

Financial Statements June 30, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, and the changes in financial position and cash flows thereof 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 3 through 7 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 13, 2012, 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.

Sally LLP Boise, Idaho

September 13, 2012

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 three to four 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 auditor's 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, expenses, 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, \$74.9 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, 2012 and 2011.

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:

- <u>Restricted Nonexpendable</u>—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.
- <u>Unrestricted</u>—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, 2012 and 2011								
	2012	Change 2010 to 2011						
Assets								
Current assets Real estate holdings Noncurrent investments Other assets	\$ 23,494,205 4,306,657 194,286,707 14,473,727	\$ 23,870,224 4,359,054 201,805,823 12,736,277	\$ (376,019) (52,397) (7,519,116) 1,737,450	\$ 26,813,272 3,481,497 168,497,013 11,540,285	\$ (2,943,048) 877,557 33,308,810 1,195,992			
Total Assets	236,561,296	242,771,378	(6,210,082)	210,332,067	32,439,311			
Liabilities								
Current liabilities Noncurrent liabilities	7,901,925 80,485,417	7,813,784 84,176,481	88,141 (3,691,064)	7,895,767 73,063,883	(81,983) 11,112,598			
Total Liabilities	88,387,342	91,990,265	(3,602,923)	80,959,650	11,030,615			
Net Assets								
Restricted - nonexpendable Restricted - expendable Unrestricted	110,808,319 32,145,781 5,219,854	111,668,453 33,729,970 5,382,690	(860,134) (1,584,189) (162,836)	95,272,890 29,719,205 4,380,322	16,395,563 4,010,765 1,002,368			
Total Net Assets	\$ 148,173,954	\$150,781,113	\$ (2,607,159)	\$129,372,417	\$ 21,408,696			

During fiscal year 2012 the total net assets of the Foundation decreased by \$2.6 million. Restricted nonexpendable assets decreased by \$1.6 million and unrestricted assets decreased by \$2.2 million. This decrease follows sizable increases for the previous two fiscal years. The decrease is attributable to a combination of factors. Restricted nonexpendable assets experienced a decrease in the market value of investments. The decrease was mitigated by an increase in gifts to the endowment fund. Restricted expendable assets decreased due to a reduction in pledges recorded and an increase in pledges that were collected and transferred to the University for University projects specified by donors. Unrestricted assets decreased because the Foundation Board of Directors allocated a portion of the unrestricted balance to support the "Inspiring Futures" capital campaign. By contrast, total net assets of the Foundation increased by over \$21.4 million in fiscal year 2011. Restricted nonexpendable assets increased by \$16.4 million, restricted expendable assets increased by \$4.0 million and unrestricted assets increased by \$1.0 million. The overriding cause of the increases was the second straight year of improvement in market value of investments.

During 2012, cash increased by \$4.4 million following a decrease of approximately \$6.1 million in fiscal year 2011 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 decreased approximately \$3.2 million in fiscal year 2012 following an increase of \$26 million for the year ended June 30, 2011. This is a reflection of the general worldwide investment markets during this same time period. The CIT continues to perform exceptionally well when compared to similar endowment portfolios. For fiscal year 2012, the CIT had total return of -0.9%. In fiscal year 2011 total return was 20.4%. The annualized return for the three year period ended June 30, 2012 was 11.3%.

During fiscal year 2012, total liabilities of the Foundation decreased by \$3.6 million. This decrease is mainly attributable to the decrease in market value of the endowment assets. Because a portion of the endowment is held in trust for the University of Idaho, a decrease in market value generates a decrease in the liability of the Foundation. For this past year that liability decreased by \$3.3 million.

The liability for payments due on split interest trusts decreased by \$.3 million. This decrease is mainly due to the decrease in the estimated life of the trusts which naturally occurs each year.

There was also a slight increase in the liability for endowment earnings to be transferred to the University of Idaho in fiscal year 2012. The Foundation was able to generate endowment earnings over \$6.8 million to be transferred to the University for fiscal year 2013 scholarships and programs.

In the previous fiscal year, 2011, the total liabilities of the Foundation increased by \$11 million. Of this increase, \$10.4 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 \$.7 million which was offset by a decrease in the liability for endowment earnings to be transferred to the University for fiscal year 2012.

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, 2012 and 2011

	2012	2011	Change 2011 to 2012	2010	Change 2010 to 2011
Operating revenues	\$ 14,586,57	9 \$ 52,226,080	\$ (37,639,501)	\$ 44,386,200	\$ 7,839,880
Operating expenses	17,193,73	8 30,811,491	(13,617,753)	23,932,077	6,879,414
Operating income (loss)	(2,607,15	(9) 21,414,589	(24,021,748)	20,454,123	960,466
Non-operating expenses		- (5,893)	5,893	(5,893)	-
Income (loss) before other expenses	(2,607,15	21,408,696	(24,015,855)	20,448,230	960,466
Increase (decrease) in net assets	(2,607,15	21,408,696	(24,015,855)	20,448,230	960,466
Net assets, beginning of year	150,781,11	3 129,372,417	21,408,696	108,924,187	20,448,230
Net assets, end of year	\$ 148,173,95	\$150,781,113	\$ (2,607,159)	\$129,372,417	\$ 21,408,696

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

Operating revenue decreased by \$37.6 million in fiscal year 2012. The decrease was driven by a \$35.7 million decrease in the change in fair value of investments from a positive \$29.1 million in fiscal year 2011 to negative \$6.6 million at June 30, 2012. This change is a combination of \$3.1 million increase in realized capital gains and \$38.8 million decrease in unrealized appreciation. Gift revenue decreased by \$2.1 million, gifts of \$14.4 million were received in 2012 compared to \$16.5 million in 2011. The majority of the decrease was the result of a decrease in pledges received. Investment income also decreased by \$.6 million in fiscal year 2012 following a decrease in investment earnings of \$.8 million in 2011. 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 2012, operating expenses decreased by \$13.6 million, the bulk of which was a nearly \$14 million decrease in the change in value of funds held in trust for the University. This follows an increase in operating expenses of \$6.9 million in fiscal year 2011. The large increase for fiscal year 2011was also primarily driven by the change in fair value of investments which increased the change in value of the funds held in trust for the University. That change was approximately \$5 million in 2011. The 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 2012 and 2011 the distributions from the CIT were \$6.8 million and \$6.7 million, respectively. The slight increase is the result of the smoothing effect of basing distributions on a three year rolling average and the effect of the first year of the 2008 recession no longer being included in the three base years. 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 \$127 million has been distributed from endowment earnings to fund scholarships and programs for the University since the CIT was established in 1959.

The slight increase in endowment distributions in fiscal year 2012 was offset by a slight decrease in distributions of current gifts to the University. In fiscal year 2012 the combined distribution was approximately \$20 thousand more than the combined distribution in 2011.

Administrative expense increased by approximately \$124 thousand dollars in 2012 from slightly over \$1.9 million in 2011 to just over \$2 million in 2012. This increase reflects the final 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 will continue to provide excellence in education and innovation. The Foundation has nine employees with offices in Moscow and Boise. Conducting business through regular 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.

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, distributing over \$17 million to the University in fiscal year 2012 to ensure a margin of excellence for the outstanding students, faculty and programs at the University.

In April 2012, the University announced the public phase of its \$225 million capital campaign. The goal of *Inspiring Futures: Invest in the University of Idaho* is to secure the financial resources necessary for the University to build on its leadership position and deliver transformational education experiences for students. The campaign began July 1, 2007 and will conclude in 2014—the 125th anniversary of the University's founding. Gifts will be sought to further the University's strategic plan. Several Foundation directors also provide volunteer service as members of the Campaign Cabinet.

With total assets of nearly \$237 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.

	2012	2011
Assets		
Current Assets Cash and cash equivalents Accrued interest and other receivables Pledges receivable, net	\$ 10,541,837 516,538 1,215,450	\$ 9,354,794 757,950 2,023,978
Investments Notes receivable	11,153,680 66,700	11,667,502 66,000
Total current assets	23,494,205	23,870,224
Noncurrent Assets Restricted cash and cash equivalents Pledges receivable, net Investments Notes receivable Real estate holdings Other assets	11,402,008 2,310,429 194,286,707 458,273 4,306,657 303,017	8,188,267 3,702,347 201,805,823 528,411 4,359,054 317,252
Total noncurrent assets	213,067,091	218,901,154
Total assets	\$ 236,561,296	\$ 242,771,378
Liabilities and Net Assets		
Current Liabilities Accounts payable Liability for split interest trusts Trust earnings payable to trust beneficiaries	\$ 95,424 1,010,670 6,795,831	\$ 83,261 1,014,845 6,715,678
Total current liabilities	7,901,925	7,813,784
Noncurrent Liabilities Funds held in trust for University of Idaho Liability for split interest trusts	74,859,032 5,626,385	78,191,004 5,985,477
Total noncurrent liabilities	80,485,417	84,176,481
Total liabilities	88,387,342	91,990,265
Net Assets Restricted - nonexpendable Restricted - expendable Unrestricted	110,808,319 32,145,781 5,219,854	111,668,453 33,729,970 5,382,690
Total net assets	148,173,954	150,781,113
Total Liabilities and Net Assets	\$ 236,561,296	\$ 242,771,378

	2012	2011
Operating Revenues Gifts	\$ 14,347,596	\$ 16,493,221
Dividends	3,987,131	3,862,791
Interest	2,215,621	2,981,913
Change in fair value of investments	(6,596,775)	29,070,872
Lease and rental income	-	4,730
Change in split interest trusts	404,267	(272,986)
Other	228,739	85,539
Total operating revenues	14,586,579	52,226,080
Operating Expenses		
Distribution of endowment income to trust beneficiaries	6,809,561	6,715,678
Distribution to University and affiliates	10,881,846	10,959,562
Distribution of trust income to life income beneficiaries	731,799	721,641
Administrative expense	2,052,315	1,928,097
Property management	17,596	16,570
Change in value of funds held in trust for University of Idaho	(3,331,972)	10,361,154
Other	32,593	108,789
Total operating expenses	17,193,738	30,811,491
Operating Income (Loss)	(2,607,159)	21,414,589
Non-operating Expenses		
Depreciation expense		(5,893)
Total non-operating expenses		(5,893)
Change in Net Assets	(2,607,159)	21,408,696
Net Assets, Beginning of Year	150,781,113	129,372,417
Net Assets, End of Year	\$ 148,173,954	\$ 150,781,113

	2012			2011
Operating Activities				
Donations received	\$	15,237,644	\$	13,238,600
Investment income		6,444,163		6,711,876
Cash received from lease and rental income		-		4,730
Split interest trust obligations		41,000		499,142
Real estate contracts		69,438		62,303
Net distributions for the benefit of trust beneficiaries		(6,729,409)		(6,829,153)
Distributions for the benefit of University of Idaho		(11,613,645)		(11,681,203)
Administrative and management fees		(2,057,743)		(1,933,859)
Proceeds from sales and maturities of investments		82,326,280		211,360,784
Purchase of investments and related fees		(79,822,844)		(217,777,843)
Other (payments) and receipts		216,728		(20,294)
Net Cash from (used for) Operating Activities		4,111,612		(6,364,917)
Capital and Related Financing Activities				
Proceeds from sale of real estate holdings		289,172		215,623
Net Cash from Capital and Related Financing Activities		289,172		215,623
Net Increase (Decrease) in Cash and Cash Equivalents		4,400,784		(6,149,294)
Cash and Cash Equivalents, Beginning of Year		17,543,061		23,692,355
Cash and Cash Equivalents, End of Year	\$	21,943,845	\$	17,543,061

University of Idaho Foundation, Inc. Statements of Cash Flows Years Ended June 30, 2012 and 2011

		2012		2011
Reconciliation of Operating Income (Loss) to Net				
Cash from Operating Activities				
Operating income (loss)	\$	(2,607,159)	\$	21,414,589
Capital contributions		(1,310,398)		(4,237,759)
Changes in assets and liabilities				
Interest receivable		241,412		(132,828)
Pledges receivable		2,200,446		989,775
Split interest trust obligations		(363,267)		772,128
Other receivables, net and other assets		90,023		58,622
Accounts payable and accrued liabilities		12,163		10,808
Funds held for others		80,153		(113,475)
Proceeds from sales and maturities of investments		82,326,280		211,360,784
Purchase of investments and related fees		(79,822,844)		(217,777,843)
Change in fair value of investments		6,596,775		(29,070,872)
Change in value of funds held in trust for the				
University of Idaho		(3,331,972)	_	10,361,154
Net Cash from (used for) Operating Activities	\$	4,111,612	\$	(6,364,917)
Noncash Activities	¢	1,310,398	¢	4,237,759
Noncash gifts	<u> </u>	1,310,398		4,237,739

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 \$187.6 million and \$190.7 million at June 30, 2012 and 2011, respectively. Included in the CIT are \$74.9 million and \$78.2 million in endowment assets held in trust for the University at June 30, 2012 and 2011, respectively. 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, which approximates fair market value, 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 statement of net assets. 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:

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

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

<u>Unrestricted</u>—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 as of the date of the 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, 2012 and 2011 that are uninsured and uncollateralized are as follows:

	2012	_		2011
Uninsured and uncollateralized	\$ 8,828,408	\$	6	8,318,770
Collateral held in the name of the				
counterparty for benefit of the Foundation	\$ 1,837,646	9	3	1,726,821

Note 3 - Pledges Receivable

For the fiscal years ended June 30, 2012 and 2011, the Foundation recorded \$327,000 and \$1,467,600 respectively, of gift revenue in the form of pledges receivable. An expense in the amount of uncollectible pledges of \$22,890 and \$108,789 was recorded for fiscal years ended June 30, 2012 and 2011, respectively. The estimated collection of these gifts is as follows:

One year or less 2014 2015 2016 2017 2018	\$ 1,341,411 1,405,057 1,035,131 74,700 22,500 12,500
	3,891,299
Less allowance for uncollectible pledges	(365,420)
Pledges receivable, end of year	\$ 3,525,879

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 3.28% of total investments.

At June 30, 2012, the fair value of restricted and unrestricted investments was \$201,730,137 and \$3,710,250 respectively. At June 30, 2011, the fair value of restricted and unrestricted investments was \$209,277,568 and \$4,195,757, 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, 2012 and 2011:

Investment Type	2012	
U.S. government agency obligations	\$ 2,740,091	\$ 7,397,744
Corporate debt	40,930,535	41,741,786
Preferred stock	1,563,836	2,060,461
Municipal securities	512,534	1,230,239
U.S. treasuries	16,031,090	16,107,310
Common stock	93,903,684	101,670,050
International equity funds	14,840,153	12,180,830
Mutual funds	17,158,258	14,002,215
Private equities	6,749,573	5,592,572
Real assets	11,009,940	11,489,325
Foreign currency	693	793
	\$ 205,440,387	\$ 213,473,325

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, 2012, the Foundation had the following investments subject to interest rate risk:

		_	Investment Maturities (in years)				
Investment Type	Fair Valu	<u> </u>	Less than 1	1-5	6-10	More than 10	
Corporate debt U.S. government agency obligations U.S. treasuries Municipal securities	\$ 40,930,5 2,740,0 16,031,0 512,5	91 90	\$ 7,587,682 1,067,704 823,041 85,436	\$ 22,258,245 577,944 1,023,475 221,058	\$ 8,518,240 588,944 14,184,574 5,010	\$ 2,566,368 505,499 - 201,030	
	\$ 60,214,2	50	\$ 9,563,863	\$ 24,080,722	\$ 23,296,768	\$ 3,272,897	

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

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

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, 2012, the Foundation had the following investment credit risk:

	Investment Type							
Investment Ratings	U.S. Government Agency Obligations	Corporate Debt	Municipal Securities	Total				
AAA	\$ -	\$ 2,122,528	\$ -	\$ 2,122,528				
AA	2,725,352	10,490,561	-	13,215,913				
A	-	12,215,784	338,006	12,553,790				
BBB	-	11,685,766	5,010	11,690,776				
BB	-	2,036,731	40,023	2,076,754				
В	-	1,426,225	-	1,426,225				
CCC	-	137,889	-	137,889				
CC	-	22,035	-	22,035				
D	-	18,215	-	18,215				
Not Rated	14,739	774,801	129,495	919,035				
	\$ 2,740,091	\$ 40,930,535	\$ 512,534	\$ 44,183,160				

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

		Investment Type								
Investment Ratings	U.S. Government Agency Obligations	Corporate Debt	Municipal Securities	Total						
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						
В	-	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						
	\$ 7,397,744	\$ 41,741,786	\$ 1,230,239	\$ 50,369,769						

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 2012 and 2011, 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, 2012 and 2011 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:

BRL 1,328,378 BRL 1,153,31 CHF 1,978,669 CAD 84,46 CLP 212,325 CHF 1,672,55 CNY 1,803,996 CLP 151,67 EUR 2,606,455 CNY 1,294,29 GBP 6,211,354 COP 37,17 HKD 2,979,964 CZK 27,93 IDR 377,627 DKK 29,56 INR 858,991 EGP 15,67 JPY 2,837,498 EUR 4,061,70 KRW 1,714,623 GBP 6,371,00 MXN 730,108 HKD 2,958,43 MYR 412,158 HUF 48,85 PHP 125,282 IDR 236,47 PLN 173,301 ILS 17,24 RUB 611,250 INR 646,51 SEK 455,156 JPY 3,589,60 SGD 1,448,843 KRW 1,183,81 THB 297,816 MAD 6,71 TRY 250,611 MXN 392,70 TWD 1,443,143 MYR 257,91 TWD 1,443,143 MYR 257,91 TWD 252,685 NZD 16,89 PEN 22,39 PHP 52,02 PLN 148,03 RUB 497,10 SEK 492,70 SGD 1,650,23	2012		20)11
BRL 1,328,378 BRL 1,153,31 CHF 1,978,669 CAD 84,46 CLP 212,325 CHF 1,672,55 CNY 1,803,996 CLP 151,67 EUR 2,606,455 CNY 1,294,29 GBP 6,211,354 COP 37,17 HKD 2,979,964 CZK 27,93 IDR 377,627 DKK 29,56 INR 858,991 EGP 15,67 JPY 2,837,498 EUR 4,061,70 KRW 1,714,623 GBP 6,371,00 MXN 730,108 HKD 2,958,43 MYR 412,158 HUF 48,85 PHP 125,282 IDR 236,47 PLN 173,301 ILS 17,24 RUB 611,250 INR 646,51 SEK 455,156 JPY 3,589,60 SEK 455,156 JPY 3,589,60 SGD 1,448,843 KRW 1,183,81 THB 297,816 MAD 6,71 TRY 250,611 MXN 392,70 TWD 1,443,143 MYR 257,91 ZAR 954,603 NOK 12,66 Various 252,685 NZD 16,89 PEN 22,39 PHP 52,02 PLN 148,03 RUB 497,10 SEK 492,70 SGD 1,650,23 THB 149,86 TRY 131,93 TWD 960,10	Currency Type	Fair Value	Currency Type	Fair Value
SGD 1,650,23 THB 149,86 TRY 131,93 TWD 960,10	Currency Type AUD BRL CHF CLP CNY EUR GBP HKD IDR INR JPY KRW MXN MYR PHP PLN RUB SEK SGD THB TRY TWD ZAR	Fair Value \$ 2,743,365 1,328,378 1,978,669 212,325 1,803,996 2,606,455 6,211,354 2,979,964 377,627 858,991 2,837,498 1,714,623 730,108 412,158 125,282 173,301 611,250 455,156 1,448,843 297,816 250,611 1,443,143 954,603	Currency Type AUD BRL CAD CHF CLP CNY COP CZK DKK EGP EUR GBP HKD HUF IDR ILS INR JPY KRW MAD MXN MYR NOK NZD PEN PHP PLN RUB	Fair Value \$ 2,704,106 1,153,313 84,463 1,672,554 151,677 1,294,296 37,171 27,935 29,562 15,674 4,061,707 6,371,007 2,958,430 48,855 236,473 17,247 646,510 3,589,605 1,183,810 6,718 392,702 257,913 12,669 16,893 22,392 52,027 148,037 497,104
TRY 131,93 TWD 960,10			SGD	492,706 1,650,233
TWD 960,10				149,867
·				,
			ZAK	608,254
\$ 32,808,201 \$ 31,683,95		\$ 32,808.201		\$ 31,683,951

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:

	 2012	2011
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.	\$ 470,947	\$ 523,900
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.	3,679	10,292
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.	50,347	60,219
	\$ 524,973	\$ 594,411

Note 6 - Real Estate Holdings

Real estate holdings consisted of the following at June 30, 2012:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	
Real estate holdings not depreciated Land	\$ 4,274,657	\$ 80,000	\$ 48,000	\$ 4,306,657	
Total real estate holdings not depreciated	4,274,657	80,000	48,000	4,306,657	
Other real estate holdings Buildings Less accumulated depreciation	225,250 (140,853)	<u>-</u>	225,250 (140,853)	<u>-</u>	
Other real estate holdings - net	84,397		84,397		
Real estate holdings - net of depreciation	\$ 4,359,054	\$ 80,000	\$ 132,397	\$ 4,306,657	

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

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

Note 7 - Distributions to University of Idaho and Affiliates

During fiscal years 2012 and 2011, earnings from endowments invested in the CIT, direct gifts and other revenues to the Foundation were distributed as follows:

	2012			2011				
		CIT	Gifts and CIT			Gifts and		
	Endowment		Other		Endowment		Other	
		Income		Revenues		Income		Revenues
Scholarships	\$	4,123,882	\$	2,578,983	\$	4,084,770	\$	2,957,307
Student loans		168,091		-		166,600		-
Building funds		-		1,287,082		-		2,757,897
University of Idaho College and								
Department Operating Accounts								
Academic Excellence		383,873		17,099		377,232		31,731
Agricultural and Life Sciences		261,741		1,322,193		252,304		1,088,830
Art and Architecture		12,820		54,585		12,599		127,562
Athletics		29,153		1,514,098		32,247		459,632
Business and Economics		253,900		526,501		232,871		548,305
Education		23,469		477,957		26,311		397,897
Engineering		77,635		515,181		73,203		567,074
Law		169,589		127,825		171,720		95,895
Letters, Art and Social Science		419,258		394,051		414,314		339,404
Library		122,427		1,745		117,669		745
Natural Resources		178,609		280,304		179,817		254,346
Science		121,687		511,972		109,083		287,802
Other departments		305,595		1,231,837		288,555		988,550
Life beneficiaries		157,464		-		176,018		, -
University of Idaho affiliates		368		40,433		365		56,585
•								
Total Distributions	\$	6,809,561	\$	10,881,846	\$	6,715,678	\$	10,959,562

Note 8 - Split Interest Agreements

At June 30, 2012 and 2011, the Foundation was managing 81 and 82 charitable gift arrangements of which the underlying assets have a market value of \$13,466,818 and \$13,880,535, respectively. The actuarial obligation to pay the trust beneficiaries at June 30, 2012 and 2011 is \$6,637,055 and \$7,000,322, 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 \$199,823 and \$1,439,611 were received in connection with split interest agreements during the years ended June 30, 2012 and 2011, respectively. During the year ended June 30, 2012 three agreements with a market value of \$305,366 terminated, in the previous fiscal year nine agreements with a market value of \$862,605 terminated.

Activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Liability for split interest trusts	\$ 7,000,322	\$ 126,769	\$ (490,036)	\$ 6,637,055	\$ 1,010,670
Activity for the year	ended June 30, 20	11 was as follows:			
	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Liability for split interest trusts	\$ 6,228,194	\$ 1,323,325	\$ (551,197)	\$ 7,000,322	\$ 1,014,845

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, 2012 and 2011, \$5,021,768 and \$3,329,438 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 2012 and 2011 spending rate was set at 4.5% 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, 2012 and 2011, the endowments held by the Foundation had net appreciation (depreciation) on donor restricted endowments of \$(6,048,938) and \$28,121,710. 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, 2012, and have issued our report thereon dated September 13, 2012. 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

Management of the Foundation is responsible for establishing and maintaining effective 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.

Side Sailly LLP Boise, Idaho

September 13, 2012