

# **MINNESOTA 4-H FOUNDATION**

Financial Statements

June 30, 2012

**Ryan J. Terry, LTD.**  
**Certified Public Accountants**  
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# MINNESOTA 4-H FOUNDATION

## Table of Contents

Independent Auditor's Report.....	1
Statements of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses .....	4
Statements of Cash Flows.....	5
Notes to the Financial Statements.....	6-20

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**Independent Auditor's Report**

The Board of Trustees  
Minnesota 4-H Foundation

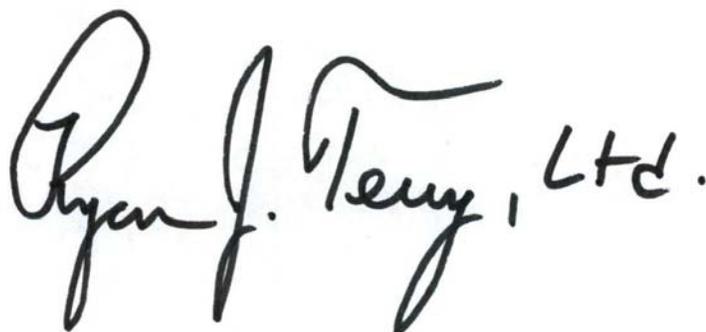
We have audited the accompanying statement of financial position of Minnesota 4-H Foundation (the Foundation) as of June 30, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Information for the year ended June 30, 2011 is presented for comparative purposes only and was extracted from the financial statements, on which an unqualified opinion dated September 8, 2011 was expressed.

September 26, 2012  
Oakdale, MN

A handwritten signature in black ink that reads "Ryan J. Terry, Ltd." The signature is written in a cursive, flowing style.

# MINNESOTA 4-H FOUNDATION

## Statements of Financial Position

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash	\$ 424,490	1,044,445
Promises to give	103,533	28,084
Prepaid expenses	11,387	5,917
Accounts receivable	16,177	32,056
Total Current Assets	<u>555,587</u>	<u>1,110,502</u>
Equipment, net	7,261	3,150
Promises to give	154,840	-
Investments	7,981,619	7,751,531
Annuity trusts	23,938	23,587
Total Assets	<u>\$ 8,723,245</u>	<u>8,888,770</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Accounts payable	\$ 52,235	46,640
Grants payable	31,570	95,150
Unused grant payable	-	61,200
Accrued wages and benefits	8,834	7,724
Total Current Liabilities	<u>92,639</u>	<u>210,714</u>
Custodial accounts	<u>1,848,011</u>	<u>1,516,379</u>
Total Liabilities	<u>1,940,650</u>	<u>1,727,093</u>
Net Assets:		
Unrestricted	274,908	296,403
Temporarily restricted	4,581,911	5,035,797
Permanently restricted	1,925,776	1,829,477
Total Net Assets	<u>6,782,595</u>	<u>7,161,677</u>
Total Liabilities and Net Assets	<u>\$ 8,723,245</u>	<u>8,888,770</u>

See accompanying notes to financial statements.

**MINNESOTA 4-H FOUNDATION**

Statement of Activities

For the Year Ended June 30, 2012

With Comparative Totals for 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>	<u>Total 2011</u>
<b>SUPPORT AND REVENUE:</b>					
Contributions	\$ 104,620	173,150	73,603	351,373	399,905
Grant revenue	8,000	336,292	-	344,292	1,312,998
Contributed services and materials	82,373	-	-	82,373	89,996
Investment income (loss), net	(863)	28,983	-	28,120	862,800
Net change in fair value of annuity trusts	-	1,192	(841)	351	3,827
Special events, net	57,307	-	13,537	70,844	46,494
Fund management fees	14,276	-	-	14,276	12,193
Miscellaneous income	7,331	-	-	7,331	1,355
Total support and revenue	<u>273,044</u>	<u>539,617</u>	<u>86,299</u>	<u>898,960</u>	<u>2,729,568</u>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>	<u>987,068</u>	<u>(987,068)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENSES:</b>					
Program services-4-H activities	923,007	-	-	923,007	1,360,658
Support services:					
Management and general	84,996	-	-	84,996	85,637
Fundraising	270,039	-	-	270,039	198,010
Total Expenses	<u>1,278,042</u>	<u>-</u>	<u>-</u>	<u>1,278,042</u>	<u>1,644,305</u>
<b>CHANGE IN NET ASSETS</b>	(17,930)	(447,451)	86,299	(379,082)	1,085,263
<b>NET ASSETS AT BEGINNING OF YEAR</b>	296,403	5,035,797	1,829,477	7,161,677	6,076,414
<b>Donor Change in Restriction</b>	<u>(3,565)</u>	<u>(6,435)</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 274,908</u>	<u>4,581,911</u>	<u>1,925,776</u>	<u>6,782,595</u>	<u>7,161,677</u>

See accompanying notes to the financial statements.

**MINNESOTA 4-H FOUNDATION**

Statement of Functional Expenses  
For the Year Ended June 30, 2012  
With Comparative Totals for 2011

	<b>Support Services</b>				<b>Total 2012</b>	<b>Total 2011</b>
	<b>4-H Activities</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total Support Services</b>		
Program grants:						
4-H Programs	\$ 335,741	-	-	-	335,741	346,520
Extension Youth Development	520,123	-	-	-	520,123	948,734
Scholarships	27,000	-	-	-	27,000	21,000
Contributed expenses:						
Personnel	12,243	7,514	61,866	69,380	81,623	81,123
Miscellaneous	750	-	-	-	750	8,873
Support staff	18,327	21,503	109,253	130,756	149,083	119,451
Professional fees	2,093	33,190	-	33,190	35,283	33,613
Printing and postage	599	2,405	24,379	26,784	27,383	15,592
Supplies	310	1,240	1,550	2,790	3,100	2,361
Telephone	417	836	2,922	3,758	4,175	4,098
Equipment and software maintenance	1,159	4,636	5,795	10,431	11,590	6,971
Insurance	-	1,485	-	1,485	1,485	1,330
Public relations	-	-	40,475	40,475	40,475	14,271
Board expense	1,125	1,125	9,003	10,128	11,253	3,662
Rent	2,798	7,104	11,624	18,728	21,526	25,053
Uncollectible promises to give	-	-	950	950	950	4,541
Loss on disposal of equipment	-	118	-	118	118	74
Miscellaneous	150	3,154	1,364	4,518	4,668	3,917
Total Expenses Before Depreciation	<u>922,835</u>	<u>84,310</u>	<u>269,181</u>	<u>353,491</u>	<u>1,276,326</u>	<u>1,641,184</u>
Depreciation	<u>172</u>	<u>686</u>	<u>858</u>	<u>1,544</u>	<u>1,716</u>	<u>3,121</u>
Total Expenses	<u>\$ 923,007</u>	<u>84,996</u>	<u>270,039</u>	<u>355,035</u>	<u>1,278,042</u>	<u>1,644,305</u>

See accompanying notes to the financial statements.

**MINNESOTA 4-H FOUNDATION**  
 Statements of Cash Flows  
 For the Years Ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS PROVIDED BY (USED FOR)</b>		
<b>OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (379,082)	1,085,263
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	1,716	3,121
Write-off of promises to give	950	4,541
Loss on disposal of equipment	118	74
Annuity trust contribution	-	(10,837)
Net realized and unrealized gains on investments	(54,441)	(889,212)
Net increase in fair value of annuity trusts	(351)	(3,827)
Contributions received and held for long-term investment	(87,282)	(111,477)
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable	15,879	(22,468)
(Increase) decrease in promises to give	(231,239)	214,455
(Increase) decrease in prepaid expenses	(5,470)	7,293
Increase in accounts payable	5,595	36,524
Increase (decrease) in grants payable	(63,580)	77,965
Increase (decrease) in unused grant payable	(61,200)	61,200
Increase (decrease) in accrued wages and benefits	1,110	(8,257)
Net Cash Provided By (Used For) Operating Activities	(857,277)	444,358
<b>CASH FLOWS PROVIDED BY (USED FOR)</b>		
<b>INVESTING ACTIVITIES:</b>		
Purchase of equipment	(5,945)	-
Purchase of investments	(718,883)	(1,138,597)
Distribution from annuity trust	-	12,692
Sale of investments	874,868	1,169,066
Net Cash Provided By Investing Activities	150,040	43,161
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Contributions received and held for long-term investment	87,282	111,477
<b>NET INCREASE (DECREASE) IN CASH</b>	(619,955)	598,996
<b>CASH - BEGINNING OF YEAR</b>	1,044,445	445,449
<b>CASH - END OF YEAR</b>	\$ 424,490	1,044,445

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash is defined as cash in checking and money market.

The net increase in the custodial investments and corresponding liability for fiscal year 2012 was \$331,632. The net increase in the custodial investments and corresponding liability was \$220,866 for fiscal year 2011.

See accompanying notes to the financial statements.

## MINNESOTA 4-H FOUNDATION

Notes to the Financial Statements

June 30, 2012

With Comparative Totals for 2011

### (1) NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Organization

The Minnesota 4-H Foundation (the Foundation) was incorporated December 30, 1980, to receive, hold, invest, and administer assets and to make expenditures to or for the benefit of the programs of 4-H. This includes support of the University of Minnesota Extension Service in such a manner as to best meet the needs and advance the interests of 4-H and associated youth work of the University of Minnesota Extension Service.

#### Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as codified by the Financial Accounting Standards Board. Under U.S. GAAP, the Foundation reports information regarding its financial position and activities according to the following three classes of net assets:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of the Foundation;
- Temporarily restricted net assets consist of contributions and income that have been restricted by the donor for specific purposes or are not available for use until a specific time; and
- Permanently restricted net assets consist of contributions restricted by the donor that stipulate the principal be maintained permanently, but permit the Foundation to use or expend the income derived from the donated assets for specified purposes.

#### Unrestricted, Temporarily Restricted and Permanently Restricted Revenue and Support

Revenue received without donor restriction is reported as an increase in unrestricted net assets. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as restricted support and as net assets released from restriction.

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 2  
June 30, 2012  
With Comparative Totals for 2011

(1) **NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

Contributed Services

The University of Minnesota has donated materials and services to the Foundation. These materials and services meet criteria for recognition as contributions and, accordingly, are reported as contributed services and materials revenue and as program and support service expenses on the statement of activities.

A number of volunteers have made significant donations of their time to the Foundation's program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

Donated Stock

The Foundation records donated stock as an asset and a contribution when the stock is received at its fair value. It is the Foundation's policy to liquidate the donated stock as soon as possible.

Equipment

It is the policy of the Foundation to capitalize equipment purchases of \$2,500 or more. Depreciation is provided, using the straight-line method, over the estimated useful life of five years. Management does not capitalize individual computer workstations and software as it has deemed the life of these items to be minimal. Contributed equipment is recorded at fair value at the date of donation.

Concentrations of Credit Risk Due to Promises to Give and Accounts Receivable

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of promises to give and accounts receivable. Management believes concentrations of credit risk with respect to these promises to give and accounts receivable are limited due to the nature and dollar amounts of the promises and receivables. Promises to give consist of various amounts owed from local individuals, corporations, and foundations. Accounts receivable consist of management fees owed from custodial accounts held by the Foundation. As of June 30, 2012 management believes the Foundation had no significant concentrations of credit risk.

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 3  
June 30, 2012  
With Comparative Totals for 2011

(1) **NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Foundation maintains its checking and savings accounts at one financial institution located within the Twin Cities. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 for interest bearing accounts and have unlimited insurance for non-interest bearing accounts. The Foundation had approximately \$134,000 and \$196,000 of uninsured cash as of June 30, 2012 and 2011, respectively.

Concentration of Support

During fiscal year 2012 and 2011, approximately 65% and 89%, respectively, of the Foundation's grant revenue was received from one donor. At June 30, 2012 and 2011, approximately 86% and 89%, respectively, of promises to give were from one donor.

Allowance for Doubtful Accounts

It is the policy of the Foundation to use the specific write-off method and not record an allowance for its promises to give or accounts receivable. During fiscal year 2012 and 2011, \$950 and \$4,541, respectively, of promises to give were deemed uncollectible and written off.

Annuity Trust

The Foundation is a charitable remainder and perpetual beneficiary of trust accounts that are held by the University of Minnesota Foundation. The Foundation records these trusts, after discovery of their existence, at the present value of the estimated future cash receipts from the assets of the trust, as determined by the University of Minnesota Foundation. Because of the complex issues related to collecting the data for these transactions, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of the Foundation's rights, and the determination of the valuation of future payments. The interest rates as determined at the time of the gift used to discount future cash flows of the annuity trusts range from 1.4% to 11.0%.

Unused Grant Payable

During fiscal year 2011, the Foundation received a grant for 4-H programs. The Foundation had estimated it would be unable to use \$61,200 of the grant and had recorded a liability for the unused portion of the grant. The grant was repaid during fiscal year 2012.

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 4  
June 30, 2012  
With Comparative Totals for 2011

(1) **NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

Grants Payable

Grants payable consists of promises made by the Foundation to provide support to various organizations for the furtherance of 4-H programs.

Custodial Accounts

The Foundation administers the investments of 4-H related organizations. The Foundation records an asset and corresponding liability for the funds received from the organizations. Any additional deposits, withdrawals, and the net investment income are recorded as an increase or decrease in the asset and liability. At June 30, 2012 and 2011, the Foundation held cash and investments of \$1,848,011 and \$1,516,379, respectively, for other 4-H related organizations.

Fund Management Fees

The Foundation charges an annual management fee ranging from 0.50% to 1.0% on custodial accounts and on all endowments held by the Foundation. The fee is calculated based on the principal balance of the funds held at year-end. Certain custodial accounts are not charged a management fee until the principal balance exceeds \$50,000.

Functional Allocation of Expenses

The expenses are summarized on a functional basis on the statement of functional expenses. Salaries and related expenses are allocated by function based on job descriptions, time studies, and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or support service, are allocated based on the best estimates of management.

Income Taxes

The Foundation is exempt from federal and state income taxes under Sec 501(c)(3) of the Internal Revenue Code. U.S. GAAP requires management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for fiscal years prior to 2009.

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 5  
June 30, 2012  
With Comparative Totals for 2011

(1) **NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

Subsequent Events

Management has evaluated subsequent events through the report date, the date which the financial statements were available for issue.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 these estimates.

Prior Year Summarized Information

The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Reclassification

Certain 2011 amounts have been reclassified for comparability purposes with those of 2012.

(2) **PROMISES TO GIVE**

Promises to give consist of amounts promised to the Foundation from individuals, corporations, and foundations. Promises with donor-imposed conditions are recorded as temporarily or permanently restricted. The interest rates used to discount future cash flows determined at the date the promise was received ranged from 1% - 3%. The Foundation has the following promises to give at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Promises due in less than one year	\$ 103,533	28,084
Promises due in one to five years	159,333	-
Less discount to present value	( 4,493)	-
Net promises to give	\$ <u>258,373</u>	<u>28,084</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 6  
June 30, 2012  
With Comparative Totals for 2011

(3) **EQUIPMENT**

The Foundation's equipment consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Equipment	\$ 44,769	65,553
Less accumulated depreciation	(37,508)	(62,403)
	<u>\$ 7,261</u>	<u>3,150</u>

(4) **INVESTMENTS**

The investments are maintained in a pooled fund by the University of Minnesota Foundation. The fair value of investments as determined by the University of Minnesota Foundation as of June 30, 2012 and 2011 was \$7,981,619 and \$7,751,531, respectively.

The Foundation has invested these funds in the University of Minnesota Foundation Investment Advisors' Endowment Pool. As of June 30, 2012 and 2011, this pool is invested in the following:

	<u>2012</u>	<u>2011</u>
Global equities	20.3%	22.3%
Fixed income	5.4%	4.5%
Credit	4.0%	2.4%
Marketable alternatives	20.3%	23.8%
Private equity	25.1%	25.2%
Inflation hedge	4.5%	6.8%
Real estate	5.1%	4.7%
Natural resources	6.2%	7.9%
Cash and equivalents	9.1%	2.4%

The investments are subject to certain market and trading fluctuations. As of July 31, 2012, the date most recent investment activity is available to the Foundation, there were no significant investment fluctuations subsequent to June 30, 2012. Investment activity subsequent to July 31, 2012 through the report date of the Foundation is unavailable as The University of Minnesota Foundation has not yet made such investment activity available to the Foundation.

**Valuation Policy of the University of Minnesota Foundation Investment Advisors**

Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equity interests, mutual and commingled alternative investments, bonds, notes, and other investments. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the general partner.

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 7  
June 30, 2012  
With Comparative Totals for 2011

(4) **INVESTMENTS, (continued)**

The University of Minnesota Foundation Investment Advisors review and evaluate the values provided by the general partner and assess the valuation methods and assumptions used in determining the fair value of private equity investments. Other alternative investments are valued in a variety of ways including various pricing models. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Net investment income consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 40,579	37,914
Realized gains, net	17,159	59,696
Unrealized gains, net	37,282	829,516
Management fees	<u>(66,900)</u>	<u>( 64,326)</u>
	<u>\$ 28,120</u>	<u>862,800</u>

(5) **FAIR VALUE MEASUREMENTS**

U.S. GAAP establishes a three-tier 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 lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1 assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets, such as the New York Stock Exchange.
- Level 2 assets and liabilities are valued using inputs other than unadjusted quoted prices included in Level 1 that are observable either directly or indirectly for the assets or liability.
- Level 3 assets and liabilities are valued using pricing inputs which are unobservable for the asset or liability. Certain assets of the Foundation are recorded at fair value based upon Level 3 inputs. The Foundation's investments are held in a collective/common pooled fund with the University of Minnesota Foundation and do not have an active market price. The valuation of the investments is discussed in footnote 4. The underlying investments of these common/collective pooled funds are global equities, fixed income, credit, marketable alternatives, private equity, inflation hedge, real estate, natural resources, and cash and cash equivalents. The Foundation's annuity trusts are recorded at fair value based upon the life expectancy of the contributor.

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 8  
June 30, 2012  
With Comparative Totals for 2011

(5) **FAIR VALUE MEASUREMENTS, (continued)**

Fair values of assets and liabilities measured on a recurring basis at June 30, 2012 and 2011 were as follows:

Fair Value Measurements at Reporting Date Using

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2012</u>				
Assets:				
Investments	\$ 7,981,619	-	-	7,981,619
Annuity Trust	<u>23,938</u>	-	-	<u>23,938</u>
Total Assets	\$ <u>8,005,557</u>	<u>-</u>	<u>-</u>	<u>8,005,557</u>
Liabilities:				
Custodial Accounts	\$ <u>1,848,011</u>	<u>-</u>	<u>-</u>	<u>1,848,011</u>
<u>June 30, 2011</u>				
Assets:				
Investments	\$ 7,751,531	-	-	7,751,531
Annuity Trust	<u>23,587</u>	-	-	<u>23,587</u>
Total Assets	\$ <u>7,775,118</u>	<u>-</u>	<u>-</u>	<u>7,775,118</u>
Liabilities:				
Custodial Accounts	\$ <u>1,516,379</u>	<u>-</u>	<u>-</u>	<u>1,516,379</u>

The following table provides a summary of changes in fair value of the Foundation's level 3 financial assets for the year ended June 30, 2012 and 2011:

	<u>Investments</u>	<u>Annuity Trusts</u>	<u>Custodial Accounts</u>
Balance at July 1, 2011	\$ 7,751,531	23,587	1,516,379
Realized and unrealized gains, net	54,441	351	24,356
Custodial account activity	331,632	-	-
Purchase of investments	718,883	-	375,847
Proceeds from sale	<u>( 874,868)</u>	<u>-</u>	<u>( 68,571)</u>
Balance at June 30, 2012	\$ <u>7,981,619</u>	<u>23,938</u>	<u>1,848,011</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 9  
June 30, 2012  
With Comparative Totals for 2011

(5) **FAIR VALUE MEASUREMENTS, (continued)**

	<u>Investments</u>	<u>Annuity Trusts</u>	<u>Custodial Accounts</u>
Balance at July 1, 2010	\$ 6,671,922	21,615	1,295,513
Realized and unrealized gains, net	889,212	3,827	251,021
Contributions	-	10,837	-
Custodial account activity	220,866	-	-
Purchase of investments	1,138,597	-	24,754
Distribution from annuity trusts	-	(12,692)	-
Proceeds from sale	<u>(1,169,066)</u>	<u>-</u>	<u>( 54,909)</u>
Balance at June 30, 2011	\$ <u>7,751,531</u>	<u>23,587</u>	<u>1,516,379</u>

(6) **ENDOWMENT FUNDS**

The Foundation's endowments consist of approximately twenty individual funds established to provide for 4-H projects, programs, and scholarships. The Harkness Endowment was established to support the operations of the Foundation itself. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Pursuant to the requirements of Minnesota's Uniform Prudent Management of Institutional Funds Act (UPMIFA), and as interpreted by the Board of Trustees, the Foundation must preserve the original value of the gift from the donor absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of any subsequent gifts to the permanent endowment. 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 by the Foundation.

The 4-H Foundation invests its funds with the University of Minnesota (UMN) Foundation to benefit from economies of scale and expertise. This relationship is disclosed in endowment gift documents. These co-mingled funds are subject to the policies of the UMN Foundation which are wholly consistent with the 4-H Foundation's endowment policies.

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

- The duration and preservation of the fund,
- The purposes of the Foundation and the donor-restricted endowment fund,
- General economic conditions,

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 10  
June 30, 2012  
With Comparative Totals for 2011

(6) **ENDOWMENT FUNDS, (continued)**

- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Foundation, and
- The investment policies of the Foundation.

Using these factors, the UMN Foundation makes available for spending a percentage of the endowment funds based upon the endowment funds average total fair value. During fiscal years 2012 and 2011, the spending percentage was 4.5%. The 4-H Foundation then appropriates and distributes monies within the stated purposes of the various endowments.

The Foundation's objective is to achieve an investment return with a moderate level of risk that exceeds the spending policy. Although returns in any given year may vary, the Foundation expects a minimum real rate of return (net of inflation and expenses) of 6% over time, allowing the endowments to grow.

The changes in endowment net assets for the year ended June 30, 2012 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 24,641	2,787,107	1,829,477	4,641,225
Investment return:				
Interest and dividends, net of fees	( 101)	( 19,585)	-	( 19,686)
Net appreciation (depreciation) (realized and unrealized)	<u>( 1,230)</u>	<u>46,775</u>	<u>( 841)</u>	<u>44,704</u>
Total investment return	( 1,331)	27,190	( 841)	25,018
Contributions	-	-	87,140	87,140
Appropriation of assets for expenditure	-	( 165,216)	-	( 165,216)
Donor change in restriction	<u>-----</u>	<u>( 10,000)</u>	<u>10,000</u>	<u>-----</u>
Endowment net assets end of year	\$ <u>23,310</u>	<u>2,639,081</u>	<u>1,925,776</u>	<u>4,588,167</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 11  
June 30, 2012  
With Comparative Totals for 2011

(6) **ENDOWMENT FUNDS, (continued)**

The changes in endowment net assets for the year ended June 30, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 13,415	2,202,750	1,700,398	3,916,563
Investment return:				
Interest and dividends, net of fees	( 115)	( 23,922)	-	( 24,037)
Net appreciation (realized and unrealized)	<u>11,341</u>	<u>762,186</u>	<u>2,142</u>	<u>775,669</u>
Total investment return	11,226	738,264	2,142	751,632
Contributions	-	-	111,477	111,477
Appropriation of assets for expenditure	-	( 153,907)	-	( 153,907)
Donor change in restriction	<u>-</u>	<u>-</u>	<u>15,460</u>	<u>15,460</u>
Endowment net assets end of year	\$ <u>24,641</u>	<u>2,787,107</u>	<u>1,829,477</u>	<u>4,641,225</u>

The composition of endowment net assets as of June 30, 2012 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ ( 1,098)	2,639,081	1,925,776	4,563,759
Board designated	<u>24,408</u>	<u>-</u>	<u>-</u>	<u>24,408</u>
Total	\$ <u>23,310</u>	<u>2,639,081</u>	<u>1,925,776</u>	<u>4,588,167</u>

The composition of endowment net assets as of June 30, 2011 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	2,787,107	1,829,477	4,616,584
Board designated	<u>24,641</u>	<u>-</u>	<u>-</u>	<u>24,641</u>
Total	\$ <u>24,641</u>	<u>2,787,107</u>	<u>1,829,477</u>	<u>4,641,225</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 12  
June 30, 2012  
With Comparative Totals for 2011

(6) **ENDOWMENT FUNDS, (continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level of the original gifts. Deficiencies of this nature are reported as unrestricted net assets per U.S. GAAP. Such deficiencies are caused by unfavorable market fluctuations.

(7) **NET ASSETS**

Unrestricted net assets consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 246,610	264,774
Designated:		
Communications	3,890	6,988
Harkness endowment	<u>24,408</u>	<u>24,641</u>
Total	\$ <u>274,908</u>	<u>296,403</u>

Funds designated by the board for the Harkness endowment are held with the University of Minnesota Foundation in an endowment account.

Temporarily restricted net assets consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
4-H projects and programs	\$ 3,345,729	3,444,554
Scholarships	350,033	364,956
Youth development and leadership	530,076	1,075,430
General Operations	<u>356,073</u>	<u>150,857</u>
Total	\$ <u>4,581,911</u>	<u>5,035,797</u>

Permanently restricted net assets consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
4-H projects and programs	\$ 1,427,425	1,404,018
Scholarships	275,729	205,337
General operations	<u>222,622</u>	<u>220,122</u>
Total	\$ <u>1,925,776</u>	<u>1,829,477</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 13  
June 30, 2012  
With Comparative Totals for 2011

(7) **NET ASSETS, (continued)**

Permanently restricted net assets are endowment investments held with the University of Minnesota Foundation. Each year, 4.5% of the endowment fund balance becomes available to support its restricted purpose. Annual available funds not used continue to be available for future years.

(8) **LEASE**

The Foundation has an operating lease with the University of Minnesota for rental of office space. The lease expires on September 30, 2014. Rent expense for fiscal year 2012 and 2011 was \$21,526 and \$25,053, respectively. Future minimum lease payments under the operating lease are as follows:

Fiscal Year 2013	\$ 24,878
Fiscal Year 2014	24,878
Fiscal Year 2015	<u>6,219</u>
Total	\$ <u>55,975</u>

(9) **CONTRIBUTED SERVICES AND MATERIALS**

The following services and materials were contributed by the University of Minnesota to the Foundation for the year ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Salaries and benefits	\$ 81,623	81,123
Printing, supplies and other general office support	<u>750</u>	<u>8,873</u>
Total	\$ <u>82,373</u>	<u>89,996</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 14  
June 30, 2012  
With Comparative Totals for 2011

(10) **SPECIAL EVENTS**

The Foundation holds an annual golf tournament as a means of fundraising. Individuals pay registration fees to take part in the tournament. Donations are also received from individuals and businesses. The tournament generated revenues of \$71,800 and \$59,270 in 2012 and 2011, respectively. Expenses for the tournament were as follows:

	<u>2012</u>	<u>2011</u>
Direct Benefit:		
Green fees and carts	\$ 7,911	10,813
Gifts and prizes for golfers	4,612	6,144
Food and Supplies	7,163	2,544
Indirect Benefit:		
Other	<u>1,786</u>	<u>3,091</u>
Total	\$ <u>21,472</u>	<u>22,592</u>

The Foundation holds a special fundraising event, Clovermart, at the state fair selling 4-H t-shirts and other 4-H related items. The fundraiser generated revenues of \$44,350 and \$18,261 in 2012 and 2011, respectively. Expenses for the fundraiser were as follows:

	<u>2012</u>	<u>2011</u>
Direct Benefit:		
Clothing and other 4-H related items	\$ 35,330	5,596
Indirect Benefit:		
Supplies	<u>2,041</u>	<u>1,207</u>
Total	\$ <u>37,371</u>	<u>6,803</u>

During fiscal year 2012, the Foundation held a special fundraising event to raise funds for the Ruesch permanently restricted scholarship fund. The fundraiser generated revenues of \$18,478. Expenses for the fundraiser were as follows:

	<u>2012</u>
Direct Benefit:	
Food	\$ 4,718
Indirect Benefit:	
Miscellaneous	<u>223</u>
Total	\$ <u>4,941</u>

**MINNESOTA 4-H FOUNDATION**  
Notes to the Financial Statements, Page 15  
June 30, 2012  
With Comparative Totals for 2011

(10) **SPECIAL EVENTS, (continued)**

During fiscal year 2011, the Foundation held a special fundraising event, Dollar Drive, in coordination with 4-H organizations throughout Minnesota. Proceeds from the fundraiser for fiscal year 2011 were \$21,082. Expenses for the fundraiser were as follows:

	<u>2011</u>
Direct Benefit:	
Awards and prizes	\$ 377
Indirect Benefit:	
Printing and mailing	22,335
Transportation	<u>12</u>
Total	\$ <u>22,724</u>

(11) **RELATED PARTY TRANSACTIONS**

The Foundation received printing services from an outside firm. A board member of the Foundation is the owner of this firm. In 2012 and 2011, the Foundation paid \$6,232 and \$11,091, respectively, to the firm for printing services.