



Financial Statements
June 30, 2011 and 2010

University of Idaho Foundation, Inc.

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Independent Auditor's Report

The Board of Directors
University of Idaho Foundation, Inc.
Moscow, Idaho

We have audited the accompanying statements of net assets of University of Idaho Foundation, Inc. (the Foundation), a component unit of the University of Idaho, as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in (Government Auditing Standards), issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2011 and 2010, and the respective changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the printed text of the firm's name.

Boise, Idaho
September 14, 2011

The mission of the University of Idaho Foundation, Inc. (the Foundation) is to secure, manage, and distribute private support to enhance the growth and development of the University of Idaho (the University). Established in 1970, the Foundation is a Section 501(c)(3) organization. A Board of Directors comprised of up to 25 members governs and conducts the business of the Foundation, meeting several times each fiscal year. The officers of the Foundation are Chairman, Vice-Chairman, Treasurer, Secretary, and Past Chairman. Committees include: the Executive Committee, Committee of Directors, Operations and Finance Committee, Investment Committee, Audit Committee, Gift Acceptance Committee, and other committees appointed by the Chairman as necessary to carry out the business of the Foundation. An Executive Director manages the operations of the Foundation. The Foundation professional staff also includes the Director of Finance; Director, Endowment and Gift Administration; Assistant Director, Finance; a Financial Specialist, Gift Administration and support staff. The Foundation strategically partners with the leadership team at the University of Idaho including the President, Vice President of University Advancement, Vice President for Finance and Administration, and the Executive Director of Planning and Budget.

Overview

The Management's Discussion and Analysis is designed to provide an easily readable analysis of the University of Idaho Foundation's financial condition, results of operations, and cash flows based on facts, decisions, and conditions known at the date of the auditors' report. A comparative analysis of financial data is presented.

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. These statements focus on the financial condition of the Foundation, the results of operations, and cash flows of the Foundation as a whole. There are three financial statements presented: the statement of net assets; the statement of revenues, expenditures and changes in net assets; and the statement of cash flows. They are prepared using the accrual basis of accounting.

Reporting Entity

The Foundation is a nonprofit corporation whose mission is to facilitate the solicitation and management of gifts for the benefit of the University. In this capacity, the Foundation is considered to be a component unit of the University. Accordingly, the Foundation is included in the University's financial statements as a discrete component unit. Transactions with the University relate primarily to the disbursement of gift funds. The Foundation also manages, in trust, over \$78.2 million in endowment assets for the University which are included in the Foundation assets.

Statement of Net Assets

The statement of net assets outlines the Foundation's financial condition at fiscal year end. The Foundation operates on a fiscal year which begins July 1 and ends June 30. This statement reflects the various assets, liabilities, and net assets of the Foundation as of the fiscal years ended June 30, 2011 and 2010.

From the data presented, readers of the statement of net assets have the information to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors, trust beneficiaries, and lending institutions.

Finally, the statement of net assets provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditure by the Foundation.

The statement of net assets is presented in a classified format, which differentiates between current and noncurrent assets and liabilities, and also categorizes net assets into three categories:

- Restricted Nonexpendable—Net assets subject to donor stipulations that must be maintained permanently by the Foundation.
- Restricted Expendable—Net assets subject to donor stipulations that will be transferred to the University for direct use by a designated program.
- Unrestricted—Net assets not subject to donor stipulations which may be expended for any lawful purpose of the Foundation.

The corpus of nonexpendable restricted resources as it pertains to endowments is available only for investment purposes. The Consolidated Investment Trust (CIT) is a pooled endowment fund and makes up the majority of the assets of the Foundation. Donors have restricted income derived from these investments to fund scholarships, research, and other programs at the University of Idaho. Upon their transfer, expendable restricted net assets are available for expenditure by the University, but must be spent for purposes as determined by donors. Unrestricted net assets are available to the Foundation for any lawful purpose of the Foundation.

Condensed Statements of Net Assets As of June 30, 2011 and 2010					
	2011	2010	Change 2010 to 2011	2009	Change 2009 to 2010
Assets					
Current assets	\$ 23,870,224	\$ 26,813,272	\$ (2,943,048)	\$ 15,114,152	\$ 11,699,120
Real estate holdings	4,359,054	3,481,497	877,557	3,607,701	(126,204)
Noncurrent investments	201,805,823	168,497,013	33,308,810	156,761,325	11,735,688
Other assets	12,736,277	11,540,285	1,195,992	8,961,362	2,578,923
Total Assets	242,771,378	210,332,067	32,439,311	184,444,540	25,887,527
Liabilities					
Current liabilities	7,813,784	7,895,767	(81,983)	8,412,990	(517,223)
Noncurrent liabilities	84,176,481	73,063,883	11,112,598	67,107,363	5,956,520
Total Liabilities	91,990,265	80,959,650	11,030,615	75,520,353	5,439,297
Net Assets					
Restricted - nonexpendable	111,668,453	95,272,890	16,395,563	82,181,263	13,091,627
Restricted - expendable	33,729,970	29,719,205	4,010,765	23,534,496	6,184,709
Unrestricted	5,382,690	4,380,322	1,002,368	3,208,428	1,171,894
Total Net Assets	\$ 150,781,113	\$ 129,372,417	\$ 21,408,696	\$ 108,924,187	\$ 20,448,230

During fiscal year 2011 the total net assets of the Foundation increased by over \$21.4 million. Restricted nonexpendable assets increased by \$16.4 million, restricted expendable assets increased by \$4.0 million and unrestricted assets increased by \$1.0 million. This increase follows similar increases for the previous fiscal year. The overriding cause of the increases was the second straight year of improvement in market value of investments in each of the three fund classifications. Total net assets of the Foundation increased nearly \$20.5 million in fiscal year 2010. Restricted nonexpendable assets increased by \$13.1 million, restricted expendable increased by \$6.2 million and unrestricted assets increased by \$1.2 million. In addition to market value increases in 2010, pledges in support of the Kibbie Dome Renovation and Expansion Project were a major factor in the increase in the restricted expendable fund.

During 2011, cash decreased by \$6.1 million following an increase of approximately \$6.7 million in fiscal year 2010 mainly due to investment allocation decisions in the pooled endowment fund and cash management fund. Because a portion of the cash is restricted, it is reflected in the noncurrent assets. The market value of the endowments in the CIT increased approximately \$26 million in fiscal year 2011 following an increase of \$15.6 million for the year ended June 30, 2010. This is a reflection of the general recovery in the world wide capital markets during this same time period. The CIT performed exceptionally well when compared to similar endowment portfolios. For fiscal year 2011, the CIT had total return of 20.4%. In fiscal year 2010 total return was 15%.

During fiscal year 2011, total liabilities of the Foundation increased by \$11 million. This increase is mainly attributable to the positive increase in market value of the endowment assets. Because a portion of the endowment is held in trust for the University of Idaho, an increase in market value generates an increase in the liability to the Foundation. For this past year that liability increased by \$10.4 million.

The liability for payments due on split interest trusts increased by \$.7 million. Many of the trust payouts are based on annual market values of the trusts. The increase in trust market values caused by the improvement of the financial markets, results in higher payouts to trust beneficiaries, which results in an increase in the on-going liability.

There was also a slight decrease in the liability for endowment earnings to be transferred to the University of Idaho in fiscal year 2011. During fiscal year 2011, the Foundation Board of Directors increased the payout rate on endowments to 4.5% from 4% of the three-year rolling average value of the CIT. This change smoothes the effect of down market years which are a part of the average used to calculate payouts. The Foundation was able to generate endowment earnings of over \$6.7 million to be transferred to the University for fiscal year 2012 scholarships and programs.

In the previous fiscal year, 2010, the total liabilities of the Foundation increased by \$5.4 million. Of this increase, \$5.4 million resulted from the positive increase in the market value of the endowment which increased the liability to the University. There was an increase in the liability for payment due on split interest trusts of \$.6 million which was offset by a decrease in the liability for endowment earnings to be transferred to the University for fiscal year 2011.

Statement of Revenues, Expenditures and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenditures and changes in net assets. The purpose of the statement is to present the revenues received by the Foundation, both operating and non-operating, and the expenses paid by the Foundation.

Operating revenues are received for providing services to the various customers and constituencies of an institution. Operating expenses are expenses paid to acquire or produce the goods and services provided in return for the operating revenues. The main purpose of the Foundation is to support the University by accepting and managing gifts. Gift and investment income comprise the majority of the revenue received in a given year. Likewise, the primary use of such funds is to transfer them to the University.

Condensed Statements of Revenues, Expenditures and Changes in Net Assets
As of June 30, 2011 and 2010

	2011	2010	Change 2009 to 2011	2009	Change 2009 to 2010
Operating revenues	\$ 52,226,080	\$ 44,386,200	\$ 7,839,880	\$ (9,080,530)	\$ 53,466,730
Operating expenses	30,811,491	23,932,077	6,879,414	5,875,695	18,056,382
Operating income	21,414,589	20,454,123	960,466	(14,956,225)	35,410,348
Non-operating expenses	(5,893)	(5,893)	-	(5,893)	-
Income before other expenses	21,408,696	20,448,230	960,466	(14,962,118)	35,410,348
Increase in net assets	21,408,696	20,448,230	960,466	(14,962,118)	35,410,348
Net assets, beginning of year	129,372,417	108,924,187	20,448,230	123,886,305	(14,962,118)
Net assets, end of year	<u>\$ 150,781,113</u>	<u>\$ 129,372,417</u>	<u>\$ 21,408,696</u>	<u>\$ 108,924,187</u>	<u>\$ 20,448,230</u>

The statement of revenues, expenditures and changes in net assets reflects an increase in the net assets at the end of the year. Some items of note presented on this statement are:

Operating revenue increased by nearly \$8 million in fiscal year 2011. The increase was driven by a \$10 million increase in the change in fair value of investments from \$19 million in fiscal year 2010 to \$29 million at June 30, 2011. This change is a combination of \$3 million of realized capital gains and \$26 million of change in unrealized appreciation. Gift revenue decreased by \$1.6 million, gifts of \$16.5 million were received in 2011 compared to \$18.2 million in 2010. The 2010 gift increase of \$1.5 million was generated in part by an increase in pledges receivable of nearly \$4 million in 2010. The majority of the increase was the result of the successful Kibbie Dome Renovation and Expansion Project. Investment income also decreased by \$.8 million in fiscal year 2011 following a decrease in investment earnings of \$1.7 million in 2010. This represents a 26% decrease over the past two years. The decrease is the result of historically low interest rates and a strategic but gradual increase in equity holdings in the CIT.

For fiscal year 2011, operating expenses increased by \$6.9 million, the bulk of which was a nearly \$5 million increase in the change in value of funds held in trust for the University. This follows an increase in operating expenses of \$18 million in fiscal year 2010. The large increase for fiscal year 2010 was also primarily driven by the change in fair value of investments increasing the change in value of the funds held in trust for the University of Idaho. That change was approximately \$20 million in 2010. The unusual situation of holding funds held in trust for the University causes an increase in expenses during up markets and a decrease in expenses during market contractions.

For fiscal year 2011 and 2010 the distributions from the CIT were \$6.7 million and \$6.8 million respectively. The slight decrease is the result of the smoothing effect of basing distributions on a three year rolling average and the effect of the market turmoil in 2008 and 2009 which make up two of the three base years. This was offset by the Board of Directors decision to increase the spending rate to 4.5%. The spending rate was 4% for fiscal year 2010 and fiscal year 2009. The Foundation is very proud of the opportunity and resources the endowment earnings provide the University, and consider the stewardship of the endowment pool their primary mission. Nearly \$120 million has been distributed from endowment earnings to fund scholarships and programs for the University of Idaho since the CIT was established in 1959.

The decrease in endowment distributions in fiscal year 2011 was offset by an increase in distributions of current gifts to the University. Distribution of gifts to the University increased by \$2.2 million from \$8.7 million in 2010 to \$10.9 million in 2011, mainly because of the transfer of gifts to support the Kibbie Dome Renovation.

Administrative expense increased by approximately \$68 thousand dollars in 2011 from slightly under \$1.9 million in 2010 to just over \$1.9 million in 2011. This increase reflects the assumption of expenses by the Foundation as part of the implementation of the operating agreement between the University and the Foundation.

Economic Outlook

The Foundation, through its volunteer leadership and professional staff, strives to ensure that the University of Idaho will continue to provide excellence in education and innovation. The Foundation has nine employees with offices in Moscow and Boise. Conducting business through quarterly board meetings and monthly communications with committees and staff, the volunteer Board of Directors provide strong leadership and expertise in a variety of areas. The Foundation also provides support for major fundraising efforts of the University of Idaho.

The Foundation Directors and Staff take seriously their mission to secure, manage and distribute private support to enhance the growth and development of the University of Idaho distributing over \$16 million to the University in fiscal year 2011 to ensure a margin of excellence for the outstanding students, faculty and programs at the University of Idaho.

With total assets of nearly \$243 million dollars, the University of Idaho Foundation, Inc. is the largest institutionally related foundation in the state. We are proud to support the State's land grant flagship institution.

For further information, please refer to the notes to the financial statements.

University of Idaho Foundation, Inc.
 Statements of Net Assets
 June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,354,794	\$ 17,715,659
Accrued interest and other receivables	757,950	625,122
Pledges receivable, net	2,023,978	1,997,969
Investments	11,667,502	6,415,105
Notes receivable	66,000	59,417
Total current assets	23,870,224	26,813,272
Noncurrent Assets		
Restricted cash and cash equivalents	8,188,267	5,976,696
Pledges receivable, net	3,702,347	4,718,131
Investments	201,805,823	168,497,013
Notes receivable	528,411	535,478
Real estate holdings	4,359,054	3,481,497
Other assets	317,252	309,980
Total noncurrent assets	218,901,154	183,518,795
Total assets	\$ 242,771,378	\$ 210,332,067
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 83,261	\$ 72,453
Liability for split interest trusts	1,014,845	994,161
Trust earnings payable to trust beneficiaries	6,715,678	6,829,153
Total current liabilities	7,813,784	7,895,767
Noncurrent Liabilities		
Funds held in trust for University of Idaho	78,191,004	67,829,850
Liability for split interest trusts	5,985,477	5,234,033
Total noncurrent liabilities	84,176,481	73,063,883
Total liabilities	91,990,265	80,959,650
Net Assets		
Restricted - nonexpendable	111,668,453	95,272,890
Restricted - expendable	33,729,970	29,719,205
Unrestricted	5,382,690	4,380,322
Total net assets	150,781,113	129,372,417
Total Liabilities and Net Assets	\$ 242,771,378	\$ 210,332,067

University of Idaho Foundation, Inc.
 Statements of Revenues, Expenses, and Changes in Net Assets
 Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Gifts	\$ 16,493,221	\$ 18,156,092
Dividends	3,862,791	3,536,151
Interest	2,981,913	4,070,524
Change in fair value of investments	29,070,872	19,069,365
Lease and rental income	4,730	25,864
Change in split interest trusts	(272,986)	(541,524)
Other	85,539	69,728
	52,226,080	44,386,200
Operating Expenses		
Distribution of endowment income to trust beneficiaries	6,715,678	6,829,153
Distribution to University and affiliates	10,959,562	8,715,015
Distribution of trust income to life income beneficiaries	721,641	658,649
Administrative expense	1,928,097	1,860,247
Property management	16,570	30,291
Change in value of funds held in trust for University of Idaho	10,361,154	5,437,879
Other	108,789	400,843
	30,811,491	23,932,077
Operating Income	21,414,589	20,454,123
Nonoperating Expenses		
Depreciation expense	(5,893)	(5,893)
	(5,893)	(5,893)
Change in Net Assets	21,408,696	20,448,230
Net Assets, Beginning of Year	129,372,417	108,924,187
Net Assets, End of Year	\$ 150,781,113	\$ 129,372,417

University of Idaho Foundation, Inc.
 Statements of Cash Flows
 Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Donations received	\$ 13,238,600	\$ 12,881,742
Investment income	6,711,876	7,674,570
Cash received from lease and rental income	4,730	31,569
Split interest trust obligations	499,142	97,842
Real estate contracts	62,303	59,416
Net distributions for the benefit of trust beneficiaries	(6,829,153)	(7,329,504)
Distributions for the benefit of University of Idaho	(11,681,203)	(9,373,664)
Administrative and management fees	(1,933,859)	(2,028,135)
Proceeds from sales and maturities of investments	211,360,784	192,365,589
Purchase of investments and related fees	(217,777,843)	(187,569,729)
Other (payments) and receipts	(20,294)	(447,738)
	(6,364,917)	6,361,958
Net Cash from (used for) Operating Activities		
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	215,623	321,106
	215,623	321,106
Net Cash from Capital and Related Financing Activities		
Net Decrease in Cash and Cash Equivalents	(6,149,294)	6,683,064
Cash and Cash Equivalents, Beginning of Year	23,692,355	17,009,291
Cash and Cash Equivalents, End of Year	\$ 17,543,061	\$ 23,692,355

University of Idaho Foundation, Inc.
 Statements of Cash Flows
 Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 21,414,589	\$ 20,454,123
Capital contributions	(4,237,759)	(1,290,625)
Changes in assets and liabilities		
Interest receivable	(132,828)	67,895
Pledges receivable	989,775	(3,983,724)
Split interest trust obligations	772,128	639,366
Other receivables, net and other assets	58,622	(57,208)
Accounts payable and accrued liabilities	10,808	(137,597)
Funds held for others	(113,475)	(500,351)
Proceeds from sales and maturities of investments	211,360,784	192,365,589
Purchase of investments and related fees	(217,777,843)	(187,569,729)
Change in fair value of investments	(29,070,872)	(19,063,660)
Change in value of funds held in trust for the University of Idaho	10,361,154	5,437,879
Net Cash from (used for) Operating Activities	\$ (6,364,917)	\$ 6,361,958
Noncash Activities		
Noncash gifts	\$ 4,237,759	\$ 1,290,625

Note 1 - Organization and Summary of Significant Accounting Policies

The University of Idaho Foundation, Inc., (the Foundation) is a nonprofit corporation whose mission is to facilitate the solicitation and management of gifts for the benefit of the University of Idaho (the University). In this capacity, the Foundation is considered to be a component unit of the University. Accordingly, the Foundation is included in the University's financial statements as a discrete component unit. Transactions with the University relate primarily to the disbursement of gift funds.

Included within the Foundation is the Consolidated Investment Trust (CIT), which is a pooled investment fund for endowment assets having a market value of \$190.7 million at June 30, 2011. Included in the CIT are \$78.2 million in endowment assets held in trust for the University. The significant accounting policies followed by the Foundation are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

The Foundation uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Foundation has the option to apply all private accounting industry standards issued after November 30, 1989, unless those standards conflict with or contradict GASB pronouncements. The Foundation has elected not to apply private accounting pronouncements issued after the applicable date.

The statement of revenues, expenses and changes in net assets is a statement of financial activities related to the current reporting period. All significant intra-agency transactions have been eliminated.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined to report by classification and only the net assets are shown.

Restricted resources may only be utilized in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources over which the Directors of the Foundation retain full control to use in achieving the Foundation's purposes.

Use of 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 amounts of assets, liabilities, net assets and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and temporary investments with an original maturity of three months or less at the date of acquisition. For cash flow purposes the cash balance includes both restricted and unrestricted cash and cash equivalents.

Pledges Receivable

The Foundation reports pledges made by donors that are measurable, verifiable, unconditional and are probable of collection. Pledges receivable are recorded net of estimated uncollectible amounts.

Investments

The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains or losses on the carrying value of investments are reported as a component of the change in fair value of investments in the statement of revenues, expenses and changes in net assets.

Current investments are comprised of the investment balances that are not restricted for endowment. This category excludes debt securities.

Restricted Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments that are restricted in accordance with donor stipulations for endowments are classified as noncurrent assets in the statement of net assets.

Real Estate Holdings

Investments in real estate are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of the gift. Cost includes expenditures for major improvements and the net amount of interest cost associated with significant capital additions. Gains and losses from sales are included in income as they occur. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings.

Split Interest Agreements

Split interest agreements held by the Foundation are irrevocable charitable remainder trusts and charitable gift annuities. Assets and liabilities related to split interest agreements for which the Foundation is trustee and is the designated remainderman for the trusts' assets are included in the accompanying balance sheet. Trust assets are recorded at fair market value and a liability is recorded for the present value of estimated distributions to the beneficiaries. The liability is calculated using life expectancy tables and discount rates published by the Internal Revenue Service.

Net Assets

The Foundation applies GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, as amended, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

GASB Statement No. 34 establishes standards for external reporting for government entities and requires that resources are classified for accounting and reporting purposes into the following three net asset categories:

Restricted Nonexpendable—Net assets subject to donor stipulations that must be maintained permanently by the Foundation.

Restricted Expendable—Net assets subject to donor stipulations that will be transferred to the University for direct use by a designated program.

Unrestricted—Net assets not subject to donor stipulations which may be expended for any lawful purpose of the Foundation.

Revenue Recognition

All income, gains and losses arising from the sale, collection or disposition of investments and other noncash assets are accounted for in the fund owning such assets.

Noncash tangible assets, other than marketable securities, contributed to the Foundation are recorded on the date legal title passes at the appraised value when it is provided by an independent third party acceptable to Foundation management. If no such independent third-party appraisal is available, the asset is recorded at an objective, verifiable basis which is, in the judgment of Foundation management, a fair value to the Foundation for its purposes. If it is not practicable to determine an objective, verifiable valuation, the contribution is not recorded. Marketable securities contributed to the Foundation are recorded at market value at the date of gift. In-kind contributions of labor and services are not recorded.

Revenues of the Foundation that are for its primary purposes, which is to solicit financial support for the University and to manage and invest the resulting charitable gifts, are recorded as operating revenue.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) and, as such, is subject to federal income tax only on net unrelated business income.

Note 2 - Cash and Cash Equivalents

The Foundation accounts for its cash on a pooled basis whereby each fund has a positive or negative equity in cash depending upon the net effect of its cash receipts and disbursements activity.

Cash and cash equivalents are deposited with various financial institutions. Custodial credit risk on deposits is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. Deposits for the years ended June 30, 2011 and 2010 that are uninsured and uncollateralized are as follows:

	2011	2010
Uninsured and uncollateralized	\$ 8,318,770	\$ 212,993
Collateral held in the name of the counterparty for benefit of the Foundation	\$ 1,726,821	\$ 22,523,988

Note 3 - Pledges Receivable

For the fiscal years ended June 30, 2011 and 2010, the Foundation recorded \$1,467,600 and \$5,590,732 respectively, of gift revenue in the form of pledges receivable. An expense in the amount of uncollectible pledges of \$108,789 and \$391,351 was recorded for fiscal years ended June 30, 2011 and 2010, respectively. The estimated collection of these gifts is as follows:

One year or less	\$ 2,196,320
2013	1,472,651
2014	1,483,554
2015	1,052,130
2016	9,200
	6,213,855
Less allowance for uncollectible pledges	(487,530)
Pledges receivable, end of year	\$ 5,726,325

Note 4 - Investments

Investments in marketable securities are recorded at fair value as determined by quoted market prices. The fair values of private equity limited partnership investments by their nature have no readily ascertainable market prices. Similar to real estate, cost closely approximates fair value for recent acquisitions. Thereafter, the fair values of limited partnership funds are based on the valuations as presented in the fund December 31, audited financial statements. Generally, the companies within a fund are valued by the general partner, taking into account many factors such as the purchase price, estimated liquidation value, significant events like initial public offerings, bankruptcies, and additional rounds of financing, and other relevant factors. Because of the lack of published market prices for these investments, the estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed. Although these differences could be material to the individual company values, private equity represents 2.62% of total investments.

University of Idaho Foundation, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

At June 30, 2011, the fair value of restricted and unrestricted investments was \$209,277,568 and \$4,195,757, respectively. At June 30, 2010, the fair value of restricted and unrestricted investments was \$172,004,872 and \$2,907,246, respectively.

The Consolidated Investments Trust (CIT) was established by the Regents of the University of Idaho in 1959 to pool endowment funds. The CIT utilizes the market value share method of accounting. The fair value of the CIT's portfolio is divided by the number of outstanding unit participation shares owned by the individual endowments to determine the value of a share when additional contributions are added.

The following table represents the fair value of investments by type at June 30, 2011 and 2010:

Investment Type	2011	2010
U.S. government agency obligations	\$ 7,397,744	\$ 12,232,138
Corporate debt	41,741,786	30,772,530
Preferred stock	2,060,461	2,936,295
Municipal securities	1,230,239	1,038,217
U.S. treasuries	16,107,310	23,678,854
Common stock	101,670,050	89,907,666
International equity funds	12,180,830	3,170,291
Mutual funds	14,002,215	2,516,525
Private equities	5,592,572	3,569,303
Real assets	11,489,325	4,529,667
Foreign currency	793	560,632
	<u>\$ 213,473,325</u>	<u>\$ 174,912,118</u>

Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation does not presently have a formal policy that addresses interest rate risk.

As of June 30, 2011, the Foundation had the following investments subject to interest rate risk:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Corporate debt	\$ 41,741,786	\$ 2,084,074	\$ 24,698,782	\$ 10,553,338	\$ 4,405,592
U.S. government agency obligations	7,397,744	2,006,486	34,812	844,816	4,511,630
U.S. treasuries	16,107,310	2,014,533	6,600,043	7,492,734	-
Municipal securities	1,230,239	-	705,043	25,044	500,152
	<u>\$ 66,477,079</u>	<u>\$ 6,105,093</u>	<u>\$ 32,038,680</u>	<u>\$ 18,915,932</u>	<u>\$ 9,417,374</u>

As of June 30, 2010, the Foundation had the following investments subject to interest rate risk:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Corporate debt	\$ 30,772,530	\$ 661,644	\$ 7,414,585	\$ 11,243,095	\$ 11,453,206
U.S. government agency obligations	12,232,138	-	19,835	1,273,254	10,939,049
U.S. treasuries	23,678,854	103,936	14,326,245	7,866,079	1,382,594
Municipal securities	1,038,217	-	655,146	25,027	358,044
	<u>\$ 67,721,739</u>	<u>\$ 765,580</u>	<u>\$ 22,415,811</u>	<u>\$ 20,407,455</u>	<u>\$ 24,132,893</u>

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities. The Foundation does not presently have a formal policy that addresses credit risk. (The credit risk ratings listed below are issued upon standards set by Standard and Poor's).

As of June 30, 2011, the Foundation had the following investment credit risk:

Investment Ratings	Investment Type			Total
	U.S. Government Agency Obligations	Corporate Debt	Municipal Securities	
AAA	\$ 7,381,193	\$ 3,883,564	\$ -	\$ 11,264,757
AA	-	7,585,473	249,121	7,834,594
A	-	11,438,663	736,172	12,174,835
BBB	-	10,449,161	-	10,449,161
BB	-	1,815,059	39,830	1,854,889
B	-	4,340,858	-	4,340,858
CCC	-	727,806	-	727,806
CC	-	167	-	167
Not Rated	16,551	1,501,035	205,116	1,722,702
	<u>\$ 7,397,744</u>	<u>\$ 41,741,786</u>	<u>\$ 1,230,239</u>	<u>\$ 50,369,769</u>

As of June 30, 2010, the Foundation had the following investment credit risk:

Investment Ratings	Investment Type			Total
	U.S. Government Agency Obligations	Corporate Debt	Municipal Securities	
AAA	\$ 12,214,035	\$ 2,058,543	\$ -	\$ 14,272,578
AA	-	2,357,980	107,718	2,465,698
A	-	5,697,670	612,850	6,310,520
BBB	-	9,728,149	-	9,728,149
BB	-	2,001,994	38,413	2,040,407
B	-	4,381,077	-	4,381,077
CCC	-	1,926,186	-	1,926,186
CC	-	81,849	-	81,849
Not Rated	18,103	2,539,082	279,236	2,836,421
	<u>\$ 12,232,138</u>	<u>\$ 30,772,530</u>	<u>\$ 1,038,217</u>	<u>\$ 44,042,885</u>

Concentration of Credit Risk

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation has a formal policy addressing concentration of credit risk. Investments shall be diversified with the intent to minimize the risk of large realized and unrealized losses to the invested assets. The total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holding in individual issues, corporations, or industries.

- Not more than 5% of the total equity portfolio valued at market may be invested in the common stock of any one corporation.
- Not more than 5% of the total outstanding shares of any one company may be held.
- Not more than 20% of the equity portfolio valued at market may be held in any one industry category.
- Not more than 15% of the equity portfolio valued at market may be invested in securities issued as American Depository Receipts.
- Fixed income securities of any one issuer shall not exceed 5% of the market value of the total bond portfolio at the time of the purchase (except US Treasury or other federal agencies).
- Holdings of any individual fixed income issue must not exceed 5% of the value of the total issue (except US Treasury or other federal agency issues).

At the end of 2011 and 2010, the Foundation had not invested more than 5% of their investments in any one issuer.

Custodial Credit Risk

The Foundation minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to Foundation ownership and further to the extent possible, be held in the Foundation's name. At June 30, 2011 and 2010 all Foundation funds were held in the name of the counterparty for benefit of the Foundation.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Foundation does not presently have a policy that addresses foreign currency risk.

The Foundation is exposed to foreign currency risk in foreign stocks that it holds as follows:

2011		2010	
Currency Type	Fair Value	Currency Type	Fair Value
AUD	\$ 2,704,106	AUD	\$ 2,477,884
BRL	1,153,313	BMD	407
CAD	84,463	BRL	306,812
CHF	1,672,554	CAD	458,760
CLP	151,677	CHF	959,741
CNY	1,294,296	CLP	30,543
COP	37,171	CNY	259,446
CZK	27,935	COP	15,569
DKK	29,562	CZK	7,186
EGP	15,674	DKK	516,651
EUR	4,061,707	EGP	10,618
GBP	6,371,007	EUR	2,455,670
HKD	2,958,430	GBP	4,792,548
HUF	48,855	HKD	3,707,262
IDR	236,473	HUF	8,714
ILS	17,247	IDR	47,909
INR	646,510	ILS	6,480
JPY	3,589,605	INR	167,632
KRW	1,183,810	JPY	4,518,890
MAD	6,718	KRW	269,904
MXN	392,702	MAD	2,994
MYR	257,913	MXN	88,302
NOK	12,669	MYR	58,915
NZD	16,893	NOK	22,401
PEN	22,392	NZD	222,066
PHP	52,027	PEN	8,921
PLN	148,037	PHP	9,621
RUB	497,104	PLN	24,988
SEK	492,706	RUB	125,497
SGD	1,650,233	SEK	574,150
THB	149,867	SGD	1,368,920
TRY	131,934	THB	30,771
TWD	960,107	TRY	32,361
ZAR	608,254	TWD	214,522
		UAH	422
		ZAR	144,745
	<u>\$ 31,683,951</u>		<u>\$ 23,948,222</u>

Note 5 - Notes Receivable

Notes receivable are held in escrow and substantially all are collateralized by real estate. Interest earnings on the contracts are to be used for the purposes specified by the donor. Principal payments on the contracts are added to the corpus of the appropriate endowment as they are received. Notes and other contracts receivable at June 30, consist of the following:

	2011	2010
Note receivable dated March 5, 1993, due in equal installments of principal and interest payments of \$74,704, including interest at 6% per annum, through 2019.	\$ 523,900	\$ 573,086
Note receivable dated February 20, 1985, due in equal monthly installments of principal and interest payments of \$400, including interest at 10% per annum, through 2013.	10,292	18,106
Note receivable dated June 26, 1996, due in equal annual installments of principal and interest payments of \$5,812, including interest at 8.25% per annum, through 2011.	-	3,703
Note receivable dated February 5, 2007, due in equal monthly installments of principal and interest payments of \$1,185, including interest at 7.75% per annum, through 2016 (Received May 2011).	60,219	-
	\$ 594,411	\$ 594,895

Note 6 - Real Estate Holdings

Real estate holdings consisted of the following at June 30, 2011:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not depreciated				
Land	\$ 3,391,207	\$ 975,000	\$ 91,550	\$ 4,274,657
Total capital assets not depreciated	3,391,207	975,000	91,550	4,274,657
Other capital assets				
Buildings	225,250	-	-	225,250
Less accumulated depreciation	(134,960)	(5,893)	-	(140,853)
Other capital assets - net	90,290	(5,893)	-	84,397
Capital assets - net of depreciation	\$ 3,481,497	\$ 969,107	\$ 91,550	\$ 4,359,054

Real estate holdings consisted of the following at June 30, 2010:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Capital assets not depreciated				
Land	\$ 3,511,518	\$ 94,000	\$ 214,311	\$ 3,391,207
Total capital assets not depreciated	<u>3,511,518</u>	<u>94,000</u>	<u>214,311</u>	<u>3,391,207</u>
Other capital assets				
Buildings	225,250	-	-	225,250
Less accumulated depreciation	<u>(129,067)</u>	<u>(5,893)</u>	<u>-</u>	<u>(134,960)</u>
Other capital assets - net	<u>96,183</u>	<u>(5,893)</u>	<u>-</u>	<u>90,290</u>
Capital assets - net of depreciation	<u>\$ 3,607,701</u>	<u>\$ 88,107</u>	<u>\$ 214,311</u>	<u>\$ 3,481,497</u>

Note 7 - Distributions to University of Idaho and Affiliates

During fiscal years 2011 and 2010, earnings from endowments invested in the CIT, direct gifts and other revenues to the Foundation were distributed as follows:

	2011		2010	
	CIT Endowment Income	Gifts and Other Revenues	CIT Endowment Income	Gifts and Other Revenues
Scholarships	\$ 4,084,770	\$ 2,957,307	\$ 3,985,636	\$ 3,316,883
Student loans	166,600	-	159,618	-
Building funds	-	2,757,897	-	937,510
University of Idaho College and Department Operating Accounts				
Academic Excellence	377,232	31,731	371,167	52,110
Agricultural and Life Sciences	252,304	1,088,830	245,025	633,069
Art and Architecture	12,599	127,562	11,972	56,756
Athletics	32,247	459,632	37,886	441,076
Business and Economics	232,871	548,305	262,263	427,452
Education	26,311	397,897	24,448	171,103
Engineering	73,203	567,074	81,549	568,724
Law	171,720	95,895	176,465	128,043
Letters, Art and Social Science	414,314	339,404	387,842	314,459
Library	117,669	745	117,856	28,741
Natural Resources	179,817	254,346	180,928	359,760
Science	109,083	287,802	97,108	186,337
Other departments	288,555	988,550	309,375	1,044,243
Life beneficiaries	176,018	-	349,666	-
University of Idaho affiliates	365	56,585	30,349	48,749
Total Distributions	\$ 6,715,678	\$ 10,959,562	\$ 6,829,153	\$ 8,715,015

Note 8 - Split Interest Agreements

At June 30, 2011 and 2010, the Foundation was managing 82 and 88 charitable gift arrangements of which the underlying assets have a market value of \$13,880,535 and \$12,176,465, respectively. The actuarial obligation to pay the trust beneficiaries at June 30, 2011 and 2010 is \$7,000,322 and \$6,228,194, respectively. The assets of the individual trusts are invested and are expected to generate sufficient income to pay this obligation until the termination of the individual trusts. Contributions of \$1,439,611 and \$224,317 were received in connection with split interest agreements during the years ended June 30, 2011 and 2010, respectively. During the year ended June 30, 2011 nine agreements with a market value of \$862,605 terminated, in the previous fiscal year three agreements with a market value of \$34,875 terminated.

Activity for the year ended June 30, 2011 was as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
Liability for split interest trusts	<u>\$ 6,228,194</u>	<u>\$ 1,323,325</u>	<u>\$ (551,197)</u>	<u>\$ 7,000,322</u>	<u>\$ 1,014,845</u>

Activity for the year ended June 30, 2010 was as follows:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Liability for split interest trusts	<u>\$ 5,588,828</u>	<u>\$ 887,813</u>	<u>\$ (248,447)</u>	<u>\$ 6,228,194</u>	<u>\$ 994,161</u>

Note 9 - Foundation Operating Expenses

The University provides occupancy, utilities and payroll services. The value of these services is not reflected in the accompanying financial statements since they are not susceptible to objective measurement or valuation.

Note 10 - Endowments

The Foundation receives certain gift assets that are restricted for endowment purposes, and by definition the original gift amount will be held in perpetuity for the benefit of the University. Restriction requirement for principal preservation is addressed by Idaho statute and is applicable lacking any further guidance from the individual gift agreement. During the fiscal year ended June 30, 2011 and 2010, \$3,329,438 and \$2,418,134 was contributed to endowments, respectively.

The Foundation has a two-tier spending policy dependent upon the endowment agreement that exists for each endowment. 1) Endowments with language requiring the reinvestment of all realized capital gains as principal can distribute only realized interest and dividends, and all realized gains are reinvested. 2) The Foundation Board of Directors establishes a spending rate annually for endowments without the restrictive reinvestment language. The approved fiscal year 2011 and 2010 spending rate was set at 4.5% and 4% of the three-year rolling average of

the CIT's monthly fair market value. If total realized dividends, interest and short-term capital gains are less than the total amount required to make the distributions based on this spending rate, realized long-term gains will be used to make up the shortfall.

During the fiscal year ended June 30, 2011 and 2010, the endowments held by the Foundation had net appreciation on donor restricted endowments of \$28,121,710 and \$16,749,694. Per terms of the endowment agreements realized, capital gains are either reinvested as principal or distributed per the donor agreement. Unrealized appreciation is included with the "Restricted – Non Expendable" Fund Balance.



Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
University of Idaho Foundation, Inc.
Moscow, Idaho

We have audited the financial statements of University of Idaho Foundation, Inc. (the Foundation), as of and for the year ended June 30, 2011, and have issued our report thereon dated September 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 14, 2011