

*University of*  
**NORTHERN**  
**COLORADO**  
FOUNDATION

**Financial Statements**  
**and**  
**Independent Auditors' Report**  
**June 30, 2011**

**(With Summarized Financial Information for the Year Ended June 30, 2010)**

**EKS&H**  
**EHRHARDT • KEEFE**  
**STEINER • HOTTMAN PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
University of Northern Colorado Foundation, Inc.  
Greeley, Colorado

We have audited the accompanying statements of financial position of University of Northern Colorado Foundation, Inc. (the "Foundation") (a Colorado non-profit corporation) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Foundation's 2010 financial statements, and in our report dated November 10, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in these circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Northern Colorado Foundation, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Ehrhardt Keefe Steiner + Hottman PC*

Ehrhardt Keefe Steiner & Hottman PC

October 10, 2011  
Denver, Colorado

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Statement of Financial Position**

	June 30, 2011	Summarized Financial Information for the Year Ended June 30, 2010
	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Assets		
Cash and cash equivalents	\$ 2,315,095	\$ 1,571,622
Investments	95,881,745	83,600,211
Receivables		
Pledges, net of allowance	1,105,360	1,541,739
Other receivables	38,871	3,106
Accrued interest	292,244	363,990
Property and equipment, net	995,803	1,022,522
Cash surrender value of life insurance policies	80,724	78,873
Prepays and other assets	<u>19,844</u>	<u>30,318</u>
Total assets	<u>\$ 100,729,686</u>	<u>\$ 88,212,381</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,294,302	\$ 1,424,195
Deferred revenue	16,667	16,667
Obligations under gift annuity agreements	186,201	207,787
Assets held for others	<u>685,955</u>	<u>696,076</u>
Total liabilities	<u>2,183,125</u>	<u>2,344,725</u>
Net assets		
Unrestricted		
Undesignated	10,103,098	7,559,992
Board-designated	<u>4,553,089</u>	<u>3,648,553</u>
Total unrestricted	14,656,187	11,208,545
Temporarily restricted	18,716,647	18,460,345
Permanently restricted	<u>65,173,727</u>	<u>56,198,766</u>
Total net assets	<u>98,546,561</u>	<u>85,867,656</u>
Total liabilities and net assets	<u>\$ 100,729,686</u>	<u>\$ 88,212,381</u>

See notes to financial statements.

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Statement of Activities**

	For the Year Ended June 30, 2011			Total	Summarized Financial Information the Year Ended June 30, 2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains, and support					
Contributions	\$ 684,878	\$ 3,224,811	\$ 985,287	\$ 4,894,976	\$ 3,969,736
In-kind contributions	-	48,701	-	48,701	224,797
Interest and dividends	513,331	395,583	1,661,222	2,570,136	2,478,951
Net realized and unrealized gains	3,392,676	1,232,111	9,261,186	13,885,973	6,322,120
Change in value of charitable gift annuities	(218)	-	10,289	10,071	(49,308)
Other income	32,601	577,741	-	610,342	1,510,207
Total revenues, gains, and support	<u>4,623,268</u>	<u>5,478,947</u>	<u>11,917,984</u>	<u>22,020,199</u>	<u>14,456,503</u>
Net assets released from restrictions					
Management fees earned	1,291,025	(248,573)	(1,042,452)	-	-
Satisfaction of program restrictions	<u>6,920,386</u>	<u>(4,506,363)</u>	<u>(2,414,023)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>8,211,411</u>	<u>(4,754,936)</u>	<u>(3,456,475)</u>	<u>-</u>	<u>-</u>
Expenses					
Program services	6,932,545	-	-	6,932,545	6,893,407
Support services					
Management and general	812,827	-	-	812,827	1,290,436
Fundraising	<u>1,570,922</u>	<u>-</u>	<u>-</u>	<u>1,570,922</u>	<u>1,324,328</u>
Total expenses	<u>9,316,294</u>	<u>-</u>	<u>-</u>	<u>9,316,294</u>	<u>9,508,171</u>
Other losses					
Write-off of pledge receivables, net of recoveries	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>550,000</u>
Total other losses	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>550,000</u>
Change in net assets	3,493,385	724,011	8,461,509	12,678,905	4,398,332
Transfer of net assets	(45,743)	(467,709)	513,452	-	-
Net assets at beginning of year	<u>11,208,545</u>	<u>18,460,345</u>	<u>56,198,766</u>	<u>85,867,656</u>	<u>81,469,324</u>
Net assets at end of year	<u>\$ 14,656,187</u>	<u>\$ 18,716,647</u>	<u>\$ 65,173,727</u>	<u>\$ 98,546,561</u>	<u>\$ 85,867,656</u>

See notes to financial statements.

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Statement of Cash Flows**

	For the Year Ended June 30, 2011	Summarized Financial Information for the Year Ended June 30, 2010
	<u>                    </u>	<u>                    </u>
Cash flows from operating activities		
Change in net assets	\$ 12,678,905	\$ 4,398,332
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	48,280	59,464
Net realized and unrealized gains	(13,885,973)	(6,650,669)
Write-off of pledge receivables, net of recoveries	25,000	550,000
Accretion in cash surrender value of life insurance policies	(1,851)	-
Contributions restricted for long-term investment	(985,287)	(855,120)
Changes in assets and liabilities		
Pledges receivable	411,379	413,693
Accrued interest	71,746	(19,671)
Other receivables	(35,765)	92,109
Prepays and other assets	10,474	4,637
Accounts payable and accrued expenses	(129,893)	(156,667)
Deferred revenue	-	(83,333)
Obligations under gift annuity agreements	2,637	63,807
Assets held for others	<u>(10,121)</u>	<u>(726)</u>
	<u>(14,479,374)</u>	<u>(6,582,476)</u>
Net cash used in operating activities	<u>(1,800,469)</u>	<u>(2,184,144)</u>
Cash flows from investing activities		
Net sales of investments	1,604,439	695,285
Purchase of property and equipment	<u>(21,561)</u>	<u>-</u>
Net cash provided by investing activities	<u>1,582,878</u>	<u>695,285</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	985,287	855,120
Payments of gift annuity obligations	<u>(24,223)</u>	<u>(11,774)</u>
Net cash provided by financing activities	<u>961,064</u>	<u>843,346</u>
Net increase (decrease) in cash and cash equivalents	743,473	(645,513)
Cash and cash equivalents at beginning of year	<u>1,571,622</u>	<u>2,217,135</u>
Cash and cash equivalents at end of year	<u>\$ 2,315,095</u>	<u>\$ 1,571,622</u>

See notes to financial statements.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies**

#### Organization

The University of Northern Colorado Foundation, Inc. (the "Foundation") is a non-profit corporation providing financial resource development and support to the University of Northern Colorado (the "University"). The majority of the Foundation's revenue is derived from contributions and investment income.

#### Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those assets that are not subject to donor-imposed restrictions. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's management and Board of Directors to support the Foundation's purposes, operations, fundraising, and certain University programs.

Temporarily restricted amounts are monies subject to donor-imposed restrictions that may or will be met either through actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted amounts are assets that must be maintained permanently by the Foundation as required by the donor; but the Foundation is permitted to use or expend part or all of any income derived from those assets.

Quasi-endowments are those purpose-restricted gifts which are intended to be maintained in perpetuity; however, under specific circumstances defined by the donor, the principal may be invaded fully to meet the defined purpose. Board-designated endowments are unrestricted funds designated by the Board of Directors to function as endowments (Note 8).

#### Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term money market accounts, and other highly liquid investments with an original maturity of three months or less, except for cash and cash equivalents subject to investment management direction. At times cash balances in commercial banks may exceed the level of insurance provided by the Federal Deposit Insurance Corporation.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Investments and Investment Valuation

Investments are stated at fair value. Securities traded on a national securities exchange are valued at the average of the bid and ask prices at close on the last business day of the fiscal year; investments traded in the over-the-counter market and listed securities for which no sale was reported on the last day are valued at the latest available bid price. Alternative investments are valued at the net asset value ("NAV") provided by the investment manager. This NAV is computed based on dealer quotations on the fair value of the underlying securities, the majority of which are traded on national exchanges. Investments for which there is no active market are recorded at fair value using various valuation techniques. Such techniques include using recent arm's length market transactions; observable valuation measures for comparable companies, adjusted for differences between the investment and the referenced comparable; and discounted cash flow analysis, pending recent transactions and potential initial public offering values.

The Foundation maintains pooled investment accounts for the majority of its endowments. Investment income and realized and unrealized gains and losses, net of investment and management fees, from securities in the pooled investment accounts are allocated bi-annually to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, and are adjusted for additions to or deductions from those accounts. The payout on endowment funds is computed at an annual rate determined by the Foundation's governing board, which was 4% for funds with a market value greater than the value of the initial gift and 1% for funds with a market value less than the value of the initial gift for the year ended June 30, 2011. The payout on endowment funds is transferred to temporarily restricted funds and is available for spending by the University. All funds are charged an administrative fee computed at an annual rate, which was 2% for funds with a market value greater than the value of the initial gift and 1% for funds with a market value less than the value of the initial gift for the year ended June 30, 2011.

Investment returns include dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. In some cases, investment managers report realized and unrealized gains and losses net of investment fees. The Foundation has reported the net amount in unrealized and realized gains and losses in the accompanying statement of activities. Investment returns are reflected in the statement of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

#### Fair Value of Financial Instruments

The Foundation uses accounting guidance surrounding fair value measurements. This guidance requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value (Note 2).

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Contributions and Pledges Receivable

Gifts of cash and other assets received without donor stipulations are reported as unrestricted contributions. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted contributions. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are recorded at the net present value of the expected future cash flows discounted using a risk-free interest rate. An allowance for uncollectible contributions is established by Foundation management based on historic experience and management's analysis of specific promises made.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

#### Property and Equipment

Equipment, buildings, and furniture are recorded at cost or, if donated, at the fair market value on the date of donation. Depreciation on equipment, buildings, and improvements is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to fifty years. Assets with an initial purchase price under \$5,000 are expensed in the year purchased.

#### Assets Held for Others

The Foundation holds and invests certain funds in trust on behalf of the University.

#### Deferred Revenue

Deferred revenue consists of revenue related to an affinity contract, which is recognized when earned.

#### Income Taxes

The Foundation is a not-for-profit entity exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a public charity under Section 509(a)(1). Accordingly, no provision for income taxes is made in these financial statements. Income from activities not directly related to the entity's tax-exempt purpose is subject to taxation as unrelated business taxable income. During fiscal years 2011 and 2010, the unrelated business income tax liability was immaterial.

The Foundation applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2011.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Income Taxes (continued)

If incurred, interest and penalties associated with tax positions are recorded in the period assessed in management and general expenses. No interest or penalties have been assessed as of June 30, 2011.

Tax years that remain subject to examination include 2008 through 2011 for the federal return and 2007 through 2011 for the Colorado return.

#### Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs have been allocated among the program, management and general, and fundraising categories for services benefited.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### Summarized Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

#### Subsequent Events

The Foundation has evaluated all subsequent events through October 10, 2011, which is the date the financial statements were available to be issued.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 2 - Fair Value of Financial Instruments**

The Foundation values its financial assets and liabilities at fair value, which is defined 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. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest level priority to Level 3 inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following is a description of valuation methodologies used for assets measured at fair value:

*Cash equivalents, equities (other than investments in certain entities that calculate net asset value per share), mutual funds, and bonds:* Valued at the average of the bid and ask prices at close as reported on the active market on which the individual securities are traded.

*Alternative investments:* Value calculated using the NAV per share of the investments.

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Notes to Financial Statements**

**Note 2 - Fair Value of Financial Instruments (continued)**

The following table sets forth by level, within the fair value hierarchy, the Foundation's investment assets measurement on a recurring basis at fair value as of June 30, 2011:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,375,670	\$ -	\$ -	\$ 2,375,670
Equities				
Domestic	27,317,094	-	-	27,317,094
Small/mid-cap	3,505,167	-	-	3,505,167
International	7,741,559	-	-	7,741,559
Fixed income				
Domestic/international	21,295,724	-	-	21,295,724
Floating rate corporate loans	6,223,077	-	-	6,223,077
High-yield	3,868,628	-	-	3,868,628
Alternative investments				-
Low correlated hedge	-	-	8,324,959	8,324,959
Other				
Private equity	-	-	3,336,891	3,336,891
Real estate	-	-	2,205,113	2,205,113
Commodities	4,616,140	-	-	4,616,140
Trusts	-	4,071,723	-	4,071,723
Limited partnership	-	-	1,000,000	1,000,000
Total assets at fair value	<u>\$ 76,943,059</u>	<u>\$ 4,071,723</u>	<u>\$ 14,866,963</u>	<u>\$ 95,881,745</u>

Net investment earnings consist of the following for the year ended June 30, 2011:

Interest and dividends	\$ 2,570,136
Realized and unrealized gain on investments	14,142,981
Less: investment management fees	<u>(257,008)</u>
	<u>\$ 16,456,109</u>

**Level 3 Changes**

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011:

Beginning balance	\$ 11,588,211
Total gains (realized/unrealized)	1,183,164
Purchases, issuances and settlements	5,055,325
Distributions	<u>(2,959,737)</u>
Ending balance	<u>\$ 14,866,963</u>

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Notes to Financial Statements**

**Note 2 - Fair Value of Financial Instruments (continued)**

Level 3 Changes (continued)

Included in the change in net assets (net investment income) for the year ended June 30, 2011 are net unrealized gains of \$1,268,212 attributable to Level 3 investments held at June 30, 2011.

Investments in Certain Entities that Calculate Net Asset Value per Share

<u>Fund Description</u>	<u>Investment Strategy</u>	<u>June 30, 2011 Fair Value</u>	<u>June 30, 2011 Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Trust	Trust (a)	\$ 4,071,723	\$ -	N/A	N/A
Limited partnership	Limited partnership (b)	1,000,000	-	N/A	N/A
Low correlated hedge	Equity long/short (c)	3,900,881	-	Monthly, quarterly, semi-annual	60-100 days
Low correlated hedge	Multi-strategy (d)	4,424,078	-	Quarterly, semi-annual	95 days
Private equity	Illiquid credit (e)	486,179	1,697,963	N/A	N/A
Private equity	Venture capital (f)	2,850,712	772,341	N/A	N/A
Real estate	Global opportunities (g)	<u>2,205,113</u>	<u>5,617,500</u>	N/A	N/A
Total		<u>\$ 18,938,686</u>	<u>\$ 8,087,804</u>		

- (a) This category includes investments in mutual funds and ETFs (exchange traded funds) with the goal of diversifying risk. The portfolio in this category includes investments in domestic fixed income, domestic and international equities, and real assets. These investments cannot be redeemed by the Foundation. The fair values of the investments in this category have been calculated using the NAV per share of the investments.
- (b) This category includes an investment in a limited partnership which invests in fixed income mutual funds. These investments cannot be redeemed by the Foundation. The fair values of the investments in this category are based on the initial partnership contribution.
- (c) This category includes hedge funds that invest in long- and short-term equity funds. Management of the hedge funds seeks diversification in styles, geography, and strategies. The fair values of the investments in this category have been calculated using the NAV of the Foundation's ownership in the partners' capital.
- (d) This category includes hedge funds that pursue multiple strategies to diversify risk and reduce volatility. The hedged equity fund's composite portfolio for this category includes event-driven, market neutral, credit opportunities, distressed securities, and various arbitrage-based approaches. The fair values of the investments in this category have been calculated using the NAV of the Foundation's ownership in the partners' capital.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 2 - Fair Value of Financial Instruments (continued)**

#### Investments in Certain Entities that Calculate Net Asset Value per Share (continued)

- (e) This category includes a private equity limited partnership invested in distressed debt and illiquid credit instruments. These investments cannot be redeemed by the Foundation prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Foundation's ownership in the partners' capital.
- (f) This category includes a private equity limited partnership invested in buyout, venture capital, and special situation funds. These investments cannot be redeemed by the Foundation prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Foundation's ownership in the partners' capital.
- (g) This category includes real estate limited partnerships invested in other real estate funds with a global focus. The real estate funds' composite portfolio in this category include domestic, European-focused, opportunistic, global diversification, and China-focused real estate funds. These investments cannot be redeemed by the Foundation prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Foundation's ownership in the partners' capital.

### **Note 3 - Pledges Receivable**

Pledges receivable are as follows at June 30, 2011:

Receivables due in less than one year	\$ 682,165
Receivables due in one to five years	460,020
Receivables due in more than five years	<u>35,977</u>
	1,178,162
Less allowance for uncollectible pledges	(12,470)
Less present value discount	<u>(60,332)</u>
	<u>\$ 1,105,360</u>

Unconditional promises to give (pledges receivable) are from various entities including foundations, corporations, and individuals. The discount factor utilized in the present value calculation is the 5-year U.S. Treasury note rate as of June 30th of the fiscal year in which the commitment is made.

Approximately 27% of the Foundation's pledges receivable as June 30, 2011 consist of a pledge from one donor.

### **Note 4 - Life Insurance Policies**

The Foundation is the owner and beneficiary of various donated life insurance policies with total cash surrender values of \$80,724 and face values of approximately \$391,243 as of June 30, 2011.

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Notes to Financial Statements**

**Note 5 - Property and Equipment**

The Foundation's property and equipment are comprised of the following at June 30, 2011:

Buildings and improvements	\$ 1,137,742
Equipment	<u>209,748</u>
	1,347,490
Less accumulated depreciation	<u>(351,687)</u>
	<u>\$ 995,803</u>

**Note 6 - Charitable Gift Annuity Contracts**

The Foundation has entered into several charitable gift annuity contracts. These contracts require the Foundation to make fixed payments to the beneficiaries over their lifetimes. Under a charitable gift annuity contract, the assets received by the Foundation are not held in trust separately from other investments of the Foundation. On the date each charitable gift annuity was established, the Foundation recorded a contribution equal to the difference between the amount transferred from the donor and the present value of the future cash flows expected to be paid to the specified beneficiaries using a discount rate equal to the then current Applicable Federal Rate. At the end of these contracts, the majority of these assets are to be endowed and are included in permanently restricted net assets as follows at June 30, 2011.

Assets held under gift annuity contracts	\$ 309,218
Less associated liabilities	<u>(186,201)</u>
Net present value of assets held under contracts	<u>\$ 123,017</u>

**Note 7 - Assets Held for Others**

Assets held in trust for the University represent certain assets held for long-term investment purposes by the Foundation. The fair value of these assets was \$685,955 at June 30, 2011.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### Note 8 - Net Assets

#### Unrestricted Board-Designated Funds

The following unrestricted net assets have been designated by the Board of Directors for the following purposes at June 30, 2011:

Foundation quasi-endowment	\$ 3,265,161
Partnership for Academic and Student Support	1,208,770
Scholarships	57,919
Capital improvements	<u>21,239</u>
	<u>\$ 4,553,089</u>

During the year ended June 30, 2010, the Board of Directors designated \$1,500,000 to be used as matching funds for certain donations as part of the Partnership for Academic and Student Support. The purpose of the matching funds is to encourage major gifts to be given to permanently restricted endowments. Once the \$1,500,000 is depleted, the program will expire. As of June 30, 2011, \$291,230 of these designated funds had been used as matches to donations and is recorded in permanently restricted net assets.

#### Temporarily Restricted Net Assets

Temporarily restricted net assets (inclusive of contributions receivable) are designated for the following purposes at June 30, 2011:

Programs	\$ 12,241,661
Scholarships	5,092,311
Capital improvements	1,113,293
Research	174,586
Time restricted	<u>94,796</u>
	<u>\$ 18,716,647</u>

#### Permanently Restricted Net Assets

Permanently restricted net assets (inclusive of contributions receivable) are restricted to the following at June 30, 2011:

Programs	\$ 31,022,276
Scholarships	32,945,594
Capital improvements	814,868
Research	<u>390,989</u>
	<u>\$ 65,173,727</u>

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### Note 9 - Endowments

In order to create an "endowed fund" with the Foundation, a donor must give a minimum initial gift as defined in the endowment agreement. The Foundation's endowment consists of approximately 450 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds, quasi-endowments, and board-designated endowment funds. Donor-restricted endowment funds are permanent charitable funds whose principal is treated in accordance with a defined spending policy or which must be preserved in perpetuity as a condition imposed by the donor. Quasi-endowments are those purpose-restricted gifts that are intended to be maintained in perpetuity; however, under specific circumstances defined by the donor, the principal may be invaded fully to meet the defined purpose. Board-designated endowments are unrestricted funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowed funds are included in the Foundation's long-term investment pool (Note 2).

### Interpretation of Relevant Law

The Foundation has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies permanently restricted net assets according to the following methodology:

- a) Donor-restricted endowments with specific donor stipulations on spending which prohibit the Foundation from using the "corpus" of the fund for defined spending distributions classify as permanently restricted net assets (a) the original value and value of all subsequent gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.
- b) Donor-restricted endowments with specific donor stipulations on spending which allow the Foundation to use the corpus of the fund for defined spending distributions classify as permanently restricted net assets (a) the original value and value of all subsequent gifts donated to the permanent endowment, (b) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument at the time the accumulation is added to the fund, and (c) all other assets of the fund not appropriated for expenditure.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### Note 9 - Endowments (continued)

#### Interpretation of Relevant Law (continued)

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 fund,
- (2) The purposes of the Foundation and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Foundation, and
- (7) The investment policies of the Foundation.

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking the proper balance between preservation of capital and maintaining the purchasing power of the endowment assets. Under this long-term investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a rate of return equal to the consumer price index plus 4.75%, while assuming moderate risk. Actual returns in any given year may vary from this amount.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Investment Committee of the Foundation is responsible for selecting the asset mix and managers for the endowments of the Foundation.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's policy, approved by the Board of Directors, is to appropriate for distribution each year 4% of the market value of each endowed fund. The market value of each fund is determined by taking a three-year moving average of the year-end market value of each fund's proportionate share of all securities under management. Newly established endowments are invested for one year before the distributions begin. During the year ended June 30, 2011, the distribution rate was calculated at 4% of the market value for funds with a value greater than the value of the initial gift and 1% of the market value for funds with a value less than the value of the initial gift.

**UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.**

**Notes to Financial Statements**

**Note 9 - Endowments (continued)**

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

The Foundation imposes an administrative fee on all endowment funds. These charges represent each fund's proportionate share of the Foundation's investment and accounting expenses. During the year ended June 30, 2011, the administrative fee was 2% for funds with a market value greater than the value of the initial gift and 1% for funds with a market value less than the value of the initial gift.

Endowment Net Asset Investment Composition by Type of Fund as of June 30, 2011

The following table includes endowment investments but does not include pledges receivable or charitable gift annuities.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 711,399	\$ 64,745,211	\$ 65,456,610
Quasi-endowment funds	-	7,720,364	-	7,720,364
Board-designated endowment funds	<u>3,316,461</u>	<u>-</u>	<u>-</u>	<u>3,316,461</u>
Total funds	<u>\$ 3,316,461</u>	<u>\$ 8,431,763</u>	<u>\$ 64,745,211</u>	<u>\$ 76,493,435</u>

Changes in Invested Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year, June 30, 2010	<u>\$ 2,315,505</u>	<u>\$ 8,333,246</u>	<u>\$ 55,610,187</u>	<u>\$ 66,258,938</u>
Investment return				
Investment income, net of expenses	68,024	280,052	616,449	964,525
Net appreciation (depreciation)	<u>427,136</u>	<u>1,255,737</u>	<u>9,243,082</u>	<u>10,925,955</u>
Total investment return	495,160	1,535,789	9,859,531	11,890,480
Contributions	614,933	32,814	1,135,202	1,782,949
Reinvested funds	-	192,453	407,481	599,934
Appropriation of endowment assets for expenditure	(109,137)	(1,662,539)	(2,242,263)	(4,013,939)
Donor reclassifications	-	-	7,050	7,050
UPMIFA adjustments	<u>-</u>	<u>-</u>	<u>(31,977)</u>	<u>(31,977)</u>
Endowment assets, end of year, June 30, 2011	<u>\$ 3,316,461</u>	<u>\$ 8,431,763</u>	<u>\$ 64,745,211</u>	<u>\$ 76,493,435</u>

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 10 - Pension Plan**

The Foundation participates in a defined contribution pension plan covering substantially all of its employees. Contributions are based on a percentage of regular salary. During the year ended June 30, 2011, the Foundation contributed a flat rate of 4% to each employee's account and provided an additional matching contribution of up to 4% based on employee contributions. Pension expense was \$31,999 for 2011.

### **Note 11 - Related Party Transactions**

The following is a summary of related party transactions between the Foundation and the University.

Effective July 1, 2010, the University assumed the primary responsibilities of the Alumni and Development Services. For the year ended June 30, 2011, the Foundation made payments of \$1,500,000 to the University for expenses related to Alumni and Development Services.

The reported amount of accounts payable and accrued expenses at June 30, 2011 includes \$1,185,008 of amounts payable to the University for program services.

The building used by the Foundation for its administrative offices is located on land that is leased to the Foundation by the University. The land is leased to the Foundation at \$1 per year for 99 years.

### **Note 12 - Deferred Revenue**

On September 1, 2006, the Foundation entered into a five-year agreement whereby the Foundation would provide a list of its alumni in connection with a credit card or affinity program. The Foundation receives an annual payment of \$100,000 each September. As of June 30, 2011, the unearned portion of the advance totaled \$16,667 and is reported as deferred revenue in the accompanying financial statements.

### **Note 13 - Student Housing Project**

The Foundation is the sole member of University of Northern Colorado Foundation Student Housing LLC I, a Colorado limited liability company (the "LLC"). The LLC was formed in 2001 to construct and operate a student housing facility for the University. Construction of the project was completed in August 2002. The Foundation is not obligated on the bond issue used to finance this project. The University originally guaranteed payments on these bonds. The bonds include provisions whereby the guarantee can be terminated. Management of the University believes provisions for termination of the guarantee have been met.

# UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

## Notes to Financial Statements

### **Note 13 - Student Housing Project (continued)**

The results of the LLC's operations do not accrue to the Foundation. The LLC has a ground lease with the University under which the "net available cash flow" from the LLC's operations, as defined in the lease agreement, is paid to the University as rent. At the end of the ground lease in 2047, or upon the earlier retirement of the bond issue, title to the student housing facility is transferred to the University. Since control and the traditional benefits and burdens of ownership of the LLC do not extend to the Foundation, the LLC's financial statements are not consolidated with the Foundation.

On July 1, 2011, the Foundation transferred its interest in the LLC to the University for consideration of \$10.

Summary financial data of the LLC is as follows at June 30, 2011 (unaudited):

Cash and investments	\$ 1,065,658
Other current assets	12,538
Property and equipment, net	13,134,638
Other assets	<u>5,764,105</u>
Total assets	<u>\$ 19,976,939</u>
Current liabilities	\$ 1,132,193
Long-term debt	22,845,249
Member's (deficit)	<u>(4,000,503)</u>
Total liabilities and Member's (deficit)	<u>\$ 19,976,939</u>
Rental income	\$ 2,156,130
Interest income	90,699
Operating expenses	(914,164)
Depreciation	(519,900)
Interest expense	<u>(1,151,963)</u>
Net loss	<u>\$ (339,198)</u>