

UNC

UNIVERSITY OF NORTHERN COLORADO

Foundation

**Financial Statements
and
Independent Auditors' Report
June 30, 2016**

(With Summarized Financial Information for the Year Ended June 30, 2015)

EKS&H

AUDIT | TAX | CONSULTING

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of University of Northern Colorado Foundation, Inc. (a non-profit corporation) (the "Organization"), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

To the Board of Directors
University of Northern Colorado Foundation, Inc.
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Northern Colorado Foundation, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

EKS+H LLLP
EKS&H LLLP

September 30, 2016
Denver, Colorado

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Statement of Financial Position

	June 30, 2016	Summarized Financial Information for the Year Ended June 30, 2015
	<u>2016</u>	<u>2015</u>
Assets		
Assets		
Cash and cash equivalents	\$ 2,127,911	\$ 1,361,845
Investments	97,571,174	104,168,090
Pledges, net	7,109,073	7,219,636
Accrued interest	135,441	173,248
Property and equipment, net	964,826	1,003,025
Life insurance policies	48,835	47,212
Prepays and other assets	43,096	43,538
Beneficial interest in long-term trusts held by others	<u>6,796,726</u>	<u>7,580,774</u>
Total assets	<u>\$ 114,797,082</u>	<u>\$ 121,597,368</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 670,228	\$ 932,020
Obligations under gift annuity agreements	130,830	136,612
Assets held for others	<u>603,137</u>	<u>614,539</u>
Total liabilities	<u>1,404,195</u>	<u>1,683,171</u>
Net assets		
Unrestricted		
Undesignated	8,484,144	10,697,746
Board-designated	<u>2,094,640</u>	<u>3,392,902</u>
Total unrestricted net assets	10,578,784	14,090,648
Temporarily restricted	23,984,382	21,931,816
Permanently restricted	<u>78,829,721</u>	<u>83,891,733</u>
Total net assets	<u>113,392,887</u>	<u>119,914,197</u>
Total liabilities and net assets	<u>\$ 114,797,082</u>	<u>\$ 121,597,368</u>

See notes to financial statements.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Statement of Activities

	<u>For the Year Ended June 30, 2016</u>				Summarized Financial Information for the Year Ended June 30, 2015
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
Revenues, gains, and support					
Contributions, net	\$ 29,287	\$ 7,062,461	\$ 604,508	\$ 7,696,256	\$ 11,712,637
In-kind contributions	-	151,076	-	151,076	79,708
Interest and dividends	418,810	314,358	1,300,627	2,033,795	1,898,854
Net realized and unrealized (losses) gains	(1,056,970)	(273,017)	(3,054,567)	(4,384,554)	1,646,209
Change in value of charitable gift annuities and long-term trusts held by others	-	-	(798,179)	(798,179)	(9,105)
Other income	<u>6,003</u>	<u>430,189</u>	<u>-</u>	<u>436,192</u>	<u>530,337</u>
Total revenues, gains, and support	<u>(602,870)</u>	<u>7,685,067</u>	<u>(1,947,611)</u>	<u>5,134,586</u>	<u>15,858,640</u>
Net assets released from restrictions					
Management fees earned	1,175,855	(129,696)	(1,046,159)	-	-
Satisfaction of program restrictions	<u>7,689,669</u>	<u>(5,524,699)</u>	<u>(2,164,970)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>8,865,524</u>	<u>(5,654,395)</u>	<u>(3,211,129)</u>	<u>-</u>	<u>-</u>
Expenses					
Programs, scholarships, and capital support	10,631,956	-	-	10,631,956	11,289,698
Support services					
Management and general	688,465	-	-	688,465	748,846
Advancement services support to the University	<u>280,072</u>	<u>-</u>	<u>-</u>	<u>280,072</u>	<u>218,197</u>
Total expenses	<u>11,600,493</u>	<u>-</u>	<u>-</u>	<u>11,600,493</u>	<u>12,256,741</u>
Other losses					
Provision for uncollectible pledges, net of recoveries	<u>55,403</u>	<u>-</u>	<u>-</u>	<u>55,403</u>	<u>31,335</u>
Total other losses	<u>55,403</u>	<u>-</u>	<u>-</u>	<u>55,403</u>	<u>31,335</u>
Change in net assets	(3,393,242)	2,030,672	(5,158,740)	(6,521,310)	3,570,564
Transfer of net assets	(118,622)	21,894	96,728	-	-
Net assets at beginning of year	<u>14,090,648</u>	<u>21,931,816</u>	<u>83,891,733</u>	<u>119,914,197</u>	<u>116,343,633</u>
Net assets at end of year	<u>\$ 10,578,784</u>	<u>\$ 23,984,382</u>	<u>\$ 78,829,721</u>	<u>\$ 113,392,887</u>	<u>\$ 119,914,197</u>

See notes to financial statements.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Statement of Cash Flows

	For the Year Ended June 30, 2016	Summarized Financial Information for the Year Ended June 30, 2015
	<u> </u>	<u> </u>
Cash flows from operating activities		
Change in net assets	\$ (6,521,310)	\$ 3,570,564
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	49,999	57,478
Net realized and unrealized losses (gains)	4,026,524	(1,987,288)
Provision for uncollectible pledges, net of recoveries	55,403	31,335
Accretion in cash surrender value of life insurance policies	(1,623)	(3,253)
Change in value of charitable gift annuities and long-term trusts held by others	798,179	9,105
Contributions restricted for investment in endowments	(604,508)	(2,200,652)
Changes in assets and liabilities		
Pledges receivable	55,160	(3,643,291)
Accrued interest	37,807	1,081
Prepays and other assets	442	(6,278)
Accounts payable and accrued expenses	(261,792)	(1,624,958)
Assets held for others	<u>(11,402)</u>	<u>(15,321)</u>
	<u>4,144,189</u>	<u>(9,382,042)</u>
Net cash used in operating activities	<u>(2,377,121)</u>	<u>(5,811,478)</u>
Cash flows from investing activities		
Sales of investments	23,823,865	25,419,325
Purchases of investments	(21,253,473)	(21,174,208)
Purchase of property and equipment	(11,800)	(30,770)
Proceeds from life insurance policies	<u>-</u>	<u>19,695</u>
Net cash provided by investing activities	<u>2,558,592</u>	<u>4,234,042</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowments	604,508	2,200,652
Payments of gift annuity obligations	<u>(19,913)</u>	<u>(19,914)</u>
Net cash provided by financing activities	<u>584,595</u>	<u>2,180,738</u>
Net increase in cash and cash equivalents	766,066	603,302
Cash and cash equivalents at beginning of year	<u>1,361,845</u>	<u>758,543</u>
Cash and cash equivalents at end of year	<u>\$ 2,127,911</u>	<u>\$ 1,361,845</u>

See notes to financial statements.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

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

Basis of Presentation

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

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

Temporarily restricted amounts are assets subject to donor-imposed restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

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

Quasi-endowments are those purpose-restricted gifts that are intended to be maintained in perpetuity or to be spent over a specified time period, usually several years; however, under specific circumstances defined by the donor, the principal may be invaded fully to meet the defined purpose. Board-designated endowments are unrestricted funds designated by the Board of Directors to function as endowments (Notes 9 and 10).

Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term money market accounts, and other highly liquid investments with an original maturity of three months or less. It does not include cash and cash equivalents presented in investments, which are subject to investment management direction. Frequently, cash balances in commercial banks may exceed the level of insurance provided by the FDIC.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

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

Investments and Investment Valuation

The Organization maintains pooled investment accounts for the majority of its endowments. Investment income and realized and unrealized gains and losses, net of investment and management fees, from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts and are adjusted for additions to or deductions from those accounts.

Investments are stated at fair value as further discussed in Note 2. Investment returns include dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. In certain cases, investment managers report realized and unrealized gains and losses net of investment fees; accordingly, the Organization has reported the net amount in unrealized and realized gains and losses on the accompanying statement of activities. Investment returns are reflected on the statement of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions on those earnings.

Fair Value of Financial Instruments

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

Contributions and Pledges Receivable

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

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

Conditional gifts depend on the occurrence of specified future and uncertain events to bind the potential donors and are recognized as assets and revenues when the conditions are substantially met and the gifts become unconditional.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

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

Property and Equipment

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

Assets Held for Others

The Organization holds and invests certain funds on behalf of the University.

Income Taxes

The Organization is a non-profit entity exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a public charity under Section 509(a)(1). Accordingly, no provision for income taxes is made in these financial statements. Income from activities not directly related to the entity's tax-exempt purpose is subject to taxation as unrelated business taxable income. During fiscal year 2016, the unrelated business income tax liability was not material.

The Organization applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2016.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed in either management and general expenses or allocated to endowment income, depending on the nature of the interest and penalties. No material interest or penalties have been assessed as of June 30, 2016.

Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis on the statement of activities. Costs have been allocated among management and general and advancement services for services benefited. Advancement services comprise gift processing and donor and alumni information expenses. The University directly incurs all fundraising expenses.

Use of Estimates

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

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

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

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment applies to reporting entities that elect to measure the fair value of an investment using the net asset value ("NAV") per share (or its equivalent) practical expedient. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendment also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendment is effective for all years beginning after December 15, 2015. Earlier application is permitted. Entities should apply the amendment in this update retrospectively to all periods presented. Management of the Organization is evaluating the impact that this ASU will have on the financial statements.

Summarized Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events

The Organization has evaluated subsequent events through the auditors' report date, which is the date the financial statements were available for issuance. There were no material subsequent events that required recognition or disclosure in the financial statements.

Note 2 - Fair Value of Financial Instruments

The carrying amounts reported on the statement of financial position for cash and cash equivalents, accounts payable and accrued expenses, and certain other liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The following methods and assumptions were used by the Organization in estimating the fair value of its other financial instruments:

Pledges

The fair value of pledges is determined by discounting multi-year pledges to net present value using a discount rate commensurate with the payment terms of the pledge. The Organization also takes into consideration past collection experience and other relevant factors.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 2 - Fair Value of Financial Instruments (continued)

Beneficial Interest in Long-Term Trusts Held by Others

The fair value of the beneficial interest in long-term trusts held by others is determined by the fair value of the underlying investments held by the third-party trustees, less the net present value of future cash outflows to lifetime recipients.

Life Insurance Policies

The fair value of life insurance policies is based upon the estimated cash surrender value of the underlying insurance policy.

Obligations under Gift Annuity Agreements

The fair value of obligations under gift annuity agreements is based upon the payments to be made over the estimated remaining lives of the income beneficiaries and is discounted to present value using discount rates ranging from 2.4% to 5.8%.

Assets Held for Others

The fair value of assets held for others is determined by the fair value of the underlying investments held by the Organization, which are securities valued as described below.

Investments

The Organization values its investments at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

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

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

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 2 - Fair Value of Financial Instruments (continued)

Investments (continued)

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

Equity securities and mutual funds (cash, equities, fixed income, commodities): Valued at the closing price as reported on the active market on which the individual securities or funds are traded.

Fixed income (individual bonds): Valued based on yields currently available on comparable securities of the issuer or other issuers with similar credit ratings.

Student-managed funds: These funds are managed by students through a class offered at the University. It comprises equity securities, mutual funds, and individual bonds, which are valued as described above.

Low correlated hedge, real estate, illiquid credit, and private equity: Valued at the NAV of the limited partnership investments as provided by the investment manager. The definition of NAV includes an ownership interest in partners' capital to which a proportionate share of the investment's net assets is attributed.

Beneficial interest in long-term trusts held by others: Valued based on the underlying investments held by the trusts, less the net present value of future cash outflows to lifetime recipients.

There were no changes to the valuation techniques used during the period.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 2 - Fair Value of Financial Instruments (continued)

Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments measured on a recurring basis at fair value as of June 30, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash equivalent mutual funds	\$ 442,950	\$ -	\$ -	\$ 442,950
Equities				
Large cap	18,404,573	-	-	18,404,573
International	10,781,498	-	-	10,781,498
Small/mid cap	7,420,503	-	-	7,420,503
Emerging markets	5,100,613	-	-	5,100,613
Fixed income				
Floating rate corp loans	7,705,453	-	-	7,705,453
Domestic	1,585,972	5,993,497	-	7,579,469
High yield	-	2,848,085	-	2,848,085
Opportunistic	-	600,862	-	600,862
Student-managed funds	-	2,409,676	-	2,409,676
Stock/bond mixed mutual funds	930,419	-	-	930,419
Alternative investments				
Low correlated hedge	-	-	14,638,203	14,638,203
Limited partnerships	5,776,703	-	-	5,776,703
Commodities	4,038,012	-	-	4,038,012
Real estate	-	-	3,737,093	3,737,093
Illiquid credit	-	-	2,248,967	2,248,967
Private equity	-	-	1,908,095	1,908,095
Total investments	<u>62,186,696</u>	<u>11,852,120</u>	<u>22,532,358</u>	<u>96,571,174</u>
Beneficial interest in long-term trusts held by others	<u>-</u>	<u>-</u>	<u>6,796,726</u>	<u>6,796,726</u>
Total	<u>\$ 62,186,696</u>	<u>\$ 11,852,120</u>	<u>\$ 29,329,084</u>	<u>\$ 103,367,900</u>

In addition to the investments valued at fair value on a recurring basis, the Organization holds another limited partnership investment valued on a non-recurring basis at a value of \$1,000,000 as of June 30, 2016. This investment cannot be redeemed by the Organization. The value of the investment in this category is based on the initial partnership contribution.

Net investment earnings consist of the following for the year ended June 30, 2016:

Interest and dividends	\$ 2,033,795
Realized and unrealized losses on investments, net of taxes	(4,026,524)
Less investment management fees	<u>(358,030)</u>
	<u>\$ (2,350,759)</u>

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 2 - Fair Value of Financial Instruments (continued)

Level 3 Changes

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	<u>Investments</u>	Beneficial Interest in Long-Term Trusts Held by <u>Others</u>	<u>Total</u>
Beginning balance	\$ 24,450,349	\$ 7,580,774	\$ 32,031,123
Net investment income (loss)	265,005	(784,048)	(519,043)
Purchases and contributions	359,237	-	359,237
Distributions	<u>(2,542,233)</u>	<u>-</u>	<u>(2,542,233)</u>
Ending balance	<u>\$ 22,532,358</u>	<u>\$ 6,796,726</u>	<u>\$ 29,329,084</u>

Net investment income for the year ended June 30, 2016 includes unrealized losses of \$1,559,935 attributable to Level 3 investments held at June 30, 2016.

Investments in Certain Entities That Calculate NAV

<u>Fund Description</u>	<u>Investment Strategy</u>	<u>June 30, 2016 Fair Value</u>	<u>June 30, 2016 Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Low correlated hedge	Equity long/short (a)	\$ 5,372,335	\$ -	Monthly, quarterly, semi- annually*	60-100 days
Low correlated hedge	Multi-strategy (b)	9,265,868		Quarterly, semi- annually*	95 days, annual one- year lock up
Private equity	Illiquid credit (c)	2,248,967	1,377,179	Upon fund termination	N/A
Private equity	Alternative equity (d)	1,908,095	736,347	Upon fund termination	N/A
Real estate	Global opportunities (e)	<u>3,737,093</u>	<u>1,898,078</u>	Upon fund termination	N/A
Total		<u>\$ 22,532,358</u>	<u>\$ 4,011,604</u>		

* Subject to restrictions.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 2 - Fair Value of Financial Instruments (continued)

Investments in Certain Entities That Calculate NAV (continued)

- (a) This category includes hedge funds that invest in long-term and short-term equity funds. Hedge fund managers seek diversification in styles, geography, and strategies. The fair values of the investments in this category have been calculated using the NAV of the Organization's ownership in the partners' capital.
- (b) This category includes hedge funds that pursue multiple strategies through equity and debt funds to diversify risk and reduce volatility. The composite portfolio for this category includes event-driven, market neutral, credit opportunities, distressed securities, and various arbitrage-based approaches. Some of these investments cannot be redeemed by the Organization prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Organization's ownership in the partners' capital.
- (c) This category includes private equity limited partnerships invested in distressed debt and illiquid credit instruments. These investments cannot be redeemed by the Organization prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Organization's ownership in the partners' capital.
- (d) This category includes a private equity limited partnership invested in buyout, venture capital, and special situation funds. These investments cannot be redeemed by the Organization prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Organization's ownership in the partners' capital.
- (e) This category includes real estate limited partnerships invested in other real estate funds with a global focus. The real estate funds' composite portfolio in this category includes domestic, European-focused, opportunistic, and global diversification real estate funds. These investments cannot be redeemed by the Organization prior to the termination of the partnership. The fair values of the investments in this category have been calculated using the NAV of the Organization's ownership in the partners' capital.

Note 3 - Pledges Receivable

Pledges receivable are as follows at June 30, 2016:

Receivables due in less than one year	\$ 2,713,754
Receivables due in one to five years	4,546,733
Receivables due in more than five years	<u>2,000</u>
	7,262,487
Less allowance for uncollectible pledges	(10,500)
Less present value discount	<u>(142,914)</u>
	<u>\$ 7,109,073</u>

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 3 - Pledges Receivable (continued)

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

Approximately 60% of the Organization's pledges receivable as of the year ended June 30, 2016 consist of pledges from two donors.

Approximately 26% of the Organization's contributions for the year ended June 30, 2016 consist of contributions from three donors.

Note 4 - Life Insurance Policies

The Organization is the owner and beneficiary of various donated life insurance policies with total cash surrender values of \$48,835 and face values of approximately \$116,000 as of June 30, 2016.

Note 5 - Property and Equipment

Depreciation expense for the year ended June 30, 2016 was \$49,999. The Organization's property and equipment comprised the following at June 30, 2016:

Buildings and improvements	\$ 1,279,138
Equipment	<u>175,653</u>
	1,454,791
Less accumulated depreciation	<u>(489,965)</u>
	<u>\$ 964,826</u>

Note 6 - Charitable Gift Annuity Contracts

The Organization has entered into several charitable gift annuity contracts. These contracts require the Organization to make fixed payments to the beneficiaries over their lifetimes. Under a charitable gift annuity contract, the assets received by the Organization are not held in trust separately from other investments of the Organization. On the date each charitable gift annuity was established, the Organization recorded a contribution equal to the difference between the amount transferred from the donor and the present value of the future cash flows expected to be paid to the specified beneficiaries using a discount rate equal to the then-current applicable federal rate. At the end of these contracts, the majority of these assets are to be endowed and are included in permanently restricted net assets as follows at June 30, 2016:

Assets held under gift annuity contracts	\$ 180,049
Less associated liabilities	<u>(130,830)</u>
Net present value of assets held under contracts	<u>\$ 49,219</u>

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 7 - Beneficial Interest in Long-Term Trusts Held by Others

The Organization has been named irrevocable remainder beneficiary for several trusts administered by third-party corporate trustees. For these arrangements, beneficial interest in long-term trusts held by others and contribution revenue are recorded at the estimated present value of the remainder interest when the Organization has sufficient information to record it. These arrangements are revalued annually to reflect changes in the remainder interest estimates. The Organization does not permit use of the funds by the University until the expiration of the lifetime recipient's interest. The fair value of these trusts as of June 30, 2016 was \$2,650,313.

The Organization has been named irrevocable beneficiary of several perpetual trusts administered by third-party corporate trustees. For these arrangements, beneficial interest in long-term trusts held by others and contribution revenue are recorded at the fair value of the Organization's share of the trust when the Organization has sufficient information to record it. Distributions received from the trustees are recorded as interest income, and the change in fair value at year-end is recorded in change in value of charitable gift annuities and long-term trusts held by others. The fair value of these trusts as of June 30, 2016 was \$4,146,413.

Note 8 - Assets Held for Others

Assets held in trust for the University represent certain assets held for long-term investment purposes by the Organization. The fair value of these assets was \$603,137 at June 30, 2016.

Note 9 - Net Assets

Unrestricted Board-Designated Funds

The following unrestricted net assets were designated by the Board of Directors for the following purposes at June 30, 2016:

Quasi-endowments	\$ 1,015,815
Matching programs	564,394
President's University Excellence programs	513,021
Other	<u>1,410</u>
	<u>\$ 2,094,640</u>

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 9 - Net Assets (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets (inclusive of contributions receivable) were designated for the following purposes at June 30, 2016:

Programs	\$ 13,892,729
Scholarships	4,485,485
Capital improvements	3,581,816
Multiple designations	932,865
President's discretion	484,440
Time restricted	450,044
Other	<u>157,003</u>
	<u>\$ 23,984,382</u>

Permanently Restricted Net Assets

Permanently restricted net assets (inclusive of contributions receivable) were restricted to the following at June 30, 2016:

Scholarships	\$ 42,582,836
Programs	35,398,581
Capital improvements	795,156
Other	<u>53,148</u>
	<u>\$ 78,829,721</u>

Note 10 - Endowments

In order to create an "endowed fund" with the Organization, a donor must give a minimum initial gift as defined in the endowment agreement. The Organization's endowment consists of approximately 500 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds, quasi-endowments, and Board-designated endowment funds. Donor-restricted endowment funds are permanent charitable funds whose principal is treated in accordance with a defined spending policy or that must be preserved in perpetuity as a condition imposed by the donor. Quasi-endowments are those purpose-restricted gifts that are intended to be maintained in perpetuity or to be spent over a specified time period, usually several years; however, under specific circumstances defined by the donor, the principal may be invaded fully to meet the defined purpose. Board-designated endowments are unrestricted funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Most endowed funds are included in the Organization's investment pool.

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 10 - Endowments (continued)

Interpretation of Relevant Law

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

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

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters

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

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 10 - Endowments (continued)

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

As of June 30, 2016, the Organization's policy, approved by the Board of Directors, is to generally appropriate for distribution each year 4% of the three-year rolling average of the fiscal year-end fair value of each fund. Newly established endowments are invested for one full fiscal year before the distributions begin. However, when any endowment's fair value drops more than 1% below the sum of all gifts to the endowment, the distribution rate is 1%.

The Organization assesses an administrative fee on all endowment funds. These charges represent each fund's proportionate share of the Organization's operating, investment, and accounting expenses. In general, for endowments valued \$1,000,000 or greater, the administrative fee was calculated at 1.25% of their fair values during the year ended June 30, 2016. In general, for endowments valued less than \$1,000,000, quasi-endowments, and gift annuities, the administrative fee was calculated at 1.75% of their fair values during the year ended June 30, 2016. However, in the case when any endowment's fair value drops more than 1.00% below the sum of all gifts to the endowment, the administrative fee is 1.00%.

Endowment Net Asset Investment Composition by Type of Fund as of June 30, 2016

The following table includes endowment investments but does not include pledges receivable for endowments.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,028,786	\$ 71,454,378	\$ 72,483,164
Quasi-endowment funds	-	3,355,673	-	3,355,673
Board-designated endowment funds	<u>1,015,815</u>	<u>-</u>	<u>-</u>	<u>1,015,815</u>
Total funds	<u>\$ 1,015,815</u>	<u>\$ 4,384,459</u>	<u>\$ 71,454,378</u>	<u>\$ 76,854,652</u>

UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

Notes to Financial Statements

Note 10 - Endowments (continued)

Changes in Invested Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets at beginning of year, June 30, 2015	<u>\$ 1,389,365</u>	<u>\$ 5,041,159</u>	<u>\$ 75,061,321</u>	<u>\$ 81,491,845</u>
Investment income				
Investment income, net of expenses	2,285	9,103	279,950	291,338
Net realized and unrealized gains	<u>(60,489)</u>	<u>(273,351)</u>	<u>(3,050,922)</u>	<u>(3,384,762)</u>
Total investment income	(58,204)	(264,248)	(2,770,972)	(3,093,424)
Additions	10,000	42,265	1,340,192	1,392,457
Reinvested funds	-	26,145	189,549	215,694
Appropriation of endowment assets for expenditure	(325,346)	(364,675)	(2,353,983)	(3,044,004)
Donor reclassifications	-	(132,994)	24,928	(108,066)
Other	<u>-</u>	<u>36,807</u>	<u>(36,657)</u>	<u>150</u>
Endowment assets at end of year, June 30, 2016	<u>\$ 1,015,815</u>	<u>\$ 4,384,459</u>	<u>\$ 71,454,378</u>	<u>\$ 76,854,652</u>

Note 11 - Retirement Plan

The Organization has a Savings Incentive Match Plan for Employees Individual Retirement Account ("SIMPLE IRA") retirement plan. Employees are eligible to participate in the SIMPLE IRA immediately, which allows for pre-tax salary deferrals into the SIMPLE IRA. The Organization will match up to 3% of the employee's gross salary, depending on the employee's deferral amount. For the year ended June 30, 2016, the Organization contributed \$15,623.

Note 12 - Related Party Transactions

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

The reported amount of accounts payable and accrued expenses at June 30, 2016 includes \$607,025 of amounts payable to the University for programs, scholarships, and other expenses.

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