

**IOWA STATE UNIVERSITY  
FOUNDATION,  
IOWA STATE UNIVERSITY  
ACHIEVEMENT FUND, AND  
ORIGINAL UNIVERSITY  
FOUNDATION**

***Combined Financial Statements as of and for the  
Years Ended June 30, 2008 and 2007 and  
Independent Auditors' Report***

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Iowa State University Foundation,  
Iowa State University Achievement Fund, and  
Original University Foundation  
Ames, Iowa

We have audited the accompanying combined statement of financial position of the Iowa State University Foundation; the Iowa State University Achievement Fund; and the Original University Foundation (herein collectively referred to as the "Foundation") as of June 30, 2008, and the related combined statements of activities and changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these combined financial statements based on our audit. The combined financial statements of the Foundation for the year ended June 30, 2007, were audited by other auditors whose report dated October 3, 2007, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of the Iowa State University Foundation; the Iowa State University Achievement Fund; and the Original University Foundation as of June 30, 2008, and the combined changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

October 30, 2008

**IOWA STATE UNIVERSITY FOUNDATION  
IOWA STATE UNIVERSITY ACHIEVEMENT FUND  
ORIGINAL UNIVERSITY FOUNDATION**

Combined Statements of Financial Position  
June 30, 2008 and 2007

<b>Assets</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Cash and cash equivalents	<u>\$8,263,437</u>	<u>\$7,217,683</u>
Receivables:		
Pledges, net	69,379,501	49,822,377
Estates	4,433,213	2,045,846
Funds held in trust by others	<u>18,106,387</u>	<u>18,667,445</u>
Total receivables	<u>91,919,101</u>	<u>70,535,668</u>
Investments:		
Pooled investments	490,901,510	485,630,146
Other marketable securities	36,135,126	42,734,086
Equity in subsidiary	2,209,667	2,244,896
Real estate and other investments	<u>10,770,070</u>	<u>8,246,733</u>
Total investments	<u>540,016,373</u>	<u>538,855,861</u>
Property and equipment	3,356,484	3,473,439
Other assets	<u>3,325,799</u>	<u>3,394,212</u>
 Total assets	 <u><u>\$646,881,194</u></u>	 <u><u>\$623,476,863</u></u>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$1,929,386	\$673,140
Due to related organizations	6,836,878	6,008,949
Bonds payable	3,067,575	3,162,538
Long-term liabilities	2,999,608	5,140,723
Annuities payable	<u>21,665,526</u>	<u>22,655,284</u>
Total liabilities	<u>36,498,973</u>	<u>37,640,634</u>
Net assets:		
Unrestricted	15,191,848	14,758,238
Temporarily restricted	160,757,532	134,565,849
Permanently restricted	<u>434,432,841</u>	<u>436,512,142</u>
Total net assets	<u>610,382,221</u>	<u>585,836,229</u>
 Total liabilities and net assets	 <u><u>\$646,881,194</u></u>	 <u><u>\$623,476,863</u></u>

See accompanying notes to combined financial statements.

**IOWA STATE UNIVERSITY FOUNDATION  
IOWA STATE UNIVERSITY ACHIEVEMENT FUND  
ORIGINAL UNIVERSITY FOUNDATION**

Combined Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2008</u>
Revenues, gains and other support:				
Contributions	<u>\$2,642,839</u>	<u>\$63,974,299</u>	<u>\$36,374,213</u>	<u>\$102,991,351</u>
Investment return:				
Pooled investments	8,907,652	14,475,154	(37,013,320)	(13,630,514)
Nonpooled investments	366,029	(328,490)	(304,524)	(266,985)
Equity in net income of subsidiary	<u>264,771</u>	<u>-</u>	<u>-</u>	<u>264,771</u>
Total investment return	<u>9,538,452</u>	<u>14,146,664</u>	<u>(37,317,844)</u>	<u>(13,632,728)</u>
Fundraising service revenue	1,918,499	-	-	1,918,499
Return on funds held in trust by others	-	132,445	(333,618)	(201,173)
Other earnings	29,296	1,019,673	93,951	1,142,920
Net assets released from restrictions	<u>53,528,985</u>	<u>(53,528,985)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>67,658,071</u>	<u>25,744,096</u>	<u>(1,183,298)</u>	<u>92,218,869</u>
Expenses:				
Program	53,837,576	-	-	53,837,576
Operating:				
Fundraising	9,324,390	-	-	9,324,390
Administrative	3,466,938	-	-	3,466,938
Annuity liability adjustment	<u>595,557</u>	<u>(447,587)</u>	<u>896,003</u>	<u>1,043,973</u>
Total expenses	<u>67,224,461</u>	<u>(447,587)</u>	<u>896,003</u>	<u>67,672,877</u>
Change in net assets	<u>433,610</u>	<u>26,191,683</u>	<u>(2,079,301)</u>	<u>24,545,992</u>
Net assets at beginning of year	<u>14,758,238</u>	<u>134,565,849</u>	<u>436,512,142</u>	<u>585,836,229</u>
Net assets at end of year	<u><u>\$15,191,848</u></u>	<u><u>\$160,757,532</u></u>	<u><u>\$434,432,841</u></u>	<u><u>\$610,382,221</u></u>

See accompanying notes to combined financial statements.

**IOWA STATE UNIVERSITY FOUNDATION  
IOWA STATE UNIVERSITY ACHIEVEMENT FUND  
ORIGINAL UNIVERSITY FOUNDATION**

Combined Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2007</u>
Revenues, gains and other support:				
Contributions	<u>\$2,818,824</u>	<u>\$47,422,003</u>	<u>\$19,646,558</u>	<u>\$69,887,385</u>
Investment return:				
Pooled investments	8,420,466	14,124,586	43,244,114	65,789,166
Nonpooled investments	548,908	1,815,312	3,553,134	5,917,354
Equity in net income of subsidiary	<u>404,007</u>	<u>-</u>	<u>-</u>	<u>404,007</u>
Total investment return	<u>9,373,381</u>	<u>15,939,898</u>	<u>46,797,248</u>	<u>72,110,527</u>
Fundraising service revenue	2,258,940	-	-	2,258,940
Return on funds held in trust by others	-	275,740	1,356,821	1,632,561
Other earnings	20,726	539,724	103,466	663,916
Net assets released from restrictions	<u>45,356,643</u>	<u>(45,356,643)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>59,828,514</u>	<u>18,820,722</u>	<u>67,904,093</u>	<u>146,553,329</u>
Expenses:				
Program	45,600,017	-	-	45,600,017
Operating:				
Fundraising	8,623,656	-	-	8,623,656
Administrative	2,941,065	-	-	2,941,065
Annuity liability adjustment	<u>68,817</u>	<u>626,755</u>	<u>1,828,693</u>	<u>2,524,265</u>
Total expenses	<u>57,233,555</u>	<u>626,755</u>	<u>1,828,693</u>	<u>59,689,003</u>
 Change in net assets	 <u>2,594,959</u>	 <u>18,193,967</u>	 <u>66,075,400</u>	 <u>86,864,326</u>
 Net assets at beginning of year	 <u>12,163,279</u>	 <u>116,371,882</u>	 <u>370,436,742</u>	 <u>498,971,903</u>
 Net assets at end of year	 <u><u>\$14,758,238</u></u>	 <u><u>\$134,565,849</u></u>	 <u><u>\$436,512,142</u></u>	 <u><u>\$585,836,229</u></u>

See accompanying notes to combined financial statements.

**IOWA STATE UNIVERSITY FOUNDATION  
IOWA STATE UNIVERSITY ACHIEVEMENT FUND  
ORIGINAL UNIVERSITY FOUNDATION**

Combined Statements of Cash Flows  
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$24,545,992	\$86,864,326
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for long-term investment	(27,714,222)	(26,184,376)
Noncash contributions	(11,523,688)	(8,221,839)
Additions to annuities payable	423,322	220,557
Income restricted for long-term investment	(5,068,687)	(5,130,494)
Realized and unrealized (gains) and losses on pooled and nonpooled investments	24,104,855	(64,148,068)
Equity in net income of subsidiary	(264,771)	(404,007)
Return on funds held in trust by others	(125,064)	(101,505)
Depreciation and amortization	207,850	241,378
Cash surrender value of insurance policies	133,302	(265,113)
Annuities payable adjustment	1,695,733	2,763,717
Changes in:		
Receivables	(21,578,199)	1,433,188
Other assets	(61,903)	(106,967)
Accrued interest	129	432
Accounts payable and accrued liabilities	1,256,244	45,081
Due to related organizations and long-term liabilities	996,557	(145,438)
Net cash used in operating activities	<u>(12,972,550)</u>	<u>(13,139,128)</u>
Cash flows from investing activities:		
Purchases of pooled investments and other marketable securities	(238,119,503)	(136,578,245)
Sales of pooled investments and other marketable securities	223,615,259	123,833,261
Dividends from subsidiary	300,000	320,978
Purchases of property and equipment	(90,895)	(227,856)
Sales of real estate	340,537	478,540
Principal receipts on notes receivable	703,519	106,130
Net cash used in investing activities	<u>(13,251,083)</u>	<u>(12,067,192)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	27,714,222	26,184,376
Income restricted for long-term investment	5,068,687	5,130,494
Payments on long-term debt	(2,502,334)	(179,071)
Payments on bonds	(94,963)	(245,742)
Annuity payments	(2,916,225)	(3,157,975)
Net cash provided by financing activities	<u>27,269,387</u>	<u>27,732,082</u>
Change in cash and cash equivalents	1,045,754	2,525,762
Cash and cash equivalents at beginning of year	<u>7,217,683</u>	<u>4,691,921</u>
Cash and cash equivalents at end of year	<u><u>\$8,263,437</u></u>	<u><u>\$7,217,683</u></u>

See accompanying notes to combined financial statements.

IOWA STATE UNIVERSITY FOUNDATION  
IOWA STATE UNIVERSITY ACHIEVEMENT FUND  
ORIGINAL UNIVERSITY FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES AND RELATED MATTERS

Objectives

The mission of the Iowa State University Foundation, the Iowa State University Achievement Fund, and the Original University Foundation is to secure and manage private gifts that support Iowa State University's (the "University") aspiration to become the nation's best land-grant university. The organizations strive to maximize the interest, involvement and, ultimately, enduring commitment of donors, and to manage donated assets for the benefit of the University in accordance with its donor's wishes. The organizations are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from taxes pursuant to Section 501(a) of the Internal Revenue Code.

Basis of Presentation

The accompanying combined financial statements include the accounts of the Iowa State University Foundation, the Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation"). Combined financial statements are presented because the organizations have a common Board of Directors, common management, and the common objective to promote the welfare of the University and its faculty, graduates, students, and former students. All material transactions among the organizations have been eliminated.

The combined financial statements of the Foundation have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted within the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

The Foundation classifies net assets and revenues, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

*Unrestricted net assets* - net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* - net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time.

*Permanently restricted net assets* - net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

Temporarily restricted net assets are those whose use by the Foundation have been limited by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified as unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and subsequently released from restriction in the accompanying combined financial statements.

Contributions of cash or other assets to be used to acquire land, buildings, and equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

#### Fair Value of Financial Instruments

Financial instruments are generally described as cash, contractual obligations, or rights to pay or receive cash. The carrying amount approximates fair value for certain financial instruments, because of the short-term maturity of these instruments, which include receivables (other than funds held in trust by others), accrued interest, accounts payable and accrued liabilities, and due to related organizations.

Fair value estimates are made at a specific time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Pooled investments, other marketable securities, and funds held in trust by others are recorded at fair value as determined by values provided by an external investment manager and quoted market values. Pooled investments include investments in alternative structures whose fair values have been estimated in the absence of readily ascertainable fair market values. The estimated values as determined by the general managers and investment managers may differ significantly from the values that would have been used had ready markets for the investments existed. Real estate is carried at fair value based on independent appraisals, which are adjusted by the change in land values based on U.S. Census of Agriculture estimates and the latest survey of Iowa real estate brokers.

The carrying values of other investments and long-term liabilities approximates fair value because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

#### Cash and Cash Equivalents

The Foundation considers highly liquid instruments purchased with a maturity of three months or less from the date of purchase to be cash and cash equivalents, except for cash and cash equivalents held by the investment portfolio.

#### Pledges Receivable

The Foundation reports pledges receivable at net realizable value. The balance of pledges receivable is discounted at a risk free rate of 6% based on when the pledge was made to recognize the present value of the future pledges receivable. An allowance for uncollectible pledges is estimated based upon the Foundation's collection history and is netted against the gross pledges receivable.

### Receivable from Estates

The Foundation records a receivable from estates at the time it is notified of the death of a donor and there is no evidence that the provisions of the donor's will are to be contested.

### Funds Held in Trust by Others

The Foundation may be a full or partial beneficiary of irrevocable charitable remainder or perpetual trust accounts that are held by another entity, such as a bank or another charitable organization. Upon the discovery of their existence, the Foundation records its interest in these trusts at the present value of the estimated future cash receipts from the assets of the trust.

### Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Certain pooled investments, other marketable securities, and funds held in trust by others are recorded at fair value by management based on values provided by an external investment manager and quoted market values. Other pooled investments include alternative investments whose fair values have been estimated by management utilizing information provided by the respective fund's general manager and investment managers in the absence of readily ascertainable fair market values. The estimated values may differ materially from the values that would have been used had ready markets for the investments existed. Real estate is carried at fair value based on independent appraisals, which are adjusted by the change in land values based on U.S. Census of Agriculture estimates and the latest survey of Iowa real estate brokers. Donated assets are initially recorded at their estimated fair value at date of receipt.

The Foundation's accounting system ensures that each participating fund receives its proportionate share of the pooled investments' total return (earnings plus appreciation less depreciation). Periodic distributions are made available for spending based on the market value of each fund. The current distribution is 4.25% of the average market value over the preceding twelve quarters. To the extent that the pool's total return is greater or less than the spending distributions, the market value per fund increases or decreases accordingly.

The basis of investments sold is determined by specific identification of the assets sold.

The Foundation has ownership of certain cash and cash equivalents that are not in the possession of the Foundation but are held, along with other marketable securities, by outside investment managers. Although these cash and cash equivalents are readily available to the Foundation, it is the intent of the Foundation to hold these cash and cash equivalents for investment purposes and to classify these cash and cash equivalents as investment assets.

### Property and Equipment

The Foundation records property and equipment at cost at the date of acquisition. Depreciation is based on the estimated useful life of the asset using the straight-line method.

### Annuities Payable

The Foundation accepts contributions in trusts, whereby donors may contribute assets to the Foundation in exchange for the right of a named beneficiary to receive a fixed dollar annual return or a specific percentage of the fair value of the trust assets, valued as of the beginning of the calendar year, during the beneficiary's lifetime. A portion of the donation is considered to be a charitable contribution for income tax purposes.

The difference between the amount provided for the trust and the present value of the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift.

The liability is reviewed and revalued quarterly based upon actuarially computed present values. If a portion of the remaining interest at termination of the trust is payable to beneficiaries other than the Foundation, this liability is valued based upon actuarially computed present values and recorded as a long-term liability. The resulting actuarial gain (loss) is recorded in the combined statements of activities and changes in net assets.

#### Revenue Recognition

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises and other gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

#### Fundraising Service Revenue

Fundraising service revenue are payments from service contracts with Iowa State University in support of fundraising services provided by the Foundation.

#### Risks and Uncertainties

The Foundation utilizes various investment instruments such as marketable securities and alternative investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

#### Recent Accounting Pronouncement

In August 2008, FASB issued the final FASB Staff Position (FSP) No. 117-1 *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to and Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FSP also improves disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The UPMIFA was enacted in Iowa in 2008. FSP 117-1 is effective for fiscal years ending after December 15, 2008. The Foundation is assessing the impact of FSP 117-1 on its financial statements.

## 2. PLEDGES RECEIVABLE

The components of the net pledges receivable as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Gross pledges receivable	\$ 82,804,447	\$ 58,744,503
Allowance for uncollectible pledges	(3,579,335)	(2,511,805)
Discount to present value	(9,845,611)	(6,410,321)
Net pledges receivable	<u>\$ 69,379,501</u>	<u>\$ 49,822,377</u>

The Foundation estimates that payments on these pledges receivable as of June 30, 2008 will be received as follows: \$22,707,251 in 2008/2009; \$20,031,425 in 2009/2010; \$12,051,133 in 2010/2011; \$9,672,268 in 2011/2012; \$6,377,644 in 2012/2013 and \$11,964,726 thereafter.

In addition, the Foundation has received notification of deferred gifts totaling approximately \$365,000,000 and \$294,000,000 as of June 30, 2008 and 2007, respectively, primarily in the form of revocable wills.

### 3. INVESTMENTS

Investments are comprised of the following balances as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Pooled investments		
Traditional structures - values based on quoted market prices		
Equity	\$ 92,099,191	\$ 101,464,869
Fixed income	122,145,493	117,223,290
Natural resources	15,107,484	16,150,480
Money market funds	5,500,592	3,228,523
Accrued interest	187,003	249,907
Accrued manager fees	(250,000)	(300,240)
	<u>234,789,763</u>	<u>238,016,829</u>
Alternative structures - underlying investment values based on quoted market prices		
Equity	82,468,897	55,557,196
Fixed income	20,936,643	18,688,916
Equity exposure	28,603,634	68,349,524
Natural resources	8,300,128	8,078,656
Hedge funds	9,234,707	-
	<u>149,544,009</u>	<u>150,674,292</u>
Alternative structures - underlying investment values based on estimates provided by fund managers or general partners		
Hedge funds	74,462,951	74,719,182
Private equity	29,091,848	21,379,029
Real estate	3,012,939	840,814
	<u>106,567,738</u>	<u>96,939,025</u>
Total pooled investments	490,901,510	485,630,146
Other marketable securities		
Fixed income	20,456,602	23,723,872
Equity	15,678,524	19,010,214
Total other marketable securities	<u>36,135,126</u>	<u>42,734,086</u>
Equity in subsidiary	2,209,667	2,244,896
Real estate and other investments		
Real estate	5,872,032	5,894,232
Notes receivable	4,034,322	1,481,358
Notes receivable from affiliated entities	863,716	863,716
Real estate contracts	-	7,298
Accrued interest	-	129
Total real estate and other investments	<u>10,770,070</u>	<u>8,246,733</u>
Total investments	<u>\$ 540,016,373</u>	<u>\$ 538,855,861</u>

Investment return was comprised of the following for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Pooled investment return		
Dividends and interest	\$ 10,629,885	\$ 9,731,567
Net realized gains (losses)	(657,840)	1,944,902
Net unrealized gains (losses)	(21,723,642)	56,492,364
Investment management fees	(2,088,879)	(1,787,159)
Amount due from (to) related organizations	209,962	(592,508)
Total pooled investment return	<u>(13,630,514)</u>	<u>65,789,166</u>
Nonpooled investment return		
Dividends and interest	1,834,125	2,108,910
Net realized gains	1,415,519	2,407,384
Net unrealized gains (losses)	(3,516,629)	1,401,060
Total nonpooled investment return	<u>(266,985)</u>	<u>5,917,354</u>
Equity in net income from subsidiary	<u>264,771</u>	<u>404,007</u>
Total investment return	<u>\$ (13,632,728)</u>	<u>\$ 72,110,527</u>

Pooled investments held in traditional structures represent those held directly by the Foundation in custodial accounts with financial institutions and mutual funds. Pooled investments held in alternative structures include those held through interests in limited partnerships, common trusts, commingled funds, and limited liability companies.

Real estate and other investments include a note receivable from the Iowa State University Research Park (the Research Park), an affiliate. This note resulted from the transfer of 79.6751 acres from the Foundation to the Research Park. Payment to the Foundation occurs upon the sale of any lots or portion of the acreage. The Foundation receives the initial principal amount of the mortgage divided by the number of acres transferred, multiplied by the amount of the acreage of the property sold plus 6% simple interest accrued from September 1, 1996. The note is secured by a mortgage on certain land and premises described in the note agreement.

In March 1999, the Foundation entered into a revolving credit agreement with the Research Park through June 30, 2009. Under the agreement, the Research Park may borrow up to \$1,000,000 from the Foundation with interest payable at market. As of June 30, 2008 and 2007, the Research Park had not drawn on the line of credit.

As of June 30, 2008 and 2007, the Foundation had outstanding commitments relating to certain pooled investments of \$61,805,287 and \$18,262,061, respectively.

#### 4. EQUITY IN SUBSIDIARY

The Foundation owns Gateway Center Holdings, Inc., formerly known as Gateway Center, Ltd. (the Corporation). The Corporation is the general partner of a limited partnership, Gateway Center Associates, organized to develop and operate the Gateway Hotel and Conference Center. As general partner, the Corporation has full management and control of the limited partnership's business. As of June 30, 2008 and 2007, the Corporation owned 99% of the outstanding limited partnership units and the Foundation owned the remaining 1% of the outstanding limited partnership units. Summary consolidated financial information of the Gateway Center Holdings, Inc. and subsidiary as of December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 7,730,124	\$ 8,221,961
Total liabilities	5,220,457	5,856,789
Total stockholders' equity	2,509,667	2,365,172
Net income	144,495	283,731

The Foundation's equity interest in the net assets of the Corporation is reconciled as follows:

	<u>2008</u>	<u>2007</u>
Consolidated equity of Gateway Center Holdings, Inc. and subsidiary as of December 31, 2007 and 2006	\$ 2,509,667	\$ 2,365,172
Distribution to shareholders	(300,000)	-
Unamortized excess of fair value of assets acquired over cost of investment at date of acquisition	-	(120,276)
Foundation's equity in Gateway Center Holdings, Inc. and subsidiary as of June 30, 2008 and 2007	<u>\$ 2,209,667</u>	<u>\$ 2,244,896</u>

#### 5. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following balances as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 960,000	\$ 960,000
Building	2,641,091	2,641,091
Office furniture and equipment	2,453,232	2,362,336
	<u>6,054,323</u>	<u>5,963,427</u>
Accumulated depreciation	(2,697,839)	(2,489,988)
Net property and equipment	<u>\$ 3,356,484</u>	<u>\$ 3,473,439</u>

6. OTHER ASSETS

A summary of other assets as of June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Cash surrender value of insurance policies	\$ 3,016,715	\$ 3,162,366
Other	309,084	231,846
Total other assets	<u>\$ 3,325,799</u>	<u>\$ 3,394,212</u>

7. DUE TO RELATED ORGANIZATIONS

A summary of amounts due to related organizations as of June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Investments	\$ 4,505,566	\$ 4,809,215
Construction projects	2,331,312	1,199,734
Total due to related organizations	<u>\$ 6,836,878</u>	<u>\$ 6,008,949</u>

The Iowa State University Alumni Association (Alumni Association) and the University deposit funds with the Foundation. The agreements with these organizations provide that Alumni Association and University funds are to be invested in the pool (described in note 1) and are to receive their prorated share of the pool's investment return. The liability of \$4,505,566 and \$4,809,215 represents the Alumni Association's and University's aggregate interest in the pool's assets held by the Foundation on June 30, 2008 and 2007, respectively.

The Foundation raises money and provides funding for construction projects on campus. These projects are managed by the University. The University invoices the Foundation periodically for reimbursement of these construction expenses. The liability of \$2,331,312 and \$1,199,734 represents the amount to be paid by the Foundation to the University as of June 30, 2008 and 2007, respectively.

8. BONDS PAYABLE

To finance the purchase and remodeling of the Foundation Advancement Center building, the Foundation issued \$3,850,000 of tax-exempt Office Building Revenue Bonds under an agreement with the City of Huxley. The bonds have varying maturities through 2012 and carry a variable interest rate of 6.77% and 5.25% as of June 30, 2008 and 2007, respectively. The bonds are collateralized with a mortgage on the building and other real estate owned by the Foundation.

Maturities of bond principal for the years subsequent to June 30, 2008 are as follows:

2009	\$ 75,490
2010	106,745
2011	114,136
2012	2,771,204
	<u>\$ 3,067,575</u>

9. LONG-TERM LIABILITIES AND LINE OF CREDIT

A summary of long-term liabilities as of June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Skybox note payable to bank	\$ -	\$ 2,502,334
Health care discount liability	1,346,363	858,585
Trust liability due to others	1,373,216	1,577,013
Other	280,029	202,791
Total long-term liabilities	<u>\$ 2,999,608</u>	<u>\$ 5,140,723</u>

The health care discount liability was recorded upon the sale of University Retirement Corporation in December 1999 and represents commitments made to Green Hills residents for discounts on future health care services.

The trust liability to others represents the remaining interest upon termination of trusts payable to other beneficiaries in accordance with the donor's designation per the terms of the trust agreements.

The Foundation entered into a revolving line of credit with a bank on October 1, 2003 with a maximum principal amount of \$2,000,000. The interest rate on the line is .5% below the New York prime rate. The commitment matures on October 1, 2009. As of June 30, 2008 and 2007, the Foundation had not drawn on the line of credit.

10. PROGRAM EXPENSES

For the years ended June 30, 2008 and 2007, program expenses were as follows:

	<u>2008</u>	<u>2007</u>
Scholarships, loan funds, and awards	\$ 13,733,418	\$ 13,457,228
Faculty and staff support	5,636,842	5,055,477
Program support	12,052,903	9,210,087
Buildings, equipment, and repairs	22,025,673	17,313,320
Gifts in kind	388,740	563,905
Total	<u>\$ 53,837,576</u>	<u>\$ 45,600,017</u>

11. OPERATING EXPENSES

For the years ended June 30, 2008 and 2007, operating expenses were as follows:

	<u>2008</u>	<u>2007</u>
Fundraising		
Salary and benefits	\$ 6,895,497	\$ 6,302,620
Travel	589,013	529,917
Marketing and advertising	529,286	368,759
Professional service	320,631	565,269
Office support	989,963	857,091
Total fundraising	<u>9,324,390</u>	<u>8,623,656</u>
Administrative		
Salary and benefits	1,730,472	1,367,029
Staff and volunteer development	95,585	74,960
Professional service	321,711	263,973
Office support	1,210,800	1,140,059
Insurance and taxes	108,370	95,044
Total administrative	<u>3,466,938</u>	<u>2,941,065</u>
Total operating expenses	<u>\$ 12,791,328</u>	<u>\$ 11,564,721</u>

12. NET ASSETS

Temporarily and permanently restricted net assets are restricted for the following purposes as of June 30, 2008 and 2007:

Temporarily Restricted

	<u>2008</u>	<u>2007</u>
Temporarily Restricted		
College program support	\$ 43,239,288	\$ 37,275,654
Student financial aid	18,436,337	17,798,272
Faculty and staff support	9,631,161	7,791,625
Research	9,878,195	9,628,020
Building, equipment and maintenance	76,867,976	58,899,555
Other	2,704,575	3,172,723
	<u>\$ 160,757,532</u>	<u>\$ 134,565,849</u>

	<u>2008</u>	<u>2007</u>
Permanently Restricted		
College program support	\$ 164,293,259	\$ 168,426,330
Student financial aid	153,446,478	163,379,746
Faculty and staff support	87,389,894	74,458,540
Research	13,421,166	14,158,111
Building, equipment and maintenance	2,350,920	2,600,189
Other	13,531,124	13,489,226
	<u>\$ 434,432,841</u>	<u>\$ 436,512,142</u>

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash gifts for the years ended June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Marketable securities	\$ 7,910,927	\$ 7,858,038
Notes receivable	3,249,156	-
Real estate	357,200	92,500
Funds held in trust	6,405	271,301
Gifts in kind	379,621	563,905
Total non-cash gifts	<u>\$ 11,903,309</u>	<u>\$ 8,785,744</u>

14. EMPLOYEE RETIREMENT PLAN

During the years ended June 30, 2008 and 2007, the Foundation participated in the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), to which the Foundation contributes 10% of the participant's salary. The Foundation contributions to TIAA-CREF were \$583,721 and \$522,909 for the years ended June 30, 2008 and 2007, respectively. Employees are automatically enrolled on the date they complete 90 days of continuous active employment.

In 2007 and 2005, the Foundation established deferred compensation plans for a select group of management employees. Under the plans, participants defer a portion of their income on a pre-tax basis. Per IRS requirements, the employee's deferrals into the plans remain the property of the Foundation, and may thereby be subject to the claims of general creditors of the organization. As of June 30, 2008 and 2007, assets managed under this plan were \$280,029 and \$202,791, respectively.

\* \* \* \* \*