

University of Iowa Foundation



Financial Report
JULY 1, 2016 TO JUNE 30, 2017

**The State University of Iowa Foundation
and Affiliate**

Consolidated Financial Statements
June 30, 2017

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
The State University of Iowa Foundation
and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The State University of Iowa Foundation and affiliate which comprise the consolidated statement of financial position as of June 30, 2017, the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The State University of Iowa Foundation and affiliate as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The State University of Iowa Foundation and affiliate's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Iowa City, Iowa
October 4, 2017

The State University of Iowa Foundation and Affiliate
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2017 (With comparative information as of June 30, 2016)

| <u>ASSETS</u> | | |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| | <u>2017</u> | <u>2016</u> |
| Cash and cash equivalents | \$ 21,566,616 | \$ 28,015,058 |
| Receivables | | |
| Pledges, at net present value, less allowance for losses | 147,357,849 | 114,811,615 |
| Other receivables and prepaids | 242,070 | 228,037 |
| | <u>147,599,919</u> | <u>115,039,652</u> |
| Investments | | |
| <i>Carried at fair value:</i> | | |
| U.S. Government securities | 3,772,886 | 3,847,205 |
| Corporation stocks, primarily common stocks | 7,951,043 | 7,169,319 |
| Managed separate investment accounts, primarily equity securities | 1,166,442,175 | 1,086,330,624 |
| Assets in trusts and gift annuities | 59,549,660 | 58,167,715 |
| Beneficial interest in perpetual and remainder trusts | 16,480,793 | 15,453,903 |
| | <u>1,254,196,557</u> | <u>1,170,968,766</u> |
| Other | | |
| Real estate | 6,010,285 | 6,010,285 |
| Cash value of life insurance | 7,037,014 | 6,599,342 |
| Other | 936,412 | 936,412 |
| | <u>13,983,711</u> | <u>13,546,039</u> |
| Property, leasehold interest and equipment, net | <u>17,836,987</u> | <u>18,352,509</u> |
| TOTAL ASSETS: | | |
| | \$ 1,455,183,790 | \$ 1,345,922,024 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities | | |
| Accounts payable and other accrued expenses | \$ 2,141,863 | \$ 4,419,155 |
| Annuity and life income obligations | 24,407,686 | 24,725,263 |
| Capital lease obligation | 1,605,000 | 2,345,000 |
| Amounts held on behalf of others | 97,838,919 | 94,210,943 |
| | <u>125,993,468</u> | <u>125,700,361</u> |
| Net assets | | |
| Unrestricted | 29,599,390 | 30,911,483 |
| Temporarily restricted | 605,023,813 | 553,362,184 |
| Permanently restricted | 694,567,119 | 635,947,996 |
| | <u>1,329,190,322</u> | <u>1,220,221,663</u> |
| TOTAL LIABILITIES AND NET ASSETS: | | |
| | \$ 1,455,183,790 | \$ 1,345,922,024 |

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

The State University of Iowa Foundation and Affiliate
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017 (With summarized comparative information for the year ended June 30, 2016)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2017 Total | 2016 Total |
|----------------------------------------------------------------------------------------|----------------------|-------------------------------|-------------------------------|-------------------------|-------------------------|
| <u>SUPPORT AND REVENUE</u> | | | | | |
| Total contributions raised | \$ 445,150 | \$ 100,990,595 | \$ 58,141,556 | \$ 159,577,301 | \$ 139,595,256 |
| Change in value of life income gifts | - | 1,024,936 | 3,103,329 | 4,128,265 | 1,016,710 |
| Subtotal: | 445,150 | 102,015,531 | 61,244,885 | 163,705,566 | 140,611,966 |
| Less amounts attributed to others | - | (3,888,306) | (1,607,718) | (5,496,024) | (5,011,099) |
| Total contributions & change in value of life income gifts: | 445,150 | 98,127,225 | 59,637,167 | 158,209,542 | 135,600,867 |
| Investment income (expense) | | | | | |
| Interest and dividends | 3,181,501 | 2,094,796 | - | 5,276,297 | 4,673,564 |
| Asset based management and service fees | 12,414,348 | (12,215,289) | - | 199,059 | 182,099 |
| Change in fair value of investments | 509,258 | 96,608,567 | - | 97,117,825 | (3,797,605) |
| Subtotal: | 16,105,107 | 86,488,074 | - | 102,593,181 | 1,058,058 |
| Less amounts attributed to others | - | (7,597,010) | - | (7,597,010) | 1,578,079 |
| Total investment income: | 16,105,107 | 78,891,064 | - | 94,996,171 | 2,636,137 |
| Other revenue | | | | | |
| Other, primarily fundraising service revenue | 10,849,678 | 6,572,564 | - | 17,422,242 | 16,468,434 |
| Less amounts attributed to others | - | (262,196) | - | (262,196) | (336,973) |
| Total other revenue: | 10,849,678 | 6,310,368 | - | 17,160,046 | 16,131,461 |
| Net assets released from restrictions & changes in donor restrictions | 132,685,072 | (131,667,028) | (1,018,044) | - | - |
| TOTAL SUPPORT AND REVENUE: | 160,085,007 | 51,661,629 | 58,619,123 | 270,365,759 | 154,368,465 |
| <u>TRANSFERS TO AND EXPENSES OF THE STATE UNIVERSITY OF IOWA AND AFFILIATES</u> | | | | | |
| Student support | 27,250,258 | - | - | 27,250,258 | 25,765,989 |
| Faculty support | 16,987,539 | - | - | 16,987,539 | 16,786,499 |
| Research | 22,774,002 | - | - | 22,774,002 | 22,454,327 |
| Facilities and equipment | 44,935,722 | - | - | 44,935,722 | 14,881,291 |
| Program support | 19,873,152 | - | - | 19,873,152 | 16,089,712 |
| Fundraising | 7,576,564 | - | - | 7,576,564 | 7,797,329 |
| Management and service fees | 3,015,090 | - | - | 3,015,090 | 2,730,847 |
| Subtotal: | 142,412,327 | - | - | 142,412,327 | 106,505,994 |
| Less amounts attributed to others | (9,727,257) | - | - | (9,727,257) | (8,950,338) |
| Total program and expense disbursements: | 132,685,070 | - | - | 132,685,070 | 97,555,656 |
| <u>EXPENSES OF THE STATE UNIVERSITY OF IOWA FOUNDATION AND AFFILIATE</u> | | | | | |
| Operating expenses | 28,712,030 | - | - | 28,712,030 | 26,659,291 |
| TOTAL EXPENSES: | 161,397,100 | - | - | 161,397,100 | 124,214,947 |
| Change in net assets: | (1,312,093) | 51,661,629 | 58,619,123 | 108,968,659 | 30,153,518 |
| Net assets, beginning | 30,911,483 | 553,362,184 | 635,947,996 | 1,220,221,663 | 1,190,068,145 |
| Net assets, ending | \$ 29,599,390 | \$ 605,023,813 | \$ 694,567,119 | \$ 1,329,190,322 | \$ 1,220,221,663 |

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

The State University of Iowa Foundation and Affiliate
CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2017 (With comparative information for the year ended June 30, 2016)

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------------------------------------------------------------|----------------------|----------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ 108,968,659 | \$ 30,153,518 |
| Adjustments to reconcile to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 849,150 | 807,877 |
| Loss on sale of real estate | 103,530 | 195,219 |
| Noncash donation of real estate | (1,490,333) | (1,575,432) |
| Change in fair value of investments | (88,986,201) | 3,679,008 |
| Proceeds from sale of donated investment securities | 8,418,982 | 4,314,400 |
| Permanently restricted contributions received | (37,374,013) | (50,220,361) |
| Changes in assets and liabilities | | |
| Pledges | (32,716,314) | (4,039,342) |
| Other receivables and prepaid expenses | (32,020) | (210,325) |
| Accounts payable and other accrued expenses | (2,277,292) | 2,201,131 |
| | (44,535,852) | (14,694,307) |
| Net cash provided by (used in) operating activities: | | |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| (Purchase) of leasehold improvements, equipment and software | (315,641) | (227,806) |
| Proceeds from sale of real estate | 1,386,803 | 1,493,213 |
| (Purchases) of investment securities | (209,381,084) | (386,370,100) |
| Proceeds from sales of investment securities | 216,878,401 | 334,873,359 |
| Change in assets held in trust | (2,408,835) | 5,092,936 |
| Other | (437,672) | (624,267) |
| | 5,721,972 | (45,762,665) |
| Net cash provided by (used in) investing activities: | | |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Principal payments on capital lease | (740,000) | (725,000) |
| Change in annuity and life income obligation | (317,577) | (2,274,176) |
| (Decrease) in amounts raised on behalf of others | (3,950,998) | (4,862,829) |
| Permanently restricted contributions received | 37,374,013 | 50,220,361 |
| | 32,365,438 | 42,358,356 |
| Net cash provided by (used in) financing activities: | | |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (6,448,442) | (18,098,616) |
| CASH AND CASH EQUIVALENTS, BEGINNING | 28,015,058 | 46,113,674 |
| CASH AND CASH EQUIVALENTS, ENDING | \$ 21,566,616 | \$ 28,015,058 |

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

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The purpose of The State University of Iowa Foundation (Foundation) is to solicit, receive and manage gifts for the benefit of research and education at The State University of Iowa (University of Iowa). The Foundation is legally a not-for-profit corporation that is organizationally and operationally independent of the University of Iowa, but is generally subject to restrictions imposed by donors and holds investments primarily for temporary and permanently restricted uses of the University of Iowa.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Included in the managed separate investment accounts are alternative investments, comprised of hedge funds and private capital funds, which the Foundation has elected to record using the practical expedient. The practical expedient allows for the use of net asset value (NAV). It is reasonably possible these estimates may change in the near term.

A summary of the Foundation's significant accounting policies follow:

Principles of consolidation: The consolidated financial statements include the Foundation and its wholly controlled affiliated corporation The University of Iowa Facilities Corporation. All significant inter-organization accounts and transactions have been eliminated in consolidation. The University of Iowa Facilities Corporation holds several real estate properties that may eventually be deeded to the University of Iowa.

Basis of presentation: The Foundation classifies its net assets for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets. The Foundation may designate portions of its unrestricted net assets as board-designated for various purposes.

Contributions and net assets: Contributions are recognized at fair value in the period in which the pledges are made. Contributions received are distinguished between those that increase permanently restricted, temporarily restricted and unrestricted net assets. Temporarily restricted net assets result from donor restrictions that the contributions are to be used for restricted purposes, primarily for the University of Iowa. When the restriction has been met, the temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets result from donor-imposed restrictions that the corpus be invested in perpetuity (endowment assets) and that earnings in excess of the corpus are temporarily restricted to provide funds for the University of Iowa.

Temporarily restricted contributions received in the same year in which the restriction is met are recorded as temporarily restricted contributions.

Total contributions raised less amounts attributed to others was \$154,869,676 for the year ended June 30, 2017.

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Reclassifications of net assets: During the year ended June 30, 2017, management received and evaluated requests from donors to modify the restrictions on their Foundation's gift agreements. After review, management concluded that net assets for certain gift agreements totaling \$616,925 should be reclassified from temporarily restricted to permanently restricted and \$1,634,969 should be reclassified from permanently restricted to temporarily restricted for the year ended June 30, 2017.

Cash and cash equivalents and concentration of credit risk: Cash and cash equivalents include liquid accounts that are not designated for investment purposes. The Foundation maintains its cash accounts with commercial banks, which at times will exceed the insurance limits of the Federal Deposit Insurance Corporation.

Recognition of pledges receivable: Pledges receivable are recorded at the net present value of estimated cash flows based on appropriate rates commensurate with the risks involved, 5 percent for pledges held at June 30, 2017, less an allowance for doubtful pledges. Conditional promises to give are not included as support until the conditions are substantially met. The provision for losses on doubtful pledges is an adjustment to contributions at the time the pledge is made equal to 2.5 percent of gross pledges and totaled \$1,092,270 for the year ended June 30, 2017. Pledges written off totaled \$1,660,430 for the year ended June 30, 2017.

Contributed assets and services: Real estate and other objectively measurable assets that are available for financial support are recorded at their fair value at the date of contribution. Fair value of nonfinancial assets is determined primarily by appraisal.

The value of contributed services of a number of volunteers is not reflected in the financial statements since the services are not specialized services that would otherwise be purchased.

Investments: Investments are carried at fair value. Fair value is 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 Foundation elected to report the fair value of alternative investments, comprised of hedge funds and private capital funds, included in managed separate investment accounts using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or as adjusted by the Foundation management based on various factors including considering contributions and withdrawals to the fund and monitoring unaudited interim reporting provided by the fund related to investment returns to calculate NAV as of June 30. See Note 3 for discussion of investments. Absent donor restrictions, unrealized gains and losses on investments are reported in unrestricted net assets.

Beneficial interest in perpetual and remainder trusts: Perpetual trusts are held by a third party under an arrangement where the Foundation has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The trust assets, which are primarily publicly traded, are recorded at fair value at the gift date as beneficial interest in the trust and contribution income under permanently restricted support, if donated to the Foundation or amounts held on behalf of the University of Iowa, depending on the terms. Annual distributions are reported as investment income or amounts raised on behalf of the University of Iowa. Adjustments to trust assets are based on the current fair value of the underlying investments and are recorded as permanently restricted gains or losses or amounts held on behalf of others. Charitable remainder trusts are held by a third party and are recorded at fair value at the inception of the trust.

Living trusts, testamentary trusts and gift annuities: The assets in living trusts, testamentary trusts and gift annuities are recorded at fair value at the inception of the trust or annuity and a liability is recorded to reflect the net present value of the expected future payments to the beneficiary.

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The annuity and life income obligations are determined annually to reflect the change in life expectancy of the donor/beneficiary as well as expected payments to be made under the agreement. Investment income and distributions to beneficiaries increase or decrease the assets and the related obligation.

The remainder interest is recorded as a contribution to the Foundation or an increase in amounts held on behalf of others, depending on the terms of the agreement.

The net present value of the annuity and life income obligations is computed using life expectancies from the Society of Actuaries' Annuity 2000 Mortality Table and the applicable discount rates established by the Internal Revenue Service which range from 1 percent to 10 percent.

Total distributions received from trusts were \$2,504,210 for the year ended June 30, 2017.

Property, leasehold interest and equipment: Property, leasehold interest and equipment are stated at cost. Depreciation expense on leasehold interest is included with depreciation on owned assets. Depreciation is computed by the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years.

Amounts held on behalf of others: The Foundation acts as a financial agent for other organizations benefiting the University of Iowa. Since the Foundation is not considered to be financially interrelated to these organizations, the total amount of funds held on behalf of these organizations has been reflected as a liability on the consolidated statement of financial position. The Foundation does not have variance power to re-direct the assets held for others and the funds are generally payable quarterly with a 15 day notification period. On the consolidated statement of activities, the Foundation reports the gross amounts of support, revenue and expenses with the amount raised and expended on behalf of these organizations shown as a reduction in the gross amounts of support, revenue and expenses.

Assets held on behalf of these organizations include remainder interests in trusts, pledges and investments, which are for the benefit of the University of Iowa.

Functional expenses: Program expenses have been noted on the consolidated statements of activities. Fundraising costs are charged to expense as incurred. Total fundraising costs included in the consolidated statement of activities for the year ended June 30, 2017 are summarized as follows:

| | |
|----------------------------------------------------------------------------------------------------|----------------------|
| Expenditures and deductions on behalf of the University of Iowa and its affiliates, fundraising | \$ 7,576,564 |
| Operating expenses | 10,924,872 |
| | <u>\$ 18,501,436</u> |

The other portion of operating expenses that has not been included in the above table consists of management and general expense for the year ended June 30, 2017. Expenses attributed to others primarily consists of program related support expenses.

Fair value of financial instruments: The present value of pledges receivable is estimated based upon discounted cash flows. The carrying amount of long-term pledges receivable approximate fair value since the pledges have been discounted to net present value and include an allowance for uncollectible accounts. The carrying amount of annuity and life income obligations approximate fair value as it represents the net present value of payments to be made under those agreements using current life expectancies. Investments are stated at fair value in the financial statements based primarily on quoted market values. Where quoted market prices are not available for investments, fair value is determined based on supporting information received from the investees, including audited financial statements.

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The liability amounts held on behalf of others approximates fair value as the amount is derived from the fair value of the corresponding financial assets held on behalf of others.

The carrying amounts of cash and cash equivalents and accounts payable and other accrued expenses approximates fair value because of the short maturity of these instruments.

Income taxes: The Internal Revenue Service has recognized the Foundation as exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. 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 ending before June 30, 2014 nor has the Foundation been notified of any impending examination and no examinations are currently in process.

Endowment funds: In accordance with the Iowa Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Foundation classifies donor-restricted endowment funds as permanently restricted net assets. The amount classified as permanently restricted is the amount of the fund (a) that must be permanently retained in accordance with explicit donor stipulations, or (b) in the absence of such stipulations, the Foundation's governing board has determined must be retained permanently under relevant law. In addition, the Foundation classifies all earnings on permanent endowments as temporarily restricted net assets until appropriated for expenditure. See Note 8 for additional information.

Spending policy on endowment funds: The spending policy is set by the Board of Directors based on recommendations from the Investment Committee and is reviewed annually. The Foundation uses the banded inflation method of spending whereby the current spending will be adjusted by CPI at December 31 of each year. In addition, bands of 4 percent and 6 percent of quarterly market value are used to protect the endowment in volatile market times.

Current accounting developments: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Subsequent events: Management has evaluated subsequent events through October 4, 2017, the date the financial statements were available for issuance. In September 2017, the boards of the Foundation and the University of Iowa Alumni Association (UIAA) voted in favor of merging the UIAA with the Foundation to create one new, unified organization. The Foundation will continue in existence as the surviving organization. The effective date of the transaction will be end of day December 31, 2017 with the Foundation acquiring all assets and assuming all liabilities of the UIAA on this date.

Prior year information: The financial statements include certain prior year information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the information was derived.

Note 2. Pledge Receivables

A summary of pledges receivable (unconditional promises to give) at June 30, 2017 is as follows:

| | |
|-----------------------------------------------------------------------------------------------|--------------------------------|
| Gross pledges receivable | |
| Less present value discount of \$30,358,081 and allowance for doubtful pledges of \$4,556,820 | \$ 182,272,750 (34,914,901) |
| | <u>\$ 147,357,849</u> |

Gross pledges receivable at June 30, 2017 are expected to be collected as follows:

| | |
|---------------------------------|-----------------------|
| In one year or less | \$ 45,679,041 |
| Between one year and five years | 90,674,040 |
| More than five years | 45,919,669 |
| | <u>\$ 182,272,750</u> |

Note 3. Investments

Accounting guidance for fair value establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities traded in active markets that the Foundation has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the Foundation has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 3. Investments (Continued)

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data. Level 3 investments also include beneficial interests in perpetual trusts as the Foundation will never receive the trust assets and non-custodial charitable remainder trust assets.

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, exchange-traded equities, mutual funds and assets held in trusts where the Foundation is the trustee. Level 2 securities would include certain corporate bonds, less liquid or restricted equity securities and commingled funds and liquid hedge funds not carried at NAV. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, and other valuation methodologies. Level 3 securities represent beneficial interests in perpetual and remainder trusts where the Foundation is not the trustee, which are valued based on the fair value of the underlying trust assets and, when appropriate, adjusted to reflect current market conditions including the inherent risk in the underlying assets and the risk of nonperformance by the trustee. In certain cases where there is limited activity or less transparency around inputs, securities are classified within Level 3 and may include equity and/or debt securities issued by private entities and certain corporate bonds.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Fair Value measurements at June 30, 2017 | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------------------------------------|------------------|----------------|---------|---------------|
| Assets | | | | |
| U.S. Government securities | \$ 3,772,886 | \$ 3,772,886 | \$ - | \$ - |
| Corporation stocks, primarily common stocks | 7,951,043 | 7,951,043 | - | - |
| Managed separate investment accounts: | | | | |
| Global equities | 186,691,030 | 186,691,030 | - | - |
| Global fixed income | 264,965,093 | 264,965,093 | - | - |
| | 451,656,123 | 451,656,123 | - | - |
| Investments measured at net asset value (NAV) (a) | | | | |
| Global equity | 238,653,288 | - | - | - |
| Global fixed income | 86,442,823 | - | - | - |
| Real assets | 202,006,663 | - | - | - |
| Diversifying strategies | 187,683,278 | - | - | - |
| | 714,786,052 | - | - | - |
| | 1,166,442,175 | 451,656,123 | - | - |
| Assets in trusts and gift annuities | 59,549,660 | 59,549,660 | - | - |
| Beneficial interest in perpetual and remainder trusts | 16,480,793 | - | - | 16,480,793 |
| | \$ 1,254,196,557 | \$ 522,929,712 | \$ - | \$ 16,480,793 |

(a) In accordance with ASC 820-10, certain investments that were measured at NAV per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

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Notes to Consolidated Financial Statements

Note 3. Investments (Continued)

The following table presents additional information about investments measured at fair value on a recurring basis for which the Foundation has utilized Level 3 inputs to determine fair value.

| | <u>Trust Assets</u> |
|-------------------------------------------------------------------|----------------------|
| Balance, June 30, 2016 | \$ 15,453,903 |
| Changes due to market value, net of payments and fees | 1,026,890 |
| Balance, June 30, 2017 | <u>\$ 16,480,793</u> |
| Net unrealized gains attributable to investments held at year end | <u>\$ 1,026,890</u> |

The following information is provided for investments that are valued using the NAV per share as a practical expedient:

| Description | Fair Value | Unfunded Commitments | Redemption Frequency (If currently eligible) | Redemption Notice Period |
|----------------------------------------|-----------------------|-----------------------|----------------------------------------------|--------------------------|
| Other Investments ^(a) | | | | |
| Global equities | \$ 30,711,735 | \$ - | Monthly | 10 days |
| Global fixed income | 17,656,954 | - | Daily | 1 day |
| Real assets | 38,066,457 | - | Daily/Monthly | 5-30 days |
| Hedge funds | | | | |
| Global equities ^(b) | 71,493,474 | - | Quarterly/Annually | 30-65 days |
| Global fixed income ^(c) | 43,796,458 | - | Daily/Quarterly/Annually | 1-120 days |
| Real assets ^(d) | 37,953,620 | - | Daily/Monthly/Quarterly | 5-90 days |
| Diversifying strategies ^(e) | 183,170,633 | - | Monthly/Quarterly/ Semi-Annually/Annually | 3-65 days |
| Private capital funds ^(f) | | | | |
| Private equities | 136,448,079 | 91,226,912 | Not eligible | N/A |
| Private credit | 24,989,411 | 17,815,763 | Not eligible | N/A |
| Private real assets | 125,986,586 | 78,936,117 | Not eligible | N/A |
| Private diversifying strategies | 4,512,645 | 13,021,030 | Not eligible | N/A |
| Total | <u>\$ 714,786,052</u> | <u>\$ 200,999,822</u> | | |

(a) This category includes investments in common stocks, fixed income securities, commodity futures, and real estate investment trusts. There were no restrictions as of June 30, 2017.

(b) This category includes investments in hedge funds that invest both long and short primarily in common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.

(c) This category includes investments in hedge funds that invest both long and short primarily in fixed income securities. Management of the hedge funds has the ability to shift investments from a net long position to a net short position. There were no restricted investments as of June 30, 2017.

(d) This category includes investments in hedge funds that invest both long and short primarily in commodity futures and master limited partnerships. Management of the hedge funds has the ability to shift investments from a net long position to a net short position.

(e) This category invests in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. There were no restricted investments as of June 30, 2017.

(f) This category includes several private capital funds that invest primarily in equity and debt investments. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. Remaining commitments to private capital funds will be drawn over the next five years. If these investments were held, it is estimated that the majority of the underlying assets of the funds would be liquidated over 10 to 12 years.

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Notes to Consolidated Financial Statements

Note 3. Investments (Continued)

Investments may be exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could affect investment balances and the amounts reported in the financial statements.

Note 4. Employee Benefit Plans

Employees of the Foundation are participants in various employee benefit programs. The Foundation's expense for the defined contribution retirement plans totaled \$1,629,146 for the year ended June 30, 2017.

Note 5. Property, Leasehold Interest and Equipment

Property, leasehold interest, equipment and software at June 30, 2017 are as follows:

| | |
|------------------------------------------------------------------------------------------------------|----------------------|
| Leasehold interest in Levitt Center for University Advancement | \$ 25,768,664 |
| Rental property | 1,450,310 |
| Office equipment | 2,057,587 |
| Computer equipment | 1,237,541 |
| Software | 2,568,467 |
| Work in progress | 123,054 |
| | <u>33,205,623</u> |
| Accumulated depreciation and amortization, including amounts related to rental property of \$768,467 | 15,368,636 |
| | <u>\$ 17,836,987</u> |
| Depreciation and amortization expense for the year | <u>\$ 849,150</u> |

Note 6. Capital Lease Obligation

The Foundation has a leasehold interest in the Levitt Center for University Advancement acquired under a capital lease with the Board of Regents of the State of Iowa (Regents). On July 1, 2004, the Regents issued \$9,595,000, State of Iowa Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004, the proceeds of which were used to refund the previously issued 1995 Series bonds in advance of the scheduled maturity. The interest rates on the 2004 bonds range from 3.75 percent to 4.75 percent.

In June 2004, in anticipation of the advance refunding of the 1995 bonds, the Foundation and the University of Iowa entered into an amended and restated lease agreement. The lease agreement requires payments from the Foundation in amounts equal to the debt service payments on the 2004 bonds, plus expenses related to the facility.

The maturities of the principal amounts on the lease obligation are as follows:

| | |
|----------------------|---------------------|
| Year ending June 30: | |
| 2018 | \$ 780,000 |
| 2019 | 825,000 |
| | <u>\$ 1,605,000</u> |

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 7. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 were restricted for the following:

| | |
|----------------------------------------|-----------------------|
| Program support | \$ 179,899,657 |
| Student support | 99,474,662 |
| Faculty support | 112,291,392 |
| Facilities and equipment | 75,628,245 |
| Research | 116,022,746 |
| Remainder interests in trusts (Note 1) | 21,707,111 |
| | <u>\$ 605,023,813</u> |

Temporarily restricted net assets included \$100,541,728 of pledge receivables as of June 30, 2017.

Permanently restricted (endowed) net assets at June 30, 2017 were restricted for the following:

| | |
|---------------------------------------|-----------------------|
| Undesignated | \$ 7,315,439 |
| Program support | 125,792,763 |
| Student support | 213,368,612 |
| Faculty support | 238,807,440 |
| Facilities and equipment | 9,276,948 |
| Research | 79,872,892 |
| Perpetual trusts | 8,034,945 |
| Remainder interest in trusts (Note 1) | 12,098,080 |
| | <u>\$ 694,567,119</u> |

Permanently restricted (endowed) net assets included \$46,816,121 of pledge receivables as of June 30, 2017.

Note 8. Endowment Funds

The Foundation's endowment consists of approximately 2,500 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Directors of the Foundation interprets UPMIFA to require consideration of the following factors, if relevant, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 8. Endowment Funds (Continued)

In accordance with the Foundation's interpretation of UPMIFA, absent explicit donor stipulations to the contrary, the Foundation shall classify as permanently restricted net assets the original value of the gifts donated to the permanent endowment, but such classification does not limit the expenditures from the endowment fund only to income, interest, dividends, rents, issues or profits. The portion of the fund's value spendable annually for the donor-designated purpose is to be determined, from time to time, by the Foundation's Board of Directors, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering the above relevant factors.

Changes in endowment, not total, net assets for the year ended June 30, 2017 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------------------------|--------------|------------------------|------------------------|----------------|
| Endowment net assets, June 30, 2016 | \$ - | \$ 168,746,642 | \$ 592,798,755 | \$ 761,545,397 |
| Investment return: | | | | |
| Interest income | - | 4,718,758 | - | 4,718,758 |
| Change in fair value of investments | - | 73,258,041 | - | 73,258,041 |
| Total investment return | - | 77,976,799 | - | 77,976,799 |
| Contributions | - | 5,308 | 36,346,406 | 36,351,714 |
| Less amounts attributed to others | - | (5,376,652) | (2,091,910) | (7,468,562) |
| Appropriation of endowment assets for expenditure | 32,715,046 | (32,715,046) | - | - |
| Expenditures | (32,715,046) | - | - | (32,715,046) |
| Endowment net assets, June 30, 2017 | \$ - | \$ 208,637,051 | \$ 627,053,251 | \$ 835,690,302 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies in individual donor-restricted endowment funds of \$6,775,990 are reported in temporarily restricted net assets at June 30, 2017. These deficiencies resulted from unfavorable market fluctuations which occurred during the holding period.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the investment objective of the endowment is to seek maximum total return consistent with the preservation of principal, diversification and avoidance of excessive risk. The Foundation will exercise reasonable care, skill and caution with regard to the investment of funds in the context of the entire portfolio which incorporates risk and return objectives reasonably suitable to the purposes of the Foundation. The assets are to be managed in a manner that seeks to meet these investment objectives, while at the same time attempting to reduce volatility in year-to-year spending. Actual returns in any given year may vary.

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.

The State University of Iowa Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 9. University of Iowa Facilities Corporation Transactions and Commitments

From time to time, the University of Iowa Facilities Corporation (UIFC) has issued revenue bonds to provide financial assistance to the University of Iowa for the acquisition and construction of facilities for the benefit of the University of Iowa. The bonds are payable solely from the lease payments paid by the University of Iowa for the facilities. Upon repayment of the bonds, ownership of the acquired facilities transfers to the University of Iowa. The UIFC is not obligated in any manner for repayment on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2017, there were 12 series of revenue bonds outstanding. The original issue amounts of these bonds totaled \$185,035,000 with the aggregate outstanding balance as of June 30, 2017, totaling \$131,105,000.