MINNESOTA 4-H FOUNDATION

Financial Statements

June 30, 2013

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MINNESOTA 4-H FOUNDATION

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Independent Auditor's Report

The Board of Trustees
Minnesota 4-H Foundation

We have audited the accompanying financial statements of the Minnesota 4-H Foundation, which comprise the statement of financial position as of June 30, 2013 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to 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 of 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.

INDEPENDENT AUDITOR'S REPORT, continued

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, 2013, 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. The prior year summarized comparative information has been derived from the Foundation's June 30, 2012 financial statements and, in our report dated September 26, 2012, we expressed an unmodified opinion on those financial statements.

September 26, 2013

Ryan J. Terry, Ltd.

MINNESOTA 4-H FOUNDATION

Statements of Financial Position

June 30, 2013 and 2012

		2013	2012
ASSETS			
Current Assets:			
Cash	$	353,768	424,490
Promises to give		91,267	103,533
Prepaid expenses		17,585	11,387
Accounts receivable		17,376	16,177
Total Current Assets		479,996	555,587
Equipment, net		4,995	7,261
Promises to give		93,541	154,840
Investments		7,997,117	7,981,619
Annuity trusts		24,260	23,938
Total Assets	$	8,599,909	8,723,245
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	$	33,344	52,235
Grants payable		34,660	31,570
Accrued wages and benefits		14,414	8,834
Total Current Liabilities		82,418	92,639
Custodial accounts		2,159,992	1,848,011
Total Liabilities		2,242,410	1,940,650
Net Assets:			
Unrestricted		198,224	274,908
Temporarily restricted		4,172,630	4,581,911
Permanently restricted		1,986,645	1,925,776
Total Net Assets		6,357,499	6,782,595
Total Liabilities and Net Assets	$	8,599,909	8,723,245

See accompanying notes to financial statements.

MINNESOTA 4-H FOUNDATION
Statement of Activities
For the Year Ended June 30, 2013
With Comparative Totals for 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
SUPPORT AND REVENUE:					
Contributions	$ 109,887	253,395	60,234	423,516	345,606
Grant revenue	4,640	53,550	-	58,190	344,292
Contributed services and materials	101,488	-	-	101,488	82,373
Investment income, net	4,083	558,574	-	562,657	28,120
Net unrealized gains on annuity trusts	-	1,801	175	1,976	351
Special events, net	51,082	-	-	51,082	70,844
Fund management fees	17,942	-	-	17,942	14,276
Miscellaneous income	19,535	2,405	-	21,940	13,098
Total support and revenue	308,657	869,725	60,409	1,238,791	898,960
NET ASSETS RELEASED FROM RESTRICTION	1,278,546	(1,278,546)	-	-	-
EXPENSES:					
Program services-4-H activities	1,184,602	-	-	1,184,602	923,007
Support services:					
Management and general	146,664	-	-	146,664	84,996
Fundraising	332,621	-	-	332,621	270,039
Total Expenses	1,663,887	-	-	1,663,887	1,278,042
CHANGE IN NET ASSETS	(76,684)	(408,821)	60,409	(425,096)	(379,082)
NET ASSETS AT BEGINNING OF YEAR	274,908	4,581,911	1,925,776	6,782,595	7,161,677
Donor Change in Restriction	-	(460)	460	-	-
NET ASSETS AT END OF YEAR	$ 198,224	4,172,630	1,986,645	6,357,499	6,782,595

See accompanying notes to the financial statements.

MINNESOTA 4-H FOUNDATION
Statement of Functional Expenses
For the Year Ended June 30, 2013
With Comparative Totals for 2012

	4-H Activities	Support Services: Management and General	Support Services: Fund Raising	Support Services: Total Support Services	Total 2013	Total 2012
Program grants:						
4-H programs	$ 549,873	-	-	-	549,873	335,741
Extension youth development	558,730	-	-	-	558,730	520,123
Scholarships	23,750	-	-	-	23,750	27,000
Contributed expenses:						
Personnel	12,701	19,192	67,988	87,180	99,881	81,623
Miscellaneous	-	1,607	-	1,607	1,607	750
Support staff	31,437	48,437	180,650	229,087	260,524	149,083
Professional fees	2,207	32,904	-	32,904	35,111	35,283
Printing and postage	422	2,642	25,290	27,932	28,354	27,383
Supplies	518	2,073	2,591	4,664	5,182	3,100
Telephone	573	1,145	4,007	5,152	5,725	4,175
Equipment and software maintenance	1,774	7,097	8,872	15,969	17,743	11,590
Insurance	-	820	-	820	820	1,485
Public relations	-	-	28,964	28,964	28,964	40,475
Board expense	613	613	4,907	5,520	6,133	11,253
Rent	1,585	4,023	6,584	10,607	12,192	21,526
Pledge write-off	-	-	-	-	-	950
Loss on disposal of equipment	-	-	-	-	-	118
Staff development and training	-	11,143	-	11,143	11,143	710
Personnel search expense	-	12,007	-	12,007	12,007	125
Miscellaneous	192	2,055	1,635	3,690	3,882	3,833
Total Expenses Before Depreciation	1,184,375	145,758	331,488	477,246	1,661,621	1,276,326
Depreciation	227	906	1,133	2,039	2,266	1,716
Total Expenses	$ 1,184,602	146,664	332,621	479,285	1,663,887	1,278,042

See accompanying notes to the financial statements.

MINNESOTA 4-H FOUNDATION
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

		2013	2012
CASH FLOWS PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES:			
Change in net assets	$	(425,096)	(379,082)
Adjustments to reconcile change in net assets to net cash			
provided by (used for) operating activities:			
Depreciation		2,266	1,716
Write-off of promises to give		-	950
Loss on disposal of equipment		-	118
Net realized and unrealized gains on investments		(590,061)	(54,441)
Net unrealized gains on annuity trusts		(1,976)	(351)
Contributions received and held for long-term investment		(60,694)	(87,140)
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable		(1,199)	15,879
(Increase) decrease in promises to give		73,565	(231,239)
Increase in prepaid expenses		(6,198)	(5,470)
Increase (decrease) in accounts payable		(18,891)	5,595
Increase (decrease) in grants payable		3,090	(63,580)
Decrease in unused grant payable		-	(61,200)
Increase in accrued wages and benefits		5,580	1,110
Net Cash Used For Operating Activities		(1,019,614)	(857,135)
CASH FLOWS PROVIDED BY (USED FOR)			
INVESTING ACTIVITIES:			
Purchase of equipment		-	(5,945)
Purchase of investments		(117,938)	(718,883)
Distribution from annuity trust		1,654	-
Sale of investments		1,004,482	874,868
Net Cash Provided By Investing Activities		888,198	150,040
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:			
Contributions received and held for long-term investment		60,694	87,140
NET DECREASE IN CASH		(70,722)	(619,955)
CASH - BEGINNING OF YEAR		424,490	1,044,445
CASH - END OF YEAR	$	353,768	424,490

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash is defined as cash in checking, savings, and money market.

The net increase in the custodial investments and corresponding liability for fiscal year 2013 was $311,981. The net increase in the custodial investments and corresponding liability was $331,632 for fiscal year 2012.

See accompanying notes to the financial statements.

(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.

(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.

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, 2013 management believes the Foundation had no significant concentrations of credit risk.

(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. The Foundation had approximately $179,000 and $134,000 of uninsured cash as of June 30, 2013 and 2012, respectively.

Concentration of Support

During fiscal year 2012, approximately 65% of the Foundation’s grant revenue was from one donor. At June 30, 2013 and 2012, approximately 83% and 86%, 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. There were no promises to give or accounts receivable written off in fiscal year 2013. During fiscal year 2012, $950 of promises to give and accounts receivable 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%.

(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, 2013 and 2012, the Foundation held cash and investments of $2,159,992 and $1,848,011, 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, 2013 and 2012, 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 2010.

(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, 2012, from which the summarized information was derived.

Reclassification

Certain 2012 amounts have been reclassified for comparability purposes with those of 2013.

(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, 2013 and 2012:

	2013	2012
Promises due in less than one year	$ 91,267	103,533
Promises due in one to five years	95,950	159,333
Less discount to present value	(2,409)	(4,493)
Net promises to give	$ 184,808	258,373

(3) EQUIPMENT

The Foundation's equipment consists of the following at June 30, 2013 and 2012:

	2013	2012
Equipment	$ 44,769	44,769
Less accumulated depreciation	(39,774)	(37,508)
	$ 4,995	7,261

(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, 2013 and 2012 was $7,997,117 and $7,981,619, respectively.

The Foundation has invested these funds in the University of Minnesota Foundation Investment Advisors' Endowment Pool. As of June 30, 2013 and 2012, this pool is invested in the following:

	2013	2012
Global equities	25.1%	20.3%
Fixed income	10.9%	5.4%
Credit	3.4%	4.0%
Marketable alternatives	19.4%	20.3%
Private equity	21.0%	25.1%
Inflation hedge	2.9%	4.5%
Real estate	4.7%	5.1%
Natural resources	5.9%	6.2%
Cash and equivalents	6.7%	9.1%

The investments are subject to certain market and trading fluctuations. As of July 31, 2013, the date most recent investment activity is available to the Foundation, there were no significant investment fluctuations subsequent to June 30, 2013. Investment activity subsequent to July 31, 2013 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.

(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, 2013 and 2012:

	2013	2012
Interest and dividends	$ 53,799	40,579
Realized gains, net	111,070	17,159
Unrealized gains, net	478,991	37,282
Management fees	(81,203)	(66,900)
	$ 562,657	28,120

(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. 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.

(5) FAIR VALUE MEASUREMENTS, (continued)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2013 and 2012 were as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Assets:				
Investments	$ 7,997,117	-	-	7,997,117
Annuity Trusts	24,260	-	-	24,260
Total Assets	$ 8,021,377	-	-	8,021,377
Liabilities:				
Custodial Accounts	$ 2,159,992	-	-	2,159,992
June 30, 2012				
Assets:				
Investments	$ 7,981,619	-	-	7,981,619
Annuity Trusts	23,938	-	-	23,938
Total Assets	$ 8,005,557	-	-	8,005,557
Liabilities:				
Custodial Accounts	$ 1,848,011	-	-	1,848,011

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, 2013 and 2012:

	Investments	Annuity Trusts	Custodial Accounts
Balance at July 1, 2012	$ 7,981,619	23,938	1,848,011
Realized and unrealized gains, net	590,061	1,976	199,097
Custodial account activity	311,981	-	-
Contributions to custodial accounts	-	-	213,455
Distributions from custodial accounts	-	-	(100,571)
Purchase of investments	117,938	-	-
Proceeds from sale	(1,004,482)	(1,654)	-
Balance at June 30, 2013	$ 7,997,117	24,260	2,159,992

(5) FAIR VALUE MEASUREMENTS, (continued)

	Investments	Annuity Trusts	Custodial Accounts
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	-	-
Contributions to custodial accounts	-	-	375,847
Distributions from custodial accounts	-	-	(68,571)
Purchase of investments	718,883	-	-
Proceeds from sale	(874,868)	-	-
Balance at June 30, 2012	$ 7,981,619	23,938	1,848,011

(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,

(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 2013 and 2012, 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, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	$ 23,310	2,639,081	1,925,776	4,588,167
Investment return:				
Interest and dividends, net of fees	(90)	(16,324)	-	(16,414)
Net appreciation (realized and unrealized)	3,869	503,474	175	507,518
Total investment return	3,779	487,150	175	491,104
Contributions	-	1,000	60,234	61,234
Appropriation of assets for expenditure	(1,752)	(241,503)	-	(243,255)
Reclassification	-	(460)	460	-
Endowment net assets end of year	$ 25,337	2,885,268	1,986,645	4,897,250

(6) ENDOWMENT FUNDS, (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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)	(1,230)	46,775	(841)	44,704
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	-	(10,000)	10,000	-
Endowment net assets end of year	$ 23,310	2,639,081	1,925,776	4,588,167

The composition of endowment net assets as of June 30, 2013 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ (1,752)	2,885,268	1,986,645	4,870,161
Board designated	27,089	-	-	27,089
Total	$ 25,337	2,885,268	1,986,645	4,897,250

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

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

(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, 2013 and 2012:

	2013	2012
Unrestricted	$ 168,676	246,610
Designated:		
Communications	2,459	3,890
Harkness endowment	27,089	24,408
Total	$ 198,224	274,908

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, 2013 and 2012:

	2013	2012
4-H projects and programs	$ 3,451,838	3,345,729
Scholarships	393,739	350,033
Youth development and leadership	18,876	530,076
General Operations	308,177	356,073
Total	$ 4,172,630	4,581,911

Permanently restricted net assets consisted of the following at June 30, 2013 and 2012:

	2013	2012
4-H projects and programs	$ 1,437,536	1,427,425
Scholarships	326,372	275,729
General operations	222,737	222,622
Total	$ 1,986,645	1,925,776

(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. Rent expense for fiscal years 2013 and 2012 was $12,192 and $21,526, respectively. Rent expense has decreased as the Foundation moved its offices to a new location towards the end of fiscal year 2012.

The operating lease was set to expire on June 30, 2013. The Foundation has five annual options to renew its lease for another year and must exercise its renewal option at least 90 days prior to the expiration of the lease. The Foundation has exercised its first of five renewal options for fiscal year 2014 with annual rent of $12,436. The lease will now expire on June 30, 2014. The Foundation intends to continue to exercise its renewal options. The lease requires the Foundation to pay the entire annual rent at the beginning of the lease year.

(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, 2013 and 2012:

	2013	2012
Salaries and benefits	$ 99,881	81,123
Printing, supplies and other general office support	1,607	750
Total	$ 101,488	82,373

(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 $74,191 and $71,800 in 2013 and 2012, respectively. Expenses for the tournament were as follows:

	2013	2012
Direct Benefit:		
Green fees and carts	$ 9,928	7,911
Gifts and prizes for golfers	5,150	4,612
Food and Supplies	7,490	7,163
Indirect Benefit:		
Other	994	1,786
Total	$ 23,562	21,472

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 $45,455 and $44,350 in 2013 and 2012, respectively. Expenses for the fundraiser were as follows:

	2013	2012
Direct Benefit:		
Clothing and other 4-H related items	$ 37,494	35,330
Indirect Benefit:		
Supplies	1,956	2,041
Total	$ 39,450	37,371

During fiscal year 2013, the Foundation held a special fundraising event for the state arts-in program. The fundraiser generated revenues of $5,488. Expenses for the fundraiser were as follows:

	2013
Direct Benefit:	
T-Shirts	$ 1,338
Entertainment	328
Food and supplies	2,973
Indirect Benefit:	
Space rental	560
Invitations and mailing	5,497
Other	344
Total	$ 11,040

(10) SPECIAL EVENTS, (continued)

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

		2012
Direct Benefit:		
Food	$	4,718
Indirect Benefit:		
Miscellaneous		223
Total	$	4,941

(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 2013 and 2012, the Foundation paid $20,988 and $6,232, respectively, to the firm for printing services.