# The University of Iowa Center for Advancement and Affiliate

Consolidated Financial Statements
June 30, 2019

## Contents

**Independent Auditor's Report**

To the Board of Directors
The University of Iowa Center for Advancement and Affiliate

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of the University of Iowa Center for Advancement and Affiliate (UICA) which comprise the consolidated statement of financial position as of June 30, 2019, the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

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

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Iowa Center for Advancement and Affiliate as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**
The UICA adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year (Note 12). The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. The adoption was retrospectively applied as of and for the year ended June 30, 2018, the earliest year presented. Our opinion is not modified with respect to this matter.

**Report on Summarized Comparative Information**
We have previously audited the UICA's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Iowa City, Iowa
October 14, 2019

**The University of Iowa Center for Advancement and Affiliate**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As of JUNE 30, 2019 (With comparative information as of June 30, 2018)**

| **ASSETS** | **2019** | **2018** |
|---|---|---|
| **Cash and cash equivalents** | $ 90,768,299 | $ 66,864,540 |
| **Receivables** | | |
| Pledges, at net present value, less allowance for losses | 164,500,142 | 156,140,666 |
| Other receivables and prepaids | 210,812 | 267,964 |
| | 164,710,954 | 156,408,630 |
| **Investments** | | |
| ***Carried at fair value:*** | | |
| U.S. Government securities | 3,961,267 | 3,735,910 |
| Corporation stocks, primarily common stocks | 13,900,123 | 8,734,513 |
| Managed separate investment accounts | 1,208,346,464 | 1,210,931,525 |
| Assets in trusts and gift annuities | 58,730,829 | 56,930,736 |
| Beneficial interest in perpetual and remainder trusts | 17,197,430 | 17,075,980 |
| | 1,302,136,113 | 1,297,408,664 |
| **Other** | | |
| Real estate | 5,204,030 | 4,548,110 |
| Cash value of life insurance | 7,457,362 | 6,740,633 |
| Other | - | 864,187 |
| | 12,661,392 | 12,152,930 |
| **Property, leasehold interest and equipment, net** | 17,304,407 | 17,095,967 |
| ***TOTAL ASSETS:*** | **$ 1,587,581,165** | **$ 1,549,930,731** |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable and other accrued expenses | $ 2,601,436 | $ 2,046,166 |
| Annuity and life income obligations | 22,217,683 | 22,618,170 |
| Capital lease obligation | - | 825,000 |
| Amounts held on behalf of others | 86,024,548 | 92,506,012 |
| | 110,843,667 | 117,995,348 |
| **Net assets** | | |
| Without donor restrictions | 34,933,349 | 33,651,002 |
| With donor restrictions: | 1,441,804,149 | 1,398,284,381 |
| | 1,476,737,498 | 1,431,935,383 |
| ***TOTAL LIABILITIES AND NET ASSETS:*** | **$ 1,587,581,165** | **$ 1,549,930,731** |

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

**The University of Iowa Center for Advancement and Affiliate**
**CONSOLIDATED STATEMENT OF ACTIVITIES**
**Year Ended JUNE 30, 2019 (With summarized comparative information as of June 30, 2018)**

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | 2019 Total | 2018 Total |
|---|---|---|---|---|
| **SUPPORT AND REVENUE** | | | | |
| Total contributions raised | $ 467,449 | $ 139,020,755 | $ 139,488,204 | $ 134,267,087 |
| Change in value of life income gifts | - | 1,507,023 | 1,507,023 | 4,617,595 |
| ***Subtotal:*** | 467,449 | 140,527,778 | 140,995,227 | 138,884,682 |
| Less amounts attributed to others | - | (2,053,761) | (2,053,761) | (1,762,223) |
| ***Total contributions and change in value of life income gifts:*** | 467,449 | 138,474,017 | 138,941,466 | 137,122,459 |
| **Investment income (expense)** | | | | |
| Interest and dividends | 4,346,898 | 1,004,743 | 5,351,641 | 5,119,084 |
| Asset based service fees | 12,519,725 | (12,326,517) | 193,208 | 206,616 |
| Change in fair value of investments, net of investment fees | 4,335,690 | 40,546,528 | 44,882,218 | 93,518,339 |
| ***Subtotal:*** | 21,202,313 | 29,224,754 | 50,427,067 | 98,844,039 |
| Less amounts attributed to others | - | (2,083,710) | (2,083,710) | (6,892,190) |
| ***Total investment income:*** | 21,202,313 | 27,141,044 | 48,343,357 | 91,951,849 |
| **Other revenue** | | | | |
| Other, primarily fundraising service revenue | 12,848,348 | 3,915,401 | 16,763,749 | 14,456,303 |
| Less amounts attributed to others | - | (117,699) | (117,699) | (192,716) |
| ***Total other revenue:*** | 12,848,348 | 3,797,702 | 16,646,050 | 14,263,587 |
| Net assets released from restrictions and changes in donor restrictions | 132,186,595 | (132,186,595) | - | - |
| ***TOTAL SUPPORT AND REVENUE:*** | **166,704,705** | **37,226,168** | **203,930,873** | **243,337,895** |
| **TRANSFERS TO AND EXPENSES OF THE STATE UNIVERSITY OF IOWA** | | | | |
| Student support | 27,635,700 | - | 27,635,700 | 28,640,364 |
| Faculty support | 17,781,787 | - | 17,781,787 | 19,393,757 |
| Research | 21,852,810 | - | 21,852,810 | 26,564,109 |
| Facilities and equipment | 39,876,471 | - | 39,876,471 | 23,203,954 |
| Program support | 17,192,141 | - | 17,192,141 | 16,321,539 |
| Fundraising | 8,687,153 | - | 8,687,153 | 7,633,237 |
| Management and service fees | 3,595,947 | - | 3,595,947 | 3,637,430 |
| ***Subtotal:*** | 136,622,009 | - | 136,622,009 | 125,394,390 |
| Less amounts attributed to others | (4,443,034) | - | (4,443,034) | (7,818,039) |
| ***Total program and expense disbursements:*** | 132,178,975 | - | 132,178,975 | 117,576,351 |
| **EXPENSES OF THE UNIVERSITY OF IOWA CENTER FOR ADVANCEMENT AND AFFILIATE** | | | | |
| Operating expenses | 33,243,383 | - | 33,243,383 | 29,819,093 |
| ***TOTAL EXPENSES:*** | **165,422,358** | **-** | **165,422,358** | **147,395,444** |
| ***Change in net assets, prior to contribution:*** | 1,282,347 | 37,226,168 | 38,508,515 | 95,942,451 |
| ***Contributions of ISF (2019) and UIAA (2018):*** | - | 6,293,600 | 6,293,600 | 6,802,610 |
| ***Change in net assets:*** | 1,282,347 | 43,519,768 | 44,802,115 | 102,745,061 |
| **Net assets, beginning** | 33,651,002 | 1,398,284,381 | 1,431,935,383 | 1,329,190,322 |
| **Net assets, ending** | **$ 34,933,349** | **$ 1,441,804,149** | **$ 1,476,737,498** | **$ 1,431,935,383** |

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

## The University of Iowa Center for Advancement and Affiliate
## CONSOLIDATED STATEMENT OF CASH FLOWS
## Year Ended JUNE 30, 2019 (With comparative information as of June 30, 2018)

| CASH FLOWS FROM OPERATING ACTIVITIES | 2019 | 2018 |
|---|---|---|
| **Change in net assets** | $ 44,802,115 | $ 102,745,061 |
| **Adjustments to reconcile to net cash provided by (used in) operating activities:** | | |
| Depreciation and amortization | 858,404 | 845,236 |
| Loss on sale of real estate | 5,500 | 2,824,107 |
| Contributions of ISF and UIAA | (6,293,600) | (6,802,610) |
| Noncash donation of real estate | - | (1,860,000) |
| Change in fair value of investments | (41,736,068) | (86,601,403) |
| Proceeds from sale of donated investment securities | 10,742,951 | 6,564,633 |
| Contributions received with perpetual restrictions | (129,381,312) | (123,545,881) |
| **Changes in assets and liabilities** | | |
| Pledges | (8,491,382) | (9,160,735) |
| Other receivables and prepaid expenses | 57,152 | 287,045 |
| Accounts payable and other accrued expenses | 555,270 | (112,689) |
| ***Net cash provided by (used in) operating activities:*** | **(128,880,970)** | **(28,475,950)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| (Purchase) of leasehold improvements, equipment and software | (1,066,844) | (356,849) |
| Change in value of real estate | (825,920) | - |
| Proceeds from sale of real estate | 164,500 | 951,660 |
| (Purchases) of investment securities | (543,967,884) | (237,248,897) |
| Cash received from ISF and UIAA | - | 178,056 |
| Proceeds from sales of investment securities | 574,801,169 | 279,257,979 |
| Change in assets held in trust | (1,921,543) | 2,023,737 |
| Other | 147,458 | 368,606 |
| ***Net cash provided by (used in) investing activities:*** | **27,330,936** | **45,174,292** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Principal payments on capital lease | (825,000) | (780,000) |
| Change in annuity and life income obligation | (400,487) | (1,789,516) |
| (Decrease) in amounts raised on behalf of others | (2,702,032) | (6,035,497) |
| Contributions received with perpetual restrictions | 129,381,312 | 123,545,811 |
| ***Net cash provided by (used in) financing activities:*** | **125,453,793** | **28,599,582** |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **23,903,759** | **45,297,924** |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | **66,864,540** | **21,566,616** |
| **CASH AND CASH EQUIVALENTS, ENDING** | **$ 90,768,299** | **$ 66,864,540** |

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

## Note 1. Nature of Activities and Significant Accounting Policies

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

During the year ending June 30, 2019, the Iowa Scholarship Fund (ISF) merged into the UICA. This transaction was treated as an acquisition in accordance with accounting principles generally accepted in the United States of America. The effective date of the transaction was end of day June 30, 2019 with UICA acquiring all assets and assuming all liabilities of the ISF on this date, which has been reflected in the financial statements as of and for the year ending June 30, 2019 as follows:

| | | |
|---|---|---|
| Due from the UICA | $ | 80,180 |
| Pledges, at net present value | | 1,804 |
| Investments | | 6,211,616 |
| Contribution of ISF (A) | $ | 6,293,600 |

(A) Prior to June 30, 2019, ISF's investments were recorded by UICA with a corresponding liability, amounts held on behalf of others. Upon merger, the amounts held on behalf of others is included in the contribution of ISF in the consolidated statement of activities.

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

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

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

***Basis of presentation:*** The UICA classifies its net assets for accounting and reporting purposes into two net asset categories according to externally (donor) imposed restrictions. As such, the financial statements are presented on the basis of net assets with donor restriction and without donor restriction. The UICA may designate portions of its net assets without donor restrictions as board-designated for various purposes.

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

***Contributions and net assets:*** Contributions are recognized at fair value in the period in which the pledges are made. Contributions received are distinguished between those that increase net assets with donor restrictions and those that increase net assets without donor restrictions. Net assets with donor restrictions result from restrictions that the contributions are to be used for restricted purposes including the endowment, primarily for the University of Iowa by the donor. When the restriction has been met, the net assets with donor restrictions are reclassified to net assets without donor restrictions.

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

***Recognition of pledges receivable:*** Pledges receivable are recorded at the net present value of estimated cash flows based on appropriate rates commensurate with the risks involved, 5% for pledges held at June 30, 2019, less an allowance for doubtful pledges. Conditional promises to give are not included as support until the conditions are substantially met. The provision for losses on doubtful pledges is an adjustment to contributions at quarter-end equal to 2.5% of gross pledges. The loss netted in contribution revenue on the statement of activities for the year ended June 30, 2019 totaled $7,287,452.

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

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

***Investments:*** Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The UICA elected to report the fair value of alternative investments, comprised of hedge funds and private capital funds, included in managed separate investment accounts using the practical expedient. The practical expedient allows for the use of net asset value, either as reported by the investee fund or as adjusted by the UICA management based on various factors including consideration of contributions and withdrawals to the fund and monitoring unaudited interim reporting provided by the fund related to investment returns to calculate NAV as of June 30. See Note 3 for discussion of investments. Realized and unrealized gains and losses on investments are included in the change in fair value of investments in the consolidated statement of activities and absent donor restrictions, are reported in net assets without donor restrictions. This amount is also reported net of fees on the statement of activities.

***Beneficial interest in perpetual and remainder trusts:*** Perpetual trusts are held by a third party under an arrangement where the UICA has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The trust assets, which are primarily publicly traded, are recorded at fair value at the gift date as beneficial interest in the trust and contribution revenue with donor restriction, if donated to the UICA or amounts held on behalf of others, depending on the terms. For perpetual trusts, annual distributions are reported as investment income or amounts raised on behalf of others. Adjustments to trust assets are based on the current fair value of the underlying investments and are recorded as gains or losses restricted in perpetuity or amounts held on behalf of others. Charitable remainder trusts are held by a third party and are recorded at fair value of the estimated future cash flows at the inception of the trust and the change in value is recorded in the statement of activities.

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

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

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

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

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

Total distributions received from trusts were $1,300,499 for the year ended June 30, 2019.

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

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

***Functional expenses:*** The UICA allocates its expenses on a functional basis among its various programs and supporting activities. Salaries are allocated based on the time and effort of the individuals involved in performing the various functions. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their functional expenditure classification.

***Income taxes:*** The Internal Revenue Service has recognized the UICA as exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. The UICA follows the accounting guidance for accounting for uncertainty in income taxes. The UICA is subject to federal and state income taxes to the extent it has unrelated business income. In accordance with the guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to its financial statements. The UICA is no longer subject to examination by federal or state authorities for years ending before June 30, 2016 nor has the UICA been notified of any impending examination and no examinations are currently in process.

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

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

***Endowment funds:*** A not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is required to classify a portion of donor-restricted endowment funds as net assets restricted in perpetuity. The amounts classified as net assets restricted in perpetuity is the amount of the fund (a) that must be retained in perpetuity in accordance with explicit donor stipulations or (b) that in the absence of such stipulations, the UICA's governing board determines what must be retained in perpetuity under the relevant law. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as restricted by time or purpose until those amounts are appropriated for expenditure by the UICA in a manner consistent with the standard of prudence prescribed in the enacted version of the UPMIFA.

**Current accounting developments:** In June 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. ASU No. 2018-08 is effective for transactions in which the UICA serves as a resource recipient for the year ending June 30, 2020 and is effective for transactions in which the UICA serves as resource provider for the year ending June 30, 2021. Earlier application is permitted. The UICA is currently evaluating the effect implementation of ASU No. 2018-08 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for the year ending June 30, 2021, with early adoption permitted. The UICA is in the process of evaluating the impact of this new guidance.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The UICA has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

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

**Prior year information:** The financial statements include certain prior year information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the UICA's financial statements for the year ended June 30, 2018, from which the information was derived.

**Subsequent events:** Management has evaluated subsequent events through October 14, 2019, the date the financial statements were available for issuance. On September 18, 2019 bonds totaling $30,150,000 were issued by the University of Iowa Facilities Corporation for the Stanley Museum of Art project to finance the construction of a portion of the facility.

## Note 2. Pledge Receivables

A summary of pledges receivable (unconditional promises to give) at June 30, 2019 is as follows:

| | |
|---|---|
| Gross pledges receivable | $ 196,715,603 |
| Less present value discount (5%) of $27,297,570 and allowance for doubtful pledges of $4,917,891 | (32,215,461) |
| | $ 164,500,142 |

Gross pledges receivable at June 30, 2019 are expected to be collected as follows:

| | |
|---|---|
| In one year or less | $ 54,308,918 |
| Between one year and five years | 112,759,478 |
| More than five years | 29,647,207 |
| | $ 196,715,603 |

## Note 3. Investments

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

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

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

**Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

## Note 3. Investments (Continued)

Where quoted prices are available in an active market, assets carried at fair market value on a recurring basis are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, exchange-traded equities, mutual funds and assets held in trusts where the UICA is the trustee. Level 3 assets represent beneficial interests in perpetual and remainder trusts where the UICA is not the trustee, which are valued based on the fair value of the underlying trust assets and/or present value of the estimated future cash flows, and, when appropriate, adjusted to reflect current market conditions including the inherent risk in the underlying assets and the risk of nonperformance by the trustee. Due to the unobservable inputs required to estimate the future cash receipts under the income approach, the beneficial interest has been classified as a level 3 financial measurement.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of June 30, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Fair Value measurements at June 30, 2019 | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets | | | | |
| U.S. Government securities | $ 3,961,267 | $ 3,961,267 | $ - | $ - |
| Corporation stocks, primarily common stocks | 13,900,123 | 13,900,123 | - | - |
| Managed separate investment accounts: | | | | |
| Global equities | 156,899,179 | 156,899,179 | - | - |
| Global fixed income | 27,734,183 | 27,734,183 | - | - |
| | 184,633,362 | 184,633,362 | - | - |
| | 202,494,752 | 202,494,752 | - | - |
| Investments measured at net asset value (NAV) (a) | | | | |
| Global equity | 303,932,344 | - | - | - |
| Global fixed income | 274,528,617 | - | - | - |
| Real assets | 232,522,651 | - | - | - |
| Diversifying strategies | 212,729,490 | - | - | - |
| | 1,023,713,102 | - | - | - |
| Assets in trusts and gift annuities | 58,730,829 | 58,730,829 | - | - |
| Beneficial interest in perpetual and remainder trusts | 17,197,430 | - | - | 17,197,430 |
| | $ 1,302,136,113 | $ 261,225,581 | $ - | $ 17,197,430 |
| Money market funds, included in cash and cash equivalents | $ 80,081,047 | $ 80,081,047 | $ - | $ - |

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

## Note 3. Investments (Continued)

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

| | Trust Assets |
|---|---|
| Balance, June 30, 2018 | $ 17,075,980 |
| Changes due to market value, net of payments and fees | 121,450 |
| Balance, June 30, 2019 | $ 17,197,430 |
| Net unrealized gains attributable to investments held at year-end | $ 121,450 |

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

| Description | Fair Value | Unfunded Commitments | Redemption Frequency (If currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Other Investments [(a)] | | | | |
| Global equities | $ 115,891,695 | $ - | Bi-Weekly/Monthly | 10 days |
| Global fixed income | 202,170,103 | - | Daily | 1 day |
| Real assets | 41,044,780 | - | Daily/Monthly | 5-30 days |
| Hedge funds | | | | |
| Global equities [(b)] | 5,155,019 | - | Quarterly/Semiannually/Annually | 30-65 days |
| Global fixed income [(c)] | 44,906,613 | - | Quarterly/Annually | 1-120 days |
| Real assets [(d)] | 38,244,133 | - | Monthly | 5-90 days |
| Diversifying strategies [(e)] | 168,245,779 | - | Daily/Monthly/Quarterly/ Semi-Annually/Annually | 3-65 days |
| Private capital funds [(f)] | | | | |
| Private equities | 182,885,630 | 118,252,592 | Not eligible | N/A |
| Private credit | 27,451,901 | 8,650,622 | Not eligible | N/A |
| Private real assets | 153,233,737 | 61,038,022 | Not eligible | N/A |
| Private diversifying strategies | 44,483,712 | 40,813,538 | Not eligible | N/A |
| Total | $ 1,023,713,102 | $ 228,754,774 | | |

(a) This category includes investments in common stocks, fixed income securities, commodity futures, and real estate investment trusts. There were no restrictions as of June 30, 2019.

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

(c) This category includes investments in hedge funds that invest both long and short primarily in fixed income securities. Management of the hedge funds has the ability to shift investments from a net long position to a net short position. There were no restricted investments as of June 30, 2019.

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

(e) This category invests in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. There were no restricted investments as of June 30, 2019.

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

## Note 3. Investments (Continued)

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

## Note 4. Employee Benefit Plans

Employees of the UICA are participants in various employee benefit programs. The UICA's expense for the defined contribution retirement plans totaled $1,887,391 for the year ended June 30, 2019.

## Note 5. Property, Leasehold Interest and Equipment

Property, leasehold interest, equipment and software at June 30, 2019 are as follows:

| | |
|---|---|
| Leasehold interest in Levitt Center for University Advancement | $ 26,513,635 |
| Rental property | 1,541,339 |
| Office equipment | 1,935,240 |
| Computer equipment | 1,004,205 |
| Software | 2,046,253 |
| Work in progress | 123,054 |
| | 33,163,726 |
| Accumulated depreciation and amortization, including amounts related to rental property of $696,454 | 15,859,319 |
| | $ 17,304,407 |
| Depreciation and amortization expense for the year | $ 858,404 |

## Note 6. Lease Commitment

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

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

The final payment on the lease obligation was made during the year ended June 30, 2019.

UICA has entered into a 10 year lease between the Board of Regents, State of Iowa, for office space that commenced on July 1, 2018. The first two years of the lease there are no required payments. On July 1, 2020, annual lease payments of approximately $211,000 begin until July 1, 2023 and at that time annual lease payments of approximately $215,000 will begin through June 30, 2028. The effect of straight-line rentals was not material to the financial statements for the year ended June 30, 2019.

## Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019 were restricted for the following:

| | |
|---|---|
| Undesignated | $ 7,794,800 |
| Program support | 338,989,049 |
| Student support | 346,322,940 |
| Faculty support | 394,273,708 |
| Facilities and equipment | 91,487,305 |
| Research | 219,234,428 |
| Perpetual trusts | 8,160,130 |
| Remainder interests in trusts, mainly for program, student and faculty support | 35,541,789 |
| | $ 1,441,804,149 |

Net assets with donor restrictions included $164,500,143 of pledge receivables as of June 30, 2019.

## Note 8. Endowment Funds

The UICA's endowment consists of approximately 2,700 individual funds established for a variety of purposes. Its endowment includes a board-designated quasi endowed fund as well as various donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

In accordance with the UICA's interpretation of UPMIFA, absent explicit donor stipulations to the contrary, the UICA shall classify net assets with donor restrictions as (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the fund's value spendable annually for the donor-designated purpose is to be determined, from time to time, by the UICA's Board of Directors, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering the above relevant factors.

## Note 8. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

| | 2019 | | |
|---|---|---|---|
| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
| Donor-restricted endowment funds | $ - | $ 1,013,603,008 | $ 1,013,603,008 |
| Board-designated quasi-endowment funds | 6,020,335 | - | 6,020,335 |
| Total endowment funds | $ 6,020,335 | $ 1,013,603,008 | $ 1,019,623,343 |

Changes in endowment, not total, net assets for the year ended June 30, 2019 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, June 30, 2018 | $ 5,894,625 | $ 911,371,895 | $ 917,266,520 |
| Investment return: | | | |
| Interest income, including spending rate | (96,515) | 7,032,104 | 6,935,589 |
| Change in fair value of investments | 194,771 | 24,115,876 | 24,310,647 |
| Total investment return | 98,256 | 31,147,980 | 31,246,236 |
| Contributions | 27,454 | 37,591,520 | 37,618,974 |
| Less amounts attributed to others | - | (1,419,917) | (1,419,917) |
| Appropriation of endowment assets for expenditure | (34,911,530) | 34,911,530 | - |
| Expenditures | 34,911,530 | - | 34,911,530 |
| Endowment net assets, June 30, 2019 | $ 6,020,335 | $ 1,013,603,008 | $ 1,019,623,343 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the UICA to retain as a fund of perpetual duration. Deficiencies of this nature exist in approximately 400 donor restricted endowment funds, which together have an original gift value of $125,289,948, a current fair value, including cash maintained in the endowment funds, of $120,630,913 and a deficiency of $4,659,035 as of June 30, 2019. These deficiencies resulted from unfavorable market fluctuations which occurred during the holding period. These underwater endowment funds continue to be appropriated as deemed prudent.

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

To satisfy its long-term rate-of-return objectives, the UICA 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 UICA targets a diversified asset allocation.

## Note 9. University of Iowa Facilities Corporation Transactions and Commitments

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

As of June 30, 2019, there were 12 series of revenue bonds outstanding. The original issue amounts of these bonds totaled $185,035,000 with the aggregate outstanding balance as of June 30, 2019, totaling $110,275,000.

## Note 10. Functional Expense Classification

The UICA allocates expenses across the following functions as follows for the year ended June 30, 2019:

| | Program Support | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Student | Faculty | Research | Facilities and Equipment | Program | Total | Management and Service Fees | Fundraising | Total |
| Grants | $ 27,635,700 | $ 17,781,787 | $ 21,852,810 | $ 39,876,471 | $ 17,192,141 | $ 124,338,909 | $ - | $ - | $ 124,338,909 |
| Management and development services | - | - | - | - | - | - | 3,595,947 | 8,687,153 | 12,283,100 |
| Total transfers to and expenses of the State University of Iowa | $ 27,635,700 | $ 17,781,787 | $ 21,852,810 | $ 39,876,471 | $ 17,192,141 | $ 124,338,909 | $ 3,595,947 | $ 8,687,153 | 136,622,009 |
| Less amounts attributed to others | | | | | | | | | (4,443,034) |
| | | | | | | | | | $ 132,178,975 |
| Salaries and benefits | $ - | $ - | $ - | $ - | $ 2,884,557 | $ 2,884,557 | $ 9,279,941 | $ 13,707,743 | $ 25,872,241 |
| Professional fees | - | - | - | - | 3,650 | 3,650 | 527,633 | 373,730 | 905,013 |
| Donor cultivation and events | - | - | - | - | 33,344 | 33,344 | - | 771,049 | 804,393 |
| Office expense | - | - | - | - | - | - | 665,850 | 6,726 | 672,576 |
| Information technology | - | - | - | - | - | - | 1,461,781 | - | 1,461,781 |
| Occupancy | - | - | - | - | - | - | 662,975 | - | 662,975 |
| Travel | - | - | - | - | 45,177 | 45,177 | - | 406,596 | 451,773 |
| Depreciation | - | - | - | - | - | - | 858,404 | - | 858,404 |
| Staff development | - | - | - | - | 48,050 | 48,050 | 283,493 | 148,954 | 480,497 |
| Printing and publications | - | - | - | - | 87,222 | 87,222 | 21,805 | 327,082 | 436,109 |
| Postage and mail handling | - | - | - | - | 56,204 | 56,204 | 14,051 | 210,767 | 281,022 |
| Other expense | - | - | - | - | - | - | 302,685 | 53,914 | 356,599 |
| Total operating expenses | $ - | $ - | $ - | $ - | $ 3,158,204 | $ 3,158,204 | $ 14,078,618 | $ 16,006,561 | $ 33,243,383 |

## Note 11. Financial Assets Availability and Liquidity

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019:

| | |
|---|---|
| Cash and cash equivalents | $ 90,768,299 |
| Pledge receivables, net | 164,500,142 |
| Investments | 1,226,207,854 |
| Assets in trusts and gift annuities | 58,730,829 |
| Beneficial interest in perpetual and remainder trusts | 17,197,430 |
| Cash value of life insurance | 7,457,362 |
| Financial assets as of June 30, 2019 | 1,564,861,916 |
| Less amounts not available to meet cash needs for general expenditures within one year: | |
| Donor restricted for endowment, purpose and/or time | 1,441,804,149 |
| Amounts held on behalf of others | 86,024,548 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 37,033,219 |

## Note 11. Financial Assets Availability and Liquidity (Continued)

The UICA regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize return on investment of its donor restricted funds. As UICA's donor restricted net assets requires resources to be used in a particular manner or in a future period, these financial assets including amounts which will become spendable, are not available for general expenditure within one year.

## Note 12. Adoption of ASU No. 2016-14

In the current year ended June 30, 2019, the UICA adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958 to require the UICA to make reporting changes affecting the following:

- Net asset classifications and related disclosures.
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date.
- New reporting requirements related to expenses including disclosure of expenses by both nature and function.

Amounts previously reported as of and for the year ended June 30, 2018 have been reclassified, on a retrospective basis, to achieve consistent presentation. Amounts previously reported as temporarily or permanently restricted have been reclassified to be reported as with donor restrictions. Amounts previously reported as unrestricted have been reclassified to be reported as without donor restrictions.