# The University of Connecticut Foundation, Incorporated

**Consolidated Financial Statements**
**June 30, 2014 and 2013**

# The University of Connecticut Foundation, Incorporated
## Index
## June 30, 2014 and 2013

**Independent Auditor's Report**

To the Board of Directors of
The University of Connecticut Foundation, Incorporated:

We have audited the accompanying consolidated financial statements of University of Connecticut Foundation Incorporated (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Other Matters*

We have previously audited the Foundation's June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

As discussed in Note 1N to the accompanying financial statements, in 2014 the Foundation adopted Accounting Standard Update 2012-05, Statement of Cash Flow.

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### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Connecticut Foundation, Incorporated at June 30, 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 6, 2014

# The University of Connecticut Foundation, Incorporated
## Consolidated Statement of Financial Position
## June 30, 2014, with Comparative Totals for 2013
## (Dollars in Thousands)

| | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 2,568 | $ 3,726 |
| Restricted cash | 989 | 18,743 |
| Pledges receivable, net (Note 2) | 33,541 | 31,533 |
| Prepaid expenses and other receivables | 548 | 614 |
| Investments (Note 3) | 413,444 | 369,651 |
| Funds held in trust by others | 18,339 | 16,698 |
| Endowments held for the University | 12,176 | 10,518 |
| Cash surrender value of life insurance | 443 | 372 |
| Donated property and collections | 18 | - |
| Property and equipment, net (Note 5) | 7,326 | 6,662 |
| Deferred bond issuance costs, net | 536 | 584 |
| Total assets | $ 489,928 | $ 459,101 |
| **Liabilities and Net Assets** | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 10,697 | $ 5,880 |
| Trusts and annuities payable | 3,209 | 3,080 |
| Endowments held for the University | 12,176 | 10,518 |
| Accrued debt service interest | 119 | 124 |
| Capital lease obligations | 90 | - |
| Bonds and notes payable (Note 8) | 26,728 | 26,030 |
| Total liabilities | 53,019 | 45,632 |
| Net Assets (Note 9) | | |
| Unrestricted | | |
| Available for operations | 7,702 | 8,390 |
| Provision for underwater endowment | (6,250) | (15,807) |
| Funds functioning as endowments | 1,970 | 1,970 |
| Net assets not owned by Foundation | (18) | - |
| Total unrestricted | 3,404 | (5,447) |
| Temporarily restricted | | |
| Available for University support | 59,781 | 74,901 |
| Appreciation on endowment | 41,684 | 27,822 |
| Total temporary restricted | 101,465 | 102,723 |
| Permanently restricted | 332,040 | 316,193 |
| Total net assets | 436,909 | 413,469 |
| Total liabilities and net assets | $ 489,928 | $ 459,101 |

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

# The University of Connecticut Foundation, Incorporated
## Consolidated Statement of Activities and Changes in Net Assets
## For the Year Ended June 30, 2014, with Comparative Totals for 2013
## (Dollars in Thousands)

| | 2014 | | | | | | | | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | Unrestricted | | | Temporarily Restricted | | | Permanently Restricted | Total | Total |
| | Available for Operations | Endowment Activity | Total | Available for Univ Support | Endowment Activity | Total | Endowment Activity | | |
| **Revenues, gains and other support** | | | | | | | | | |
| Contributions | $ 1,219 | - | $ 1,219 | $ 22,164 | $ 113 | $ 22,277 | $ 11,101 | $ 34,597 | $ 44,418 |
| Net total investment return | 3,855 | 215 | 4,070 | 451 | 37,506 | 37,957 | 5,799 | 47,826 | 25,929 |
| Contractual payments from the University | 8,270 | - | 8,270 | - | - | - | - | 8,270 | 8,589 |
| Memberships and other income | 167 | - | 167 | 566 | - | 566 | - | 733 | 638 |
| Total revenues and gains | 13,511 | 215 | 13,726 | 23,181 | 37,619 | 60,800 | 16,900 | 91,426 | 79,574 |
| Net assets released from restrictions | 48,706 | - | 48,706 | (48,706) | - | (48,706) | - | - | - |
| Endowment spending allocation | 66 | (66) | - | 12,107 | (10,819) | 1,288 | (1,288) | - | - |
| Endowment and gift fees to fund Foundation operations | 3,800 | (20) | 3,780 | | (3,169) | (3,169) | (611) | - | - |
| Total revenues, gains and other support | 66,083 | 129 | 66,212 | (13,418) | 23,631 | 10,213 | 15,001 | 91,426 | 79,574 |
| **Expenses** | | | | | | | | | |
| **University support** | | | | | | | | | |
| Student Athtetic Basketball Center construction | 20,699 | - | 20,699 | - | | - | - | 20,699 | 5,000 |
| Faculty and staff compensation | 9,652 | - | 9,652 | - | - | - | - | 9,652 | 11,139 |
| Student scholarships, fellowships and awards | 8,846 | - | 8,846 | - | - | - | - | 8,846 | 8,375 |
| General program and research support | 4,558 | - | 4,558 | - | - | - | - | 4,558 | 4,221 |
| Fundraising, events, promotions and donor cultivation | 2,411 | - | 2,411 | - | - | - | - | 2,411 | 2,118 |
| Faculty, staff and student travel, conferences and meetings | 2,117 | - | 2,117 | - | - | - | - | 2,117 | 1,984 |
| Equipment | 2,116 | - | 2,116 | - | - | - | - | 2,116 | 1,740 |
| Facilities construction, improvements, and related expenses | 399 | - | 399 | - | - | - | - | 399 | 261 |
| Alumni Association | 138 | - | 138 | - | - | - | - | 138 | 232 |
| Total University support | 50,936 | - | 50,936 | - | - | - | - | 50,936 | 35,070 |
| **Foundation support** | | | | | | | | | |
| Development expenses | 13,166 | - | 13,166 | - | - | - | - | 13,166 | 11,499 |
| Fiduciary expenses | 3,902 | - | 3,902 | - | - | - | - | 3,902 | 3,476 |
| Total Foundation support | 17,068 | - | 17,068 | - | - | - | - | 17,068 | 14,975 |
| Total expenses | 68,004 | - | 68,004 | - | - | - | - | 68,004 | 50,045 |
| Transfers between net asset categories | 1,197 | - | 1,197 | (1,702) | (341) | (2,043) | 846 | - | - |
| Change in provision for underwater endowments | - | 9,428 | 9,428 | - | (9,428) | (9,428) | - | - | - |
| Less change in net assets not owned by Foundation | (18) | | (18) | | | | | (18) | - |
| Change in net assets | (706) | 9,557 | 8,851 | (15,120) | 13,862 | (1,258) | 15,847 | 23,440 | 29,529 |
| Net assets, beginning of year | 8,390 | (13,837) | (5,447) | 74,901 | 27,822 | 102,723 | 316,193 | 413,469 | 383,940 |
| Net assets, end of year | $ 7,684 | $ (4,280) | $ 3,404 | $ 59,781 | $ 41,684 | $ 101,465 | $ 332,040 | $ 436,909 | $ 413,469 |

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

# The University of Connecticut Foundation, Incorporated
## Consolidated Statement of Cash Flows
## For the Year Ended June 30, 2014, with Comparative Totals for 2013
## (Dollars in Thousands)

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 19,737 | $ 29,529 |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Net investment return | (42,739) | (25,623) |
| Cash gifts to establish or increase permanent endowments | (11,101) | (16,242) |
| Gifts of securities | (2,800) | (2,850) |
| Proceeds from sale of donated securities | 1,636 | 1,322 |
| Net (gain) loss from sale or disposal of property and equipment | (2) | 2 |
| Depreciation and amortization | 600 | 330 |
| (Increase) decrease in assets | | |
| Pledges receivable, net | (2,008) | 313 |
| Prepaid expenses and other receivables | 66 | (148) |
| Funds held in trust by others | (1,641) | (5,444) |
| University endowment funds | (1,658) | (312) |
| Cash surrender value of life insurance | (71) | (56) |
| Capital leases, net | (92) | - |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | 4,817 | 678 |
| Trusts and annuities payable | 129 | (35) |
| Endowments held for the University | 1,658 | 312 |
| Accrued debt service interest | (5) | (4) |
| Capital lease obligations | 90 | - |
| Total adjustments | (53,121) | (47,757) |
| Net cash used in operating activities | (33,384) | (18,228) |
| **Cash flows from investing activities** | | |
| Purchases of investments | (125,041) | (140,188) |
| Sales of investments and gifts of marketable securities | 127,672 | 142,006 |
| Proceeds (loss) from sale or disposal of asset | 5 | (2) |
| Disposals of property and equipment | 31 | - |
| Purchases of property and equipment | (1,145) | (923) |
| Net cash provided by investing activities | 1,522 | 893 |
| **Cash flows from financing activities** | | |
| Cash gifts to establish or increase permanent endowments | 11,101 | 16,242 |
| Proceeds from sale of donated securities restricted for endowment | 1,164 | 1,527 |
| Principal payments on capital lease obligations | (13) | - |
| Series C bond issuance proceeds | - | 20,000 |
| Series C bond issuance costs | - | (261) |
| Payments on bonds payable | 698 | (240) |
| Decrease (Increase) in cash restricted for debt service | 17,754 | (17,509) |
| Net cash provided by financing activities | 30,704 | 19,759 |
| Net (decrease) increase in cash and cash equivalents | (1,158) | 2,424 |
| Cash and cash equivalents at beginning of year | 3,726 | 1,302 |
| Cash and cash equivalents at end of year | $ 2,568 | $ 3,726 |
| Supplemental disclosure of cash flow information: | | |
| Gifts of securities | $ 2,800 | $ 2,850 |
| Cash paid during the year for interest | 611 | 284 |

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

## 1. Summary of Significant Accounting Policies

### A. Organization

The University of Connecticut Foundation, Incorporated (the "Foundation") was established in 1964 as an independent, privately governed, not-for-profit corporation, chartered under the laws of the State of Connecticut.

The Foundation operates exclusively for charitable and educational purposes to promote and assist the University of Connecticut (the "University"). The Foundation solicits and accepts donations of property, money and securities, and invests and administers such assets. The Foundation disburses funds in accordance with the terms under which they were given to aid, supplement, improve and enlarge the educational, cultural, recreational, and research activities and facilities of the University. The Foundation fulfills this mission primarily through fundraising and asset management functions. More detailed information regarding the Foundation and its charitable activities can be obtained from the Foundation's website at www.foundation.uconn.edu.

### B. Basis of Presentation

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and include the Foundation's and The University of Connecticut Research and Development Corporation's ("R&D Corporation", doing business as UConn Ventures, Inc.) (see Note 4) assets, liabilities, net assets, revenues and expenses. All significant inter-organization accounts have been eliminated.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Net assets, revenues and expenses are classified based on the terms of donor-imposed restrictions, if any. Accordingly, the net assets, revenues, and expenses of the Foundation are classified and reported as follows:

Unrestricted: Unrestricted net assets are not subject to restrictions other than donor-imposed to benefit the Foundation and board designated restrictions to support the University. Such assets include unrestricted gifts, investment earnings generated on unrestricted and temporarily restricted unspent funds and assets functioning as endowment. Also included in unrestricted net assets, is the equity of the R&D Corporation, and accumulated net investment losses, spending and administrative fees in excess of accumulated net investment gains generated from permanently restricted gifts to endowment.

Temporarily restricted: Temporarily restricted net assets are subject to donor-imposed purpose or use restrictions to benefit a specific school, department or program of the University that have not yet been met through the disbursement of such assets for their restricted purposes. Such assets and activity primarily include restricted, non-endowed gifts, and net total unexpended investment return generated from permanently restricted gifts to endowment as well as trusts and annuities whose ultimate purpose is not permanently restricted.

Permanently restricted: Permanently restricted net assets are subject to donor-imposed restrictions and must be maintained in perpetuity by the Foundation. Generally, such assets represent the historic dollar value of restricted endowment gifts plus those unspent balances of spending allocations that were explicitly required to be reinvested under the donor-stipulated terms of the endowment funds as well as trusts and annuities whose ultimate purpose is to be maintained in perpetuity. Such assets also include accumulated net total investment losses where the donor-stipulated terms of the endowment funds allow such treatment. Additional information on net assets relative to endowment returns is included in Note 1H.

All amounts in the following notes are displayed in the thousands.

**C. Use of Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. The Foundation's significant estimates include the valuation of its investments, the collectability of receivables and the present value of the liability for future payments related to trust and annuity agreements.

**D. Contribution Revenue Recognition**

Philanthropic commitments are recognized as revenues when unconditionally pledged, or when a condition on a gift or pledge is met. Outright contributions are recognized as revenue when received. Gifts of real estate, buildings and equipment, marketable securities and other donated property are recorded at their estimated fair value on the date of the gift.

Gifts are reported as restricted contributions if received with donor restrictions that designate the use of donated assets as to purpose or time. When a donor restriction is met (usually by the disbursement of the asset to benefit the University in accordance with the donor restriction), temporarily restricted net assets are reported in the consolidated statement of activities and changes in net assets as released from restrictions.

Pledges receivable represent outstanding unconditional promises by donors to make contributions to the Foundation. Unconditional promises to give that are expected to be collected within one year of the consolidated statement of financial position date are recorded at face value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated realizable future contribution amounts. The discount rates used to determine present values are an interest rate that reflects fair value applicable to the year in which the promises to give were received; the amortization of the related discount is subsequently included in contribution revenues. Contribution revenue recorded from pledges is reflected in unrestricted, temporarily, or permanently restricted net assets, depending on donor restrictions, if any (see Note 2).

The Foundation uses a combination of specific reserve and estimate of remaining uncollectible accounts to determine the total allowance for uncollectible pledges. As of June 30, 2014 the estimate of remaining uncollectible accounts was 1% on pledges to non-athletic accounts and pledges to the Student Basketball Development Center, endowed and restricted pledges made to athletic accounts had a reserve rate of 2% and 5%, respectively.

Conditional promises to give are not recorded as revenue until they become unconditional, which is when the conditions on which they depend are substantially met.

**E. Cash and Cash Equivalents, and Restricted Cash**

The Foundation generally considers short-term, highly liquid financial instruments to be cash equivalents. Cash equivalents consist of time deposits and short-term investments with maturities of 90 days or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value. Cash and cash equivalents that are discretionary components of long-term portfolios managed by professional investment management firms hired by the Foundation are classified as investments (see Note 3).

Cash restricted for debt service is $887 and $18,493 as of June 30, 2014 and 2013, respectively, and is comprised of debt service reserve and amounts payable to bondholders on July 1 required to be on deposit with the bond trustee at June 30 (See Note 8). The Board of Directors of the R&D Corporation has restricted cash of $102 and $250, respectively. This cash can be drawn down as needed with formal Board approval.

**F. Investments**

Investments are reported at fair value (see Note 3). The valuation of marketable securities is based upon quoted market prices and exchange rates, if applicable. Fair values for private equity, real estate, and other investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not ascertainable. The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. As of June 30, 2014 and 2013, investments in securities whose fair values are not readily determinable (level 3) accounted for 33% and 35% of all investments, respectively. Because they are not readily determinable, the fair values may differ from the values that would have been used had a ready market for these investments existed. Unrealized gains and losses that result from market fluctuations are recognized in the period in which the fluctuations occur. Investment management fees are netted against total investment return.

Net investment return (defined as dividends, interest, and net realized and unrealized gains and losses on investments, net of investment management fees), is reported as follows:

As increases or decreases in temporarily restricted net assets if the terms of the underlying endowment funds designate the purpose for specific schools, departments, programs or otherwise stipulated by the donor;

As increases or decreases in unrestricted net assets if the terms of the underlying individual endowment funds and gifts are Board-designated;

As decreases in unrestricted net assets to the degree the endowment fair value has fallen below the historic dollar value of the endowment fund, unless the donor has stipulated such losses may reduce historic dollar value and are then recorded as part of permanently restricted net assets;

As increases or decreases in unrestricted net assets if the terms of the underlying individual funds and gifts are not endowed; or

As increases or decreases in permanently restricted net assets if there is a change in the present value of an annuity or trust due to the passage of time or changes in actuarial life expectancies.

### G. Endowment Spending Allocation and Administrative Fee

The endowment spending policy adopted by the Foundation's Board of Directors, in conjunction with the strategic asset allocation policy for the long-term pooled investment portfolio, is designed to provide reliable growth in annual spending allocation levels and to preserve or increase the real value of the endowment principal, over time. To meet these objectives, the Foundation utilizes a total return investment approach, with total return consisting of interest and dividends, and realized and unrealized gains and losses, net of management fees.

The spending allocation distributed in support of designated purposes was $12,173 and $11,127 for the years ended June 30, 2014 and 2013, respectively.

The Foundation’s endowment spending allocation policy adheres to the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA considers prudence in maintaining an endowment fund in perpetuity. Spending can occur from an endowment fund whose fair value is below its historic value as long as the governing body has determined that its policies will continue the perpetual nature of the endowment over time.

Endowment spending allocation calculations are performed for individual endowment funds at a rate of 4.25 % of the rolling 12 quarter average market value on a unitized basis on March 31st each year for the following fiscal year beginning July 1st. The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

An administrative fee is assessed to fund expenses incurred in meeting the Foundation's fiduciary and fundraising responsibilities to donors and the University. This on-going administrative fee is also assessed based on a rolling 12 quarter unitized market value calculated on March 31st for the following fiscal year beginning July 1st at a rate of 1.25%. The calculated fee is charged in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

The endowment spending allocation and administrative fee taken together cannot exceed 6.5% or fall below 3.0% of the fair value of endowment funds at March 31st. Should this occur, the calculated amounts will be decreased or increased, respectively, on a pro rata basis.

Over the long term, the Foundation expects the current spending allocation and administrative fee policies to allow endowments to grow at least at the annualized rate of inflation on average. This is consistent with the organization's objective of providing resources for the underlying purposes of endowment assets over the life of the endowments whether in perpetuity or for a specified term, as well as to provide additional growth through new gifts and investment return.

**H. Net Asset Treatment Associated with Endowment Returns**

To the extent that realized and unrealized losses, spending allocations, and administrative fees are in excess of accumulated gains for certain endowment funds, they are reported as decreases in unrestricted net assets in accordance with accounting standards on not-for-profit investments except as otherwise stipulated by the donor.

The Foundation is required to administer all endowment funds in accordance with the provisions of Connecticut's UPMIFA statute. Unlike endowment accounting pronouncements, UPMIFA does not require that such investment losses be replenished or funded by unrestricted net assets. The inconsistencies between accounting pronouncements and UPMIFA intersect in periods of market decline. The differences have no impact on total net assets, but rather impact the presentation between the unrestricted net asset category and the temporarily restricted net asset category.

On the consolidated statement of financial position and the consolidated statement of activities and changes in net assets, market losses and administrative fees that would otherwise cause a reduction in restricted net assets under UPMIFA are offset by a reclassification from unrestricted net assets (provision for underwater endowment), except when the donor has stipulated market losses may be recorded as permanently restricted net assets, consistent with accepted best practices.

## I. Funds Held in Trust by Others

The Foundation is irrevocably named as a beneficiary of funds held by third-party trustees, the purpose of which may be restricted by the donor. Generally, the Foundation will receive a specified portion of the assets remaining when third-party trusts are terminated. The present value of the amounts to be received upon termination is recorded by the Foundation as an asset on the consolidated statement of financial position and contribution revenue on the consolidated statement of activities and changes in net assets using discount rates of 1.70% to 2.58% for 2014 and 1.39% to 3.96% for 2013. Trusts held in perpetuity are reported at their fair value. Funds held in trust by others totaled $18,339 and $16,698 at June 30, 2014 and 2013, respectively, and are considered Level 3 financial instruments (see Note 3 for discussion of classification of fair value measurements). At the time the Foundation is notified of the funding of a third-party trust, the fair value of the Foundation's interest in the trust is recorded as contribution revenue. Any distributions from perpetual trusts are recorded as investment income.

Following is a reconciliation of funds held in trust by others in which significant unobservable inputs (Level 3) were used in determining value:

| | 2014 | 2013 |
|---|---|---|
| Balance as of July 1, 2013 and 2012 | $ 16,698 | $11,254 |
| Change in fair value | 1,641 | 910 |
| Net contributions/distributions | - | 4,534 |
| Balance as of June 30, 2014 and 2013 | $ 18,339 | $16,698 |

## J. Trusts and Annuities

The Foundation is named as the trustee and remainder beneficiary of several charitable remainder trusts. In addition, the Foundation has entered into contracts with donors for charitable gift annuities for which the Foundation has accepted contributions. These trust and annuity asset amounts are carried at their net present value and generally require that the income earned on the funds be accumulated or distributed in accordance with the respective trust or gift agreements. The trust and annuity assets are included in either the temporarily or permanently restricted net asset classifications based on the donor restrictions for the remainder asset. The difference between the amounts contributed to establish a charitable trust or charitable gift annuity and the present value of the liability for future payments, determined using actuarial life expectancies and discount rates ranging from 1.2% to 8.8% for 2014 and 1.2% to 8.8% for 2013, is recognized as contribution revenue at the date of the gift. Changes in the present value of the liability due to the passage of time and changes in actuarial life expectancies are reported as part of net total investment return in the consolidated statements of activities and changes in net assets.

Included in investments are assets for charitable remainder trusts and annuities totaling $5,469 and $5,167 as of June 30, 2014 and 2013, respectively.

**K. Property and Equipment for Operations**

Property and equipment are stated at cost. Depreciation of property and equipment is charged to expense on a straight-line basis over their estimated useful lives which range from 3 to 40 years. Expenditures for repairs and maintenance are expensed as incurred. Costs directly related to software development and acquisition, are capitalized until the asset is placed in service.

**L. Retirement Plan**

The Foundation sponsors The University of Connecticut Foundation, Inc. Retirement Annuity Plan (the "Plan"), which is a fully funded, qualified plan under Section 403(b) of the Internal Revenue Code. The Plan covers all full time and certain part time employees, excluding students. Participants are required to contribute 3% of regular salary, with the Foundation contributing 8% of each participant's salary. Participants hired prior to January 1, 2011 are fully and immediately vested in all plan contributions (participant and Foundation) when such contributions are made. Participants hired on or after January 1, 2011 are subject to three year cliff vesting for Foundation contributions to the plan. The unvested amount as of June 30, 2014 is $440. Included in Foundation support expenses are Plan contributions of $669 and $646 for the years ended June 30, 2014 and 2013, respectively.

**M. Income Taxes**

The Foundation has a letter of exemption from federal income tax from the Internal Revenue Service under Section 501(c) (3) of the Internal Revenue Code.

**N. Implementation of New Accounting Standard**

The Foundation implemented Accounting Standard (ASU) 2012-05, classification of the sale proceeds of donated financial assets in the statement of cash flows. As a result net cash used in operating activities increased by $1,322, net cash provided by investment activities decreased by $2,849 and net cash provided by financing activities increased by $1,527 for the year ended June 30, 2013.

**O. Subsequent Events**

The Foundation has performed an evaluation of subsequent events through October 6, 2014, which is the date the consolidated financial statements were issued. There were no subsequent events identified that require disclosure.

## 2. Pledges Receivable, Net

Pledges receivable include unconditional promises to give:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Pledges | $ 37,021 | $ 35,813 |
| Less: allowance for uncollectible pledges | (1,390) | (1,682) |
| Less: discount to record net realizable pledges at net present value | (2,090) | (2,598) |
| Pledges receivable, net | $ 33,541 | $ 31,533 |

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Net pledge receivable amounts due in: | | |
| Less than one year | $ 11,325 | $ 9,668 |
| One to five years | 19,769 | 19,634 |
| More than five years | 1,590 | 1,616 |
| Net contributions receivable from deferred gifts | 857 | 615 |
| Total | $ 33,541 | $ 31,533 |

The interest rates used in the computation of the discount ranged from 1.0% to 5.0% for 2014 and 2013.

As of June 30, 2014 and 2013, the balance due on conditional promises to give was $6,533 and $2,998 respectively. Because of their conditional nature, these gifts have not been recognized as contribution revenue by the Foundation.

## 3. Investments

In accordance with the accounting pronouncement on fair value measurements, fair value is defined as the price that the Foundation or its investment manager would receive upon selling an investment in an orderly transaction between market participants in the principal or most advantageous market at the measurement date. A three-tier hierarchy is established, based on inputs to valuation techniques, to maximize the use of observable market data and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the investment, including assumptions about risk. Input may be observable or unobservable. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the investment based on market data obtained from sources independent of the investment manager or Foundation. Unobservable inputs are inputs that reflect the Fund's own assumptions about the assumptions market participants would use in pricing the investment based on the best information available in the circumstances.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical investments that the Foundation has the ability to access at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an investment. These inputs include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, and inputs other than quoted prices that are observable for the investment, for example interest rate and yield curves, volatilities, prepayment rates and credit risk among others. These are inputs that are derived principally from or corroborated by observable market data by correlation or other means. Certain investments defined as Level 2 are in the form of commingled funds, the shares of which are not publicly traded, where the valuation of the underlying securities held in the fund is taken from quoted prices in active markets.

- Level 3 – Inputs that are unobservable inputs for the investment that are used to measure fair value when observable inputs are not available. Unobservable inputs reflect the Foundation's or its investment manager's own assumptions about the assumptions that market participants would use in pricing the investment. These inputs are developed based on the best information available in the circumstances, which might include the Foundation's or its investment manager's own data. The investment portfolio is shown below at fair value by investment asset class and hierarchy.

| | June 30, 2014 | | | | June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in Thousands) | | | | | | | |
| Cash and cash equivalents | $ 1,051 | $ - | $ - | $ 1,051 | $ 2,592 | $ - | $ - | $ 2,592 |
| Fixed income securities: | | | | | | | | |
| U.S. treasury securities | 14,325 | - | - | 14,325 | 13,811 | - | - | 13,811 |
| Corporate investment grade | 76,915 | 3,091 | - | 80,006 | 78,605 | 2,968 | - | 81,573 |
| Corporate high yield | - | 12,935 | - | 12,935 | - | 12,710 | - | 12,710 |
| Equity securities: | - | - | - | | - | - | - | |
| Real estate | - | 3,673 | - | 3,673 | - | 3,198 | - | 3,198 |
| Other | 85,930 | 37,083 | - | 123,013 | 52,726 | 40,676 | - | 93,402 |
| Private capital: | - | - | - | | - | - | - | |
| Buyout/venture capital | - | - | 33,970 | 33,970 | - | - | 33,164 | 33,164 |
| Debt | - | - | 16,074 | 16,074 | - | - | 13,277 | 13,277 |
| Royalties | - | - | 13,456 | 13,456 | - | - | 13,364 | 13,364 |
| Long/short equities | - | 35,725 | 29 | 35,754 | - | 29,579 | 29 | 29,608 |
| Global macro | - | - | 8,105 | 8,105 | - | - | 8,601 | 8,601 |
| Private real estate | - | - | 25,084 | 25,084 | - | - | 24,011 | 24,011 |
| Private natural resources | - | - | 17,430 | 17,430 | - | - | 12,979 | 12,979 |
| Event driven | - | - | - | - | - | - | - | - |
| Relative value | - | 4,996 | 23,572 | 28,568 | - | 4,651 | 22,710 | 27,361 |
| Total investments | $ 178,221 | $ 97,503 | $ 137,720 | $ 413,444 | $ 147,734 | $ 93,782 | $ 128,135 | $ 369,651 |

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

| | Balance at July 1, 2013 | Net income/ (expense) | Net realized gains/(losses) | Change in unrealized gains/(losses) | Contributions | Distributions | Transfers into Level 3 | Transfers out of Level 3 | Balance at 6/30/2014 |
|---|---|---|---|---|---|---|---|---|---|
| Level 3 assets | | | | | | | | | |
| Private capital | $ 59,806 | $ 148 | $ 3,869 | $ 4,408 | $ 7,442 | $ (12,173) | $ - | $ - | $ 63,500 |
| Long/short equities | 29 | - | - | - | - | - | - | - | 29 |
| Global macro | 8,601 | (136) | - | (360) | - | - | - | - | 8,105 |
| Private real estate | 24,011 | 2,725 | 1,796 | (1,321) | 10,810 | (12,937) | - | - | 25,084 |
| Private natural resources | 12,979 | (532) | 640 | 2,798 | 3,261 | (1,716) | - | - | 17,430 |
| Relative value | 22,709 | (928) | - | 3,311 | - | (1,520) | - | - | 23,572 |
| Total level 3 assets | $ 128,135 | $ 1,277 | $ 6,305 | $ 8,836 | $ 21,513 | $ (28,346) | $ - | $ - | $ 137,720 |

Net change in unrealized gains (losses) from investments still held as of June 30, 2014 is $8,836.

Net asset values provided by third-parties have been utilized in determining fair value where there are significant unobservable inputs related to Level 3 assets, as all investments have been made through commingled fund structures with no direct ownership, or are Funds Held in Trust by Others (see Note 1I). Investment managers utilize outside pricing services and administrators as well as their own internal valuation models in determining and verifying fair values. The Foundation performs ongoing due diligence with the investment managers that include evaluation of manager operations and valuation procedures, site visits, investor calls, review of manager filings and audited financial statements among other items. The Foundation's Investment Committee of the Board of Directors monitors performance of investment managers and meets formally with the managers on a periodic basis in addition to the ongoing due diligence performed by Foundation investment staff.

At June 30, 2014, the Foundation had investments in Level 3 assets, primarily through investment partnerships, valued at $134 million based on the unadjusted net asset value reported by the investment managers.

Following is additional information relating to investments whose fair value is derived either principally from observable market transactions other than quoted market prices, or from unobservable inputs.

| Investment strategy | Fair value | Unfunded commitments | Remaining life | Redemption terms | Redemption restrictions | Redemption restrictions in place at June 30, 2013 |
|---|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | | |
| Private capital partnerships including venture, buyout, and distressed in the U.S. and international | $ 63,500 | $ 43,345 | <1 to 7 years | Not redeemable | Not redeemable | Not redeemable |
| Long/short equity hedge funds in the U.S. | 29 | - | <2 years | Not redeemable | None | None |
| Global macro hedge funds in futures and forwards markets | 8,105 | - | Evergreen | Monthly with 3 months notice | None | None |
| Private real estate partnerships in commercial, residential, office, and industrial properties | 25,084 | 7,753 | 1 to 8 years | Not redeemable | Not redeemable | Not redeemable |
| Natural resource partnerships in energy and timber | 17,430 | 4,314 | 13 years | Not redeemable | Not redeemable | Not redeemable |
| Relative value arbitrage, multi-strategy, and credit hedge funds | 23,572 | - | Evergreen | Quarterly with 60 - 180 days notice | None | None |
| Total | $ 137,720 | $ 55,412 | | | | |

Net total investment return is summarized as follows:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Interest and dividends | $ 9,997 | $ 7,007 |
| Realized gains | 11,870 | 10,516 |
| Unrealized gains | 30,825 | 12,859 |
| Professional asset management and custodian fees | (4,866) | (4,453) |
| Net investment return | $ 47,826 | $ 25,929 |

## 4. University of Connecticut Research and Development Corporation

The Foundation is the sole shareholder of the R&D Corporation, a for-profit corporation duly established in the State of Connecticut in 1984.

The R&D Corporation was established to assist in the efficient transfer of innovative technologies and processes developed by the faculty and staff of the University, through the creation of new commercial enterprises.

During the years ended June 30, 2014 and 2013, the R&D Corporation incurred expenses of $1,453 and $773 respectively, which were primarily for salaries and benefits for staff and outside professional services. For the years ended June 30, 2014 and 2013 there were no significant revenues generated.

The R&D Corporation has eight investments as of June 30, 2014. R&D Corporation has controlling interest in four companies and equity interests in three companies. The net carrying value of the equity interests currently held as an investment loss of $17. The companies held with a controlling interest are consolidated at 100% as of June 30, 2014. The non-controlling interest in the companies is as follows:

| Company | Non-controlling interest |
|---|---|
| Alphachromics, Inc. | 39% |
| Cornovus Pharmaceuticals, Inc. | 46% |
| Natural Polymer Devices, Inc. | 30% |
| True Logic Technologies, Inc. | 30% |

Changes in unrestricted net assets attributable to the Foundation are as follows:

| | Foundation | Non-controlling Interest | Total |
|---|---|---|---|
| Unrestricted net assets at June 30, 2013 | $ (5,447) | $ - | $ (5,447) |
| Change in net assets | 8,869 | (18) | 8,851 |
| Unrestricted net assets at June 30, 2014 | $ 3,422 | $ (18) | $ 3,404 |

One investment is accounted for using the cost method of accounting. As of June 30, 2014 the carrying value of the interest was insignificant.

An employee of the R&D Corporation is a member of each of the Boards of Directors of seven of the companies, acting as a representative on behalf the R&D Corporation.

## 5. Property and Equipment

Depreciation expense was approximately $552 and $299 for property and equipment used for Foundation operations for the years ended June 30, 2014 and 2013, respectively.

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Building and improvements | $ 6,701 | $ 6,074 |
| Land | 201 | - |
| Furniture and equipment | 1,506 | 1,525 |
| Vehicles | 48 | 48 |
| Fundraising system conversion in progress | - | 2,482 |
| Fundraising system | 2,519 | - |
| Subtotal | 10,975 | 10,129 |
| Less: accumulated depreciation | (3,649) | (3,467) |
| | $ 7,326 | $ 6,662 |

## 6. Cash Surrender Value of Life Insurance

Life insurance policies donated to the Foundation have been recorded as contributions and assets at their respective cash surrender values in the year of donation. Any changes in the cash surrender values after donation are offset against life insurance premiums expense in the year of the change. The Foundation will receive the face value of these policies upon their maturation. The face value of these policies as of June 30, 2014 was $4,285 and June 30, 2013 was $4,270 while their aggregate cash surrender value was $443 and $372, respectively.

## 7. Operating Lease

During fiscal year 2006 the Foundation entered into a ten year lease agreement to rent office space for the Foundation staff that support fundraising operations for the University of Connecticut Health Center. The total amount paid for the lease during the year ended June 30, 2014 was approximately $103. The future minimum lease payments are as follows:

| Year Ending June 30, (Dollars in Thousands) | |
|---|---|
| 2015 | 103 |
| 2016 | 69 |
| | $ 172 |

## 8. Bonds Payable

In April 2013 the Foundation entered into a loan agreement with Connecticut Health and Education Facilities Authority to issue Series C revenue bonds to Wells Fargo Municipal Capital Strategies, LLC, the proceeds of which were used to fund the construction of the Basketball Student-Athlete Development Center on the University of Connecticut campus in Storrs. The Foundation commits that it will provide financial support up to $33,000, inclusive of the $20,000 bond financing. As of June 30, 2014, $25,278 has been provided to the University, and an additional $440 was spent for demolition and preparation of the construction site.

Bonds payable at June 30 consist of the following obligations:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Connecticut Health and Education Facilities Authority 1.90% Series C Revenue Bonds sinking fund payments including principal and interest ranging from $2,504 to $2,532, payable on April 1st from 2016 through 2023. | $ 20,000 | $ 20,000 |
| Connecticut Health and Education Facilities Authority 3.875% - 5% Series B Revenue Bonds due in installments including principal and interest payments ranging from $253 to $498, payable July 1st each year through 2024. | 3,555 | 3,810 |
| Connecticut Health and Education Facility Authority 4.125% Series B Term Bond due July 1, 2029. | 2,220 | 2,220 |
| Total bonds payable | $ 25,775 | $ 26,030 |

As of June 30, 2014 the consolidated companies of R&D Corporation had $953 in notes payable, in aggregate.

CHEFA Series B bondholders are paid interest each January 1 and July 1, and principal each July 1. CHEFA Series C bondholders are paid interest monthly on the 1st. The maturity of long-term debt based on the payment schedules to the bondholders is as follows (in thousands):

| | |
|---|---|
| 2015 | 265 |
| 2016 | 270 |
| 2017 | 2,785 |
| 2018 | 2,795 |
| 2019 | 2,805 |
| Thereafter | 16,855 |
| | $ 25,775 |

For the retirement of the Series B term bonds maturing on July 1, 2029, the loan agreement requires the establishment of a sinking fund to be funded on July 1, 2025 and on each July 1 thereafter as follows:

| | |
|---|---|
| 2025 | $ 410 |
| 2026 | 425 |
| 2027 | 445 |
| 2028 | 460 |
| 2029 | 480 |
| | $ 2,220 |

The following restricted funds and their balances at June 30, 2014 and 2013 have been established in accordance with the Series B Loan, and are presented as cash restricted for debt service in the accompanying statement of financial position:

| | 2014 | 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Debt Service Reserve Fund | $ 503 | $ 503 |
| Principal and Interest Payment Fund | 384 | 379 |
| | $ 887 | $ 882 |

The portion of bond proceeds which funded costs of issuance, together with costs funded by Foundation operations relating to issuance costs, has been recognized as deferred bond issuance costs on the accompanying consolidated statements of financial position and is amortized over the life of the bond. Amortization expense recognized for the years ended June 30, 2014 and 2013 is $48 and $35, respectively, and is included in Foundation support expenses.

Interest cost attributable to the Visitor's Center for the University is included in University support expenses and net interest cost attributable to the Foundation office building is included in Foundation support expenses as follows:

| | 2014 | 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| University support expenses | $ 37 | $ 39 |
| Foundation support expenses | 201 | 208 |
| | $ 238 | $ 247 |

The estimated fair value of the Series B bonds payable at June 30, 2014 and 2013 is $6,223 and $6,457, respectively.

The estimated fair value of the Series C bonds payable at June 30, 2014 is $19,636

## 9. Endowment Net Assets

The Foundation's endowment net assets consist of approximately 1,400 individual funds established for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment.

The Board of Directors of the Foundation has interpreted Connecticut UPMIFA as requiring prudent management of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by Connecticut UPMIFA. In accordance with Connecticut UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The Foundation had the following endowment activity during the years ended June 30, 2014 and 2013 delineated by net asset class and donor-restricted vs. Board-designated funds:

| | For the Year Ended June 30, 2014 (Dollars in Thousands) | | | | | 2013 |
|---|---|---|---|---|---|---|
| | Unrestricted | | Donor-restricted | | | |
| | Board Designated | Provision For Underwater Endowments | Temporarily | Permanently | Total | Total |
| Endowment net assets, beginning balance | $ 1,970 | $ (15,807) | $ 27,822 | $ 316,193 | $ 330,178 | $301,637 |
| Contributions | - | - | 113 | 11,101 | 11,214 | 16,381 |
| Net total investment return & other income | 215 | - | 37,506 | 5,799 | 43,520 | 25,956 |
| Endowment spending allocation | (66) | - | (10,819) | (1,288) | (12,173) | (11,127) |
| Endowment and gift fees to fund Foundation operations | (20) | - | (3,169) | (611) | (3,800) | (3,628) |
| Transfers between net asset categories | - | - | (341) | 846 | 505 | 959 |
| Change in provision for underwater endowments | (129) | 9,557 | (9,428) | - | - | - |
| Endowment net assets, ending balance | $ 1,970 | $ (6,250) | $ 41,684 | $ 332,040 | $ 369,444 | $330,178 |

The components of permanently restricted and temporarily restricted net assets are as follows (Endowment only)

| | 2014 | 2013 |
|---|---|---|
| **Permanently restricted net assets** | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by Connecticut UPMIFA: | | |
| Restricted for scholarship support | $ 124,464 | $ 121,881 |
| Restricted for faculty support | 89,514 | 85,553 |
| Restricted for program support | 118,062 | 108,759 |
| Total endowment assets classified as permanently restricted net assets | $ 332,040 | $ 316,193 |
| **Temporarily restricted net assets** | | |
| Term endowment funds | | |
| Restricted for scholarship support | $ 1,030 | $ 1,021 |
| Restricted for faculty support | 2,442 | 2,158 |
| Restricted for program support | 3,355 | 3,054 |
| | 6,827 | 6,233 |
| The portion of perpetual endowment funds subject to a time restriction under Connecticut UPMIFA: | | |
| Restricted for scholarship support | 10,077 | 4,500 |
| Restricted for faculty support | 15,213 | 11,158 |
| Restricted for program support | 9,567 | 5,931 |
| Total endowment funds classified as temporarily restricted net assets | $ 41,684 | $ 27,822 |

### Objectives and strategies

Endowment assets are long-term in nature and managed as such on a total return basis. There are certain short-term considerations in constructing the endowment investment portfolio, such as spending allocations and annual operating support. However, the assets can tolerate a reasonable level of short-term volatility in the interest of maximizing long-term performance. In order to attain the varied investment objectives, a proper balance must be struck between return and risk. With a proper risk/return profile, the Foundation believes maintaining real purchasing power of the spending allocation and meeting annual funding needs can be achieved over time through the asset allocation and spending policies adopted by its Board of Directors.

The Foundation utilizes a diversified asset allocation consisting of: growth strategies - primarily equity-based investments; inflation hedging strategies to protect against inflation and provide purchasing power - strategies with significant correlations to inflation; and risk minimizing strategies to reduce volatility and preserve capital - fixed income and other strategies with low correlations to equities. Investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends).

## 10. University Support

The Foundation, at the direction of its donors, makes payments on behalf of or directly to the University in support of the University's mission. Such amounts are classified as University Support on the consolidated statement of activities and changes in net assets. There are two primary sources of Foundation funds available to the University: charitable gifts and philanthropic grants contributed to the Foundation that are immediately available for expenditure, and spending allocation from the accumulated investment earnings of individual endowment funds (Note 1G). Total funds disbursed by the Foundation in support of the University in accordance with the donated purpose were $50,936 and $35,070 for the years ended June 30, 2014 and 2013, respectively. Fluctuations in spending are driven by the current needs of the University.

## 11. Related Party Transactions

In December 1994, the Foundation assumed primary responsibility for the fundraising program conducted for the benefit of the University and, in June 1995, the Foundation assumed responsibility for related advancement services. The relationship, roles and arrangements between the Foundation and the University are documented in an Agreement dated December 1, 1994 (the "Agreement"), and in a Memorandum of Understanding (the "MOU"), which is updated on a one or two year basis. In payment for fundraising and other services outlined in the MOU, the Foundation recorded revenue from the University of $8,270 and $8,589 for 2014 and 2013, respectively. The 2013 total includes $550 for technology transfers that have been used in support of R&D Corporation operation. The R&D Corporation received $103 in support from the University in 2014.

The University of Connecticut Foundation has a contractual arrangement with the University of Connecticut to act as the University's agent in managing their endowed assets. The endowments are invested in a manner consistent with the Foundation's endowments. The Foundation has elected to disclose the fair value of the endowed assets on the balance sheet with an offsetting liability. The University's endowment had a fair value of $12,176 and $10,518 as of June 30, 2014 and 2013 respectively.

The Foundation has recorded a liability due to the University of approximately $7,529 and $3,189 as of June 30, 2014 and 2013 respectively, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. The majority of this represents year end funding requests by the University not yet funded by the Foundation. In addition, at the request of the University of Connecticut Board of Trustees, the Foundation's Board of Directors agreed in 1996 to help fund a deferred compensation package for the former University's President which is included in the Foundation's liabilities. There was no amount due from the University at June 30, 2014 and 2013.

The Foundation office building is owned by the Foundation and was constructed on approximately 1.58 acres of land owned by the University, which the University has leased to the Foundation pursuant to the terms of a ground lease (the "Lease") at an annual rental of $1.00. The initial term of the Lease is ninety-nine years and the Foundation has the right to extend the term of the Lease for ninety-nine additional years. The Lease provides that at its expiration or earlier termination, unless it is extended, the Foundation shall surrender the premises, and title to the building will then vest in the University. The Lease may be terminated by the University upon a breach by the Foundation of any of the terms and conditions of the Lease. The University must notify the Foundation of any such breach and allow 30 days for the Foundation to cure the breach.