jean Carlisle '78 '81 *	Secretary of the Board

Trustees:

Ben Allen	Mark Kitrell '86
Bill Bradford	Ron Padavich *
Robert Bradford	Randy Pilkington '80 '98
Clifton Chancey	Paul Rhines '65 **
Jorgen Heidemann '68	Christine Twait '92 *
Guang Jin '92	

\* Ex officio members

\*\* Resigned from the board during the year



## 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

### 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, (the Organizations) which comprise the combined statements of financial position as of June 30, 2013 and 2012, and the related combined statements of activities and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 audit to obtain reasonable assurance about whether the combined financial statements are free of 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 combined 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, 2013 and 2012, and the combined 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.

*McGladrey LLP*

Des Moines, Iowa  
October 18, 2013

University of Northern Iowa Foundation

Combined Statements of Financial Position  
June 30, 2013 and 2012

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 299,641	\$ 69,442
Investments	104,420,848	86,970,234
Pledges receivable, net	14,799,317	7,340,690
Life insurance cash value	1,377,593	1,312,784
Building and equipment, net	786,465	879,066
Other	364,755	446,978
	<u>364,755</u>	<u>446,978</u>
<b>Total assets</b>	<b>\$ 122,048,619</b>	<b>\$ 97,019,194</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 400,564	\$ 400,612
Pledges payable to the University of Northern Iowa	-	294,800
Annuities payable	1,756,958	1,843,892
Annuity trusts payable	900,647	928,845
Unitrusts payable	469,579	524,440
	<u>469,579</u>	<u>524,440</u>
<b>Total liabilities</b>	<b>3,527,748</b>	<b>3,992,589</b>
Net Assets		
Unrestricted	6,213,459	4,201,302
Temporarily restricted	33,826,387	28,995,819
Permanently restricted	78,481,025	59,829,484
	<u>78,481,025</u>	<u>59,829,484</u>
<b>Total net assets</b>	<b>118,520,871</b>	<b>93,026,605</b>
	<u>118,520,871</u>	<u>93,026,605</u>
<b>Total liabilities and net assets</b>	<b>\$ 122,048,619</b>	<b>\$ 97,019,194</b>
	<u>\$ 122,048,619</u>	<u>\$ 97,019,194</u>

See Notes to Combined Financial Statements.

University of Northern Iowa Foundation

Combined Statements of Activities  
June 30, 2013 and 2012

	2013			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Revenue, support and reclassifications:				
Contribution revenue	\$ 1,783,065	\$ 7,372,808	\$ 18,627,212	\$ 27,783,085
Investment return	3,404,515	4,937,329	384,503	8,726,347
Miscellaneous income	25,600	12,082	-	37,682
Reclassifications attributed to underwater endowments	(458,732)	458,732	-	-
Donor redesignations	1,225,899	(1,030,992)	(194,907)	-
Net assets released from restrictions	6,919,903	(6,919,903)	-	-
<b>Total revenue, support and reclassifications</b>	<b>12,900,250</b>	<b>4,830,056</b>	<b>18,816,808</b>	<b>36,547,114</b>
Expenses and adjustments:				
Scholarship expenses	3,557,135	-	-	3,557,135
Programming expenses	4,083,296	-	-	4,083,296
Administrative expenses	952,470	-	-	952,470
Fundraising expenses	2,150,803	-	-	2,150,803
Uncollectible pledges (recoveries)	40,535	(17,706)	(38,982)	(16,153)
Depreciation expense	92,601	-	-	92,601
Present value liability actuarial adjustment	11,253	17,194	204,249	232,696
<b>Total expenses and adjustments</b>	<b>10,888,093</b>	<b>(512)</b>	<b>165,267</b>	<b>11,052,848</b>
Change in net assets	2,012,157	4,830,568	18,651,541	25,494,266
Net assets, beginning of year	4,201,302	28,995,819	59,829,484	93,026,605
Net assets, end of year	<b>\$ 6,213,459</b>	<b>\$ 33,826,387</b>	<b>\$ 78,481,025</b>	<b>\$ 118,520,871</b>

See Notes to Combined Financial Statements.

2012

Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 958,156	\$ 7,757,286	\$ 4,011,951	\$ 12,727,393
(499,555)	(594,783)	56,982	(1,037,356)
59,823	12,121	-	71,944
(408,563)	408,563	-	-
1,528,416	(1,749,286)	220,870	-
8,763,305	(8,763,305)	-	-
10,401,582	(2,929,404)	4,289,803	11,761,981
3,879,470	-	-	3,879,470
5,460,639	-	-	5,460,639
916,111	-	-	916,111
2,045,857	-	-	2,045,857
949	1,311,238	26,672	1,338,859
92,833	-	-	92,833
27,816	21,838	239,941	289,595
12,423,675	1,333,076	266,613	14,023,364
(2,022,093)	(4,262,480)	4,023,190	(2,261,383)
6,223,395	33,258,299	55,806,294	95,287,988
\$ 4,201,302	\$ 28,995,819	\$ 59,829,484	\$ 93,026,605

University of Northern Iowa Foundation

Combined Statements of Cash Flow  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 25,494,266	\$ (2,261,383)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	92,601	92,833
Donated assets	(111,130)	(356,984)
Investment (gains) losses, net	(7,646,294)	2,010,979
Gains in cash value of life insurance	(64,809)	(53,199)
Losses on sale of donated assets	5,790	1,354
Change in annuity and unitrust obligations	232,693	289,596
Uncollectible pledges	(16,153)	1,338,859
Net contributions restricted for long-term investment	(11,661,929)	(3,612,437)
Changes in assets and liabilities:		
(Increase) in pledges receivable	(7,442,474)	(708,730)
(Increase) decrease in other	101,199	(240,316)
(Decrease) in accounts payable, accrued expenses and other	(48)	(288,924)
(Decrease) in pledges payable	(294,800)	(574,583)
<b>Net cash (used in) operating activities</b>	<b>(1,311,088)</b>	<b>(4,362,935)</b>
Cash Flows from Investing Activities		
Purchase of investments	(25,855,386)	(16,334,837)
Sale of investments	16,051,066	17,024,478
Cash proceeds from sale of donated assets	86,364	415,739
<b>Net cash provided by (used in) investing activities</b>	<b>(9,717,956)</b>	<b>1,105,380</b>
Cash Flows from Financing Activities		
Net contributions restricted for long-term investment	11,661,929	3,612,437
Charitable gift annuities established	43,022	36,725
Net payments of annuities, annuity trust and unitrust obligations	(445,708)	(451,365)
<b>Net cash provided by financing activities</b>	<b>11,259,243</b>	<b>3,197,797</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>230,199</b>	<b>(59,758)</b>
Cash and Cash Equivalents		
Beginning of year	69,442	129,200
End of year	\$ 299,641	\$ 69,442

See Notes to Combined Financial Statements.

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### 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 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 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.

**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 investment return in the change in net assets in the accompanying combined statements of activities.

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

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.

**Pledge 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.

**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 based on the current rate for such services. These include 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:

	2013	2012
Department programs	\$ 97,599	\$ 196,544
Administrative and fundraising	6,725	6,768
	<u>\$ 104,324</u>	<u>\$ 203,312</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.

**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.

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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 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, 2010 nor have we been notified of any impending examination and no examinations are currently in process.

**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 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.

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.

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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, 2013 and 2012:

**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 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).

**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.

**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, primarily publicly traded.

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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 investment 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 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 - Primarily all Level 3 investments are valued 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 be used to determine fair value, under certain conditions. These investments would have significant redemption and other restrictions that would limit the funds 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, or in the process of, liquidation. Such funds are valued based on the fund manager's expectation of liquidation proceeds. Level 3 investments also include beneficial interest in trust as the Foundation has no redemption rights with respect to trust assets. Other valuation techniques for level 3 investments include option pricing models, discounted cash flow models and similar techniques.

**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 accounting developments:** In October 2012, the FASB issued guidance which requires not-for-profit entities to classify cash receipts from the "nearly immediate" sale of donated financial assets as an operating activity in the statement of cash flows when received with no donor-imposed restrictions. When the donor has restricted the use of the cash receipts from the sale of donated financial assets, classification as a financing activity would be required. When financial assets are not "nearly immediately" sold, classification as an investing activity would be appropriate. The guidance is effective prospectively for fiscal years beginning after June 15, 2013.

University of Northern Iowa Foundation

Notes to Combined Financial Statements

**Note 2. Investments**

A summary of the investments held at June 30, 2013 and 2012, segregated by the valuation inputs under the fair value hierarchy, is as follows:

	June 30, 2013			Total
	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Large cap equities	\$ 17,469,672	\$ -	\$ -	\$ 17,469,672
Mid/small cap equities	8,573,402	-	-	8,573,402
International equities	11,183,687	-	-	11,183,687
Fixed income	23,361,484	205,487	-	23,566,971
Money market	6,081,235	-	-	6,081,235
Living trusts and gift annuities:				
Fixed income	2,118,110	180,140	-	2,298,250
Domestic equities	2,472,596	-	-	2,472,596
International equities	435,945	-	-	435,945
Beneficial interest in trust	-	-	360,286	360,286
Other	-	100,733	-	100,733
Market alternatives:				
Real estate investments	-	-	2,361,740	2,361,740
Fund of funds	-	5,782,121	6,944,446	12,726,567
Commonfund limited partnerships	-	-	1,496,295	1,496,295
Other limited partnerships	-	12,266,573	3,026,896	15,293,469
	<b>\$ 71,696,131</b>	<b>\$ 18,535,054</b>	<b>\$ 14,189,663</b>	<b>\$ 104,420,848</b>

University of Northern Iowa Foundation

Notes to Combined Financial Statements

Note 2. Investments (Continued)

	June 30, 2012			
	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Large cap equities	\$ 12,378,165	\$ -	\$ -	\$ 12,378,165
Mid/small cap equities	5,197,366	-	-	5,197,366
International equities	10,500,056	-	-	10,500,056
Fixed income	20,286,627	204,265	-	20,490,892
Money market	966,584	-	-	966,584
Living trusts and gift annuities:				
Fixed income	2,277,519	182,941	-	2,460,460
Domestic equities	2,298,984	-	-	2,298,984
International equities	432,960	-	-	432,960
Beneficial interest in trust	-	-	342,862	342,862
Other	-	100,733	-	100,733
Market alternatives:				
Real estate investments	-	-	2,134,667	2,134,667
Fund of funds	-	-	14,727,241	14,727,241
Commonfund limited partnerships	-	-	1,338,971	1,338,971
Other limited partnerships	-	-	13,600,293	13,600,293
	<u>\$ 54,338,261</u>	<u>\$ 487,939</u>	<u>\$ 32,144,034</u>	<u>\$ 86,970,234</u>

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

#### Note 2. Investments (Continued)

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, 2013 and 2012:

	Real Estate Investments	Fund of Funds	Commonfund Limited Partnerships	Other Limited Partnerships	Beneficial Interest in Trust	Total
Beginning balance, July 1, 2011	\$ 1,814,191	\$ 15,922,370	\$ 1,014,992	\$ 12,518,443	\$ -	\$ 31,269,996
Contributions	-	-	-	-	384,101	384,101
Amounts included in net change in net assets from operations from:						
Unrealized gains or (losses)	87,422	(77,947)	131,268	(157,791)	(41,240)	(58,288)
Realized gains	46,601	21,713	42,784	287,744	-	398,842
Purchases of securities	165,000	1,000,000	227,105	2,171,682	-	3,563,787
Proceeds from disposal of securities	-	(2,000,000)	(44,143)	(1,002,169)	-	(3,046,312)
Reinvested interest income (net of management fees)	21,454	(138,895)	(33,035)	(217,616)	-	(368,092)
Ending balance, June 30, 2012	2,134,668	14,727,241	1,338,971	13,600,293	342,861	32,144,034
Transfers from Level 3 to Level 2	-	(7,063,251)	-	(10,275,791)	-	(17,339,042)
Amounts included in net change in net assets from operations from:						
Unrealized gains or (losses)	205,447	707,364	20,753	(48,030)	17,425	902,959
Realized gains	-	-	103,347	185,037	-	288,384
Purchases of securities	45,000	-	246,851	56,240	-	348,091
Proceeds from disposal of securities	(4,491)	(1,350,000)	(185,187)	(463,705)	-	(2,003,383)
Reinvested interest income (net of management fees)	(18,884)	(76,908)	(28,440)	(27,148)	-	(151,380)
<b>Ending balance, June 30, 2013</b>	<b>\$ 2,361,740</b>	<b>\$ 6,944,446</b>	<b>\$ 1,496,295</b>	<b>\$ 3,026,896</b>	<b>\$ 360,286</b>	<b>\$ 14,189,663</b>
Amount of unrealized gain related to financial instruments held at June 30, 2013, and included in statement of activities	<b>\$ 205,447</b>	<b>\$ 707,364</b>	<b>\$ 20,753</b>	<b>\$ (48,030)</b>	<b>\$ 17,425</b>	<b>\$ 902,959</b>

At the beginning of 2013, management reviewed its investments, including redemption restrictions, notification requirements and lock-up periods, and identified \$17,339,042 of investments that were previously classified as Level 3 that meet the Level 2 criteria, due to no redemption restrictions, lock-up periods or gates.

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

#### Note 2. Investments (Continued)

The following table provides a summary of market alternatives at June 30, 2013 and 2012, by net asset class, whose fair value is calculated using NAV per share, or its equivalent:

Description	2013 Fair Value	2012 Fair Value	June 30, 2013		
			Unfunded Commitments	Redemption Frequency (if available)	Redemption Notice Period
Real estate investments (a)	\$ 2,361,740	\$ 2,134,667	\$ 980,000	Not allowed	Not applicable
Fund of funds (b)	12,726,567	14,727,241	-	See Below	60 - 105 days
Common fund limited partnerships (c)	1,496,295	1,338,971	625,634	Not allowed	Not applicable
Other limited partnerships (d)	15,293,469	13,600,293	1,185,437	See Below	See Below
	<b>\$ 31,878,071</b>	<b>\$ 31,801,172</b>	<b>\$ 2,791,071</b>		

- (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 \$5.8M 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, equity and debt securities, options, foreign currency and private investment pools, distressed securities and securitized assets with no particular industry or geographic concentration. For approximately 20% of the partnership investments redemptions are not allowed; distributions, if any, are based on the sales of the underlying assets. Approximately 64% is subject to quarterly redemption notices between 60-90 days. The remaining 16% is not subject to any redemption restrictions.

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, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 438,194	\$ 1,371,676	\$ 112,166	\$ 1,922,036
Realized and unrealized gains	3,101,818	4,314,381	294,904	7,711,103
Management fees	(135,497)	(748,728)	(22,567)	(906,792)
	<b>\$ 3,404,515</b>	<b>\$ 4,937,329</b>	<b>\$ 384,503</b>	<b>\$ 8,726,347</b>

  

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 363,591	\$ 1,331,391	\$ 111,442	\$ 1,806,424
Realized and unrealized (losses)	(736,748)	(1,184,598)	(33,131)	(1,954,477)
Management fees	(126,398)	(741,576)	(21,329)	(889,303)
	<b>\$ (499,555)</b>	<b>\$ (594,783)</b>	<b>\$ 56,982</b>	<b>\$ (1,037,356)</b>

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### 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:

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 2,988,725	\$ 2,349,417
Between one year and five years	10,827,229	3,732,122
More than five years	1,809,150	2,104,687
	<u>15,625,104</u>	<u>8,186,226</u>
Less discounts to net present value	(564,688)	(461,877)
Less allowance for uncollectible pledges	(261,099)	(383,659)
	<u>\$ 14,799,317</u>	<u>\$ 7,340,690</u>

Pledges receivable at June 30, 2013 and 2012 have the following restrictions:

	<u>2013</u>	<u>2012</u>
Unrestricted:		
Undesignated	\$ 178,870	\$ 171,412
Temporarily restricted:		
Scholarships and department programs	5,048,663	4,049,405
Plant	1,099,126	1,106,140
Permanently restricted:		
Endowments - scholarships and department programs	8,472,658	2,013,733
	<u>\$ 14,799,317</u>	<u>\$ 7,340,690</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, 2013 and 2012, conditional promises to give total approximately \$106,000,000 and \$99,000,000, respectively.

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

## University of Northern Iowa Foundation

### Notes to Combined Financial Statements

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#### Note 4. Building and Equipment

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 June 30, 2016. The building is used by the Tri-County Child and Family Development Council, Inc. under an agreement expiring June 30, 2016. Rental income of approximately \$12,000 was recognized during each of the years ending June 30, 2013 and 2012. Components of the building and equipment include the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</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
<b>Total building and equipment</b>	<b>2,038,617</b>	<b>2,038,617</b>
Less accumulated depreciation	1,252,152	1,159,551
<b>Net buildings and equipment</b>	<b>\$ 786,465</b>	<b>\$ 879,066</b>

#### Note 5. Recurring Obligations - Split-interest Agreements

The Foundation is obligated to pay approximately \$291,000 and \$104,000 each year under existing lifetime charitable gift annuities and charitable remainder annuity trust agreements based on original contributions of approximately \$3,747,000 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 \$68,000 and \$72,000 during the years ended June 30, 2013 and 2012, respectively. Asset values were approximately \$2,084,000 and \$1,993,000 as of June 30, 2013 and 2012, respectively.

#### Note 6. 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, 2013 and 2012, approximately \$68,200 and \$100,600, respectively, due to the University were included in accounts payable. Additionally, there were no amounts due from the University included in receivables at June 30, 2013 or 2012.

#### Note 7. 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>2013</u>	<u>2012</u>
Purpose restrictions accomplished:		
Scholarships and department programs	\$ 6,784,360	\$ 8,590,013
Plant	135,543	173,292
<b>Total restrictions released</b>	<b>\$ 6,919,903</b>	<b>\$ 8,763,305</b>

**University of Northern Iowa Foundation**

**Notes to Combined Financial Statements**

**Note 7. Restrictions on Net Assets (Continued)**

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

	<u>2013</u>	<u>2012</u>
Program activities:		
Scholarships and department programs	\$ 32,196,572	\$ 27,705,239
Plant	1,062,466	760,939
Charitable gift annuities	21,048	19,821
Charitable remainder unitrusts	546,301	509,820
<b>Total temporarily restricted net assets</b>	<b>\$ 33,826,387</b>	<b>\$ 28,995,819</b>

Permanently restricted net assets are restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
Endowment	\$ 75,757,789	\$ 57,316,355
Charitable gift annuities	188,705	152,363
Charitable remainder trust annuities	203,386	189,338
Charitable remainder unitrusts	1,129,212	1,018,979
Life Insurance Fund	841,647	809,587
Beneficial interest in trust	360,286	342,862
<b>Total permanently restricted net assets</b>	<b>\$ 78,481,025</b>	<b>\$ 59,829,484</b>

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, 2013 and 2012, are as follows:

	<u>June 30, 2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year:	\$ (607,909)	\$ 4,352,058	\$ 55,302,621	\$ 59,046,770
Contributions, net	676,011	147,821	12,207,270	13,031,102
Reclassification attributed to underwater endowments	(458,732)	458,732	-	-
Investment return	2,491,164	3,607,499	(20,464)	6,078,199
Fees and donor redesignations	(391,768)	(614,755)	(204,296)	(1,210,819)
Amounts appropriated for expenditure	(780,986)	(1,633,881)	-	(2,414,867)
<b>Endowment net assets, end of year</b>	<b>\$ 927,780</b>	<b>\$ 6,317,474</b>	<b>\$ 67,285,131</b>	<b>\$ 74,530,385</b>
Endowment net assets consist of the following:				
Donor-restricted funds	(1,209,416)	\$ 6,317,474	\$ 67,285,131	\$ 72,393,189
Board-designated funds	2,137,196	-	-	2,137,196
	<b>\$ 927,780</b>	<b>\$ 6,317,474</b>	<b>\$ 67,285,131</b>	<b>\$ 74,530,385</b>

**University of Northern Iowa Foundation**

**Notes to Combined Financial Statements**

**Note 7. Restrictions on Net Assets (Continued)**

	June 30, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year:	\$ 712,438	\$ 7,147,618	\$ 50,975,342	\$ 58,835,398
Contributions, net	32,289	68,942	3,948,335	4,049,566
Reclassification attributed to underwater endowments	(408,563)	408,563	-	-
Investment return	(118,646)	(459,646)	48,954	(529,338)
Fees and donor redesignations	(422,470)	(767,585)	329,990	(860,065)
Amounts appropriated for expenditure	(402,956)	(2,045,834)	-	(2,448,790)
<b>Endowment net assets, end of year</b>	<b>\$ (607,908)</b>	<b>\$ 4,352,058</b>	<b>\$ 55,302,621</b>	<b>\$ 59,046,771</b>

Endowment net assets consist of the following:

Donor-restricted funds	(1,941,261)	\$ 4,352,058	\$ 55,302,621	\$ 57,713,418
Board-designated funds	1,333,353	-	-	1,333,353
	<b>\$ (607,908)</b>	<b>\$ 4,352,058</b>	<b>\$ 55,302,621</b>	<b>\$ 59,046,771</b>

Underwater endowments of approximately \$1,209,000 and \$1,941,000 are included in unrestricted net assets as of June 30, 2013 and 2012, respectively.

**Note 8. Contingencies**

In July 2012, a company of a major donor declared bankruptcy. The donor's pledge receivable of \$500,000 was written off as of June 30, 2012. 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, 2013, and 2012.

**Note 9. Subsequent Events**

Subsequent events have been evaluated subsequent to June 30, 2013 through October 18, 2013, the date the financial statements are available for issuance.