

**FORT LEWIS COLLEGE
FOUNDATION**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2017 and 2016

FORT LEWIS COLLEGE FOUNDATION

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FREDRICKZINK & Associates

A professional corporation. | CPAs

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Fort Lewis College Foundation
Durango, Colorado

We have audited the accompanying financial statements of Fort Lewis College Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and of cash flows for the years 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 the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Lewis College Foundation as of June 30, 2017 and 2016, 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.

FredrickZink & Associates, PC

FredrickZink & Associates, PC
September 14, 2017

FINANCIAL STATEMENTS

FORT LEWIS COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (Note 3).....	\$ 732,888	\$ 307,276
Investments (Note 3).....	18,585,662	17,183,850
Pledges receivable (Note 7).....	401,061	285,900
Beneficial interest in assets held by others (Note 5).....	64,618	94,926
Tangible assets, net (Note 8).....	7,610,793	7,547,438
Total assets	<u>\$ 27,395,022</u>	<u>\$ 25,419,390</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses.....	\$ 1,631	\$ 16,811
Due to Fort Lewis College (Note 14).....	200,660	132,773
Gift annuity obligation payable (Note 5).....	3,696	4,256
Margin loan (Note 9).....	932,294	-
Line of credit (Note 9).....	-	1,045,033
Total liabilities	<u>1,138,281</u>	<u>1,198,873</u>
Net assets		
Unrestricted		
General unrestricted.....	2,061,661	1,627,319
Board designated endowments (Notes 10 and 15).....	1,434,032	1,368,269
Other board designations (Note 10).....	268,258	265,816
Gifts-in-kind and other tangible assets (Note 8).....	1,118,750	1,137,500
Total unrestricted net assets	<u>4,882,701</u>	<u>4,398,904</u>
Temporarily restricted		
Scholarships, awards and other.....	4,954,529	4,033,363
Endowment funds (Note 15).....	1,702,249	1,410,542
Gifts-in-kind and other tangible assets (Note 8).....	3,697,498	3,615,393
Total temporarily restricted net assets	<u>10,354,276</u>	<u>9,059,298</u>
Permanently restricted (Note 12)		
Endowment funds (Note 15).....	8,225,219	7,967,770
Gifts-in-kind and other tangible assets (Note 8).....	2,794,545	2,794,545
Total permanently restricted net assets	<u>11,019,764</u>	<u>10,762,315</u>
Total net assets	<u>26,256,741</u>	<u>24,220,517</u>
Total liabilities and net assets	<u>\$ 27,395,022</u>	<u>\$ 25,419,390</u>

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

FORT LEWIS COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets at beginning of year.....	\$ 4,398,904	\$ 9,059,298	\$ 10,762,315	\$ 24,220,517
Support, revenue and gains				
Donations - cash.....	175,660	2,254,577	160,727	2,590,964
Donations - marketable securities.....	24,955	4,650	1,247	30,852
Donations - gifts-in-kind and other non-cash.....	47,650	248,941	-	296,591
Other income.....	51,863	179,828	-	231,691
Subtotal of donations and other income.....	300,128	2,687,996	161,974	3,150,098
Investment income, net (Note 4).....	400,999	1,235,079	-	1,636,078
Total before reclassifications.....	701,127	3,923,075	161,974	4,786,176
Reclassification of net assets				
released from restriction (Note 11).....	2,502,802	(2,502,802)	-	-
Total support, revenue and gains.....	3,203,929	1,420,273	161,974	4,786,176
Expenses and losses				
Scholarships and awards.....	888,496			888,496
Program costs (Note 1).....	1,524,823			1,524,823
Fundraising.....	186,750			186,750
Management and general.....	149,883			149,883
Total expenses and losses.....	2,749,952			2,749,952
Changes in donor restrictions, net.....	29,820	(125,295)	95,475	-
Change in net assets for the year.....	483,797	1,294,978	257,449	2,036,224
Net assets at end of year.....	\$ 4,882,701	\$ 10,354,276	\$ 11,019,764	\$ 26,256,741

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

FORT LEWIS COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets at beginning of year.....	\$ 5,469,686	\$ 9,142,859	\$ 9,011,407	\$ 23,623,952
Support, revenue and gains				
Donations - cash.....	99,104	2,077,003	238,690	2,414,797
Donations - marketable securities (Note 1).....	25,097	302,711	1,394,773	1,722,581
Donations - gifts-in-kind.....	150,312	256,704	73,384	480,400
Other income.....	81,552	129,856	-	211,408
Subtotal of donations and other income.....	356,065	2,766,274	1,706,847	4,829,186
Investment income (loss), net (Note 4).....	347,253	(199,626)	-	147,627
Gain on sale of tangible assets.....	54,322	-	-	54,322
Total before reclassifications.....	757,640	2,566,648	1,706,847	5,031,135
Reclassification of net assets released from restriction (Note 11).....	2,597,879	(2,597,879)	-	-
Total support, revenue and gains.....	3,355,519	(31,231)	1,706,847	5,031,135
Expenses and losses				
Scholarships and awards.....	927,873			927,873
Program costs (Note 1).....	3,173,115			3,173,115
Fundraising.....	167,600			167,600
Management and general.....	165,982			165,982
Total expenses and losses.....	4,434,570			4,434,570
Changes in donor restrictions, net.....	8,269	(52,330)	44,061	-
Change in net assets for the year.....	(1,070,782)	(83,561)	1,750,908	596,565
Net assets at end of year.....	\$ 4,398,904	\$ 9,059,298	\$ 10,762,315	\$ 24,220,517

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

FORT LEWIS COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2017 and 2016

Increase (Decrease) in Cash and Cash Equivalents

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from donors and others.....	\$ 2,506,927	\$ 2,151,025
Investment income received.....	589,277	682,004
Scholarships and awards paid.....	(888,496)	(927,873)
Cash paid for program and other expenses.....	(1,628,466)	(3,048,322)
Interest paid.....	(22,174)	(22,710)
Net cash provided (used) by operating activities.....	<u>557,068</u>	<u>(1,165,876)</u>
Cash flows from investing activities:		
Proceeds from sales of investments.....	25,716,552	17,085,291
Purchases of investments.....	(25,895,436)	(16,983,042)
Proceeds from sale of tangible items.....	-	507,447
Payments under split-interest gift arrangements.....	(560)	(2,235)
Net cash provided (used) by investing activities.....	<u>(179,444)</u>	<u>607,461</u>
Cash flows from financing activities:		
Endowment donations received in cash.....	160,727	238,690
Payments on line of credit.....	(1,045,033)	(13,100)
Borrowing from margin loan.....	1,688,279	-
Payments on margin loan.....	(755,985)	-
Net cash provided by financing activities.....	<u>47,988</u>	<u>225,590</u>
Net increase (decrease) in cash and cash equivalents.....	425,612	(332,825)
Cash and cash equivalents, beginning of year.....	<u>307,276</u>	<u>640,101</u>
Cash and cash equivalents, end of year.....	<u>\$ 732,888</u>	<u>\$ 307,276</u>

FORT LEWIS COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS - Continued For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash used by operating activities:		
Change in net assets.....	\$ 2,036,224	\$ 596,565
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Permanent endowment donations, cash and non-cash.....	(161,974)	(1,706,847)
Other non-cash donations received.....	(129,029)	(437,306)
Depreciation.....	35,787	35,787
Net realized and unrealized (gains) losses on investments.....	(1,161,486)	419,156
Net gain on sale of tangible assets.....	-	(54,322)
Increase in pledges receivable, net.....	(115,161)	(241,945)
Net change in amounts due to/from Fort Lewis College.....	66,729	213,609
Increase (decrease) in accounts payable.....	(14,022)	9,427
Total adjustments.....	<u>(1,479,156)</u>	<u>(1,762,441)</u>
Net cash provided (used) by operating activities.....	<u>\$ 557,068</u>	<u>\$ (1,165,876)</u>

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

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - MISSION AND ACTIVITIES OF THE FOUNDATION

Mission

Fort Lewis College Foundation (the Foundation) was organized in 1969 as a Colorado nonprofit corporation exempt from federal and state income taxes. Its purpose is to promote, develop and enhance the facilities and programs of Fort Lewis College (the College) and to provide broader educational opportunities for, and service to, students, faculty and alumni. Although legally separate, Fort Lewis College considers the Foundation a component unit under its governmental reporting requirements. Accordingly, the financial statements of Fort Lewis College include a discrete presentation of assets, liabilities, net assets and activities of the Foundation.

Significant activities

In June 2016, the Foundation provided a cash contribution of \$1,326,383 toward the construction of the Geosciences, Physics & Engineering Hall (GPE) on the Fort Lewis College campus. That amount is included as program costs in the accompanying statement of activities. The contribution consisted of \$950,409 of board designated funding and \$375,974 of donor directed funding. At June 30, 2017 and 2016, the Foundation was holding \$585,845 and \$258,044, respectively, for the GPE capital project, included in temporarily restricted net assets.

In November 2015, the Foundation was the recipient of a contribution of securities and cash valued at \$1,420,000 to establish a permanent endowment fund in the name of Robert and Roberta Barr, for teacher education scholarships.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles.

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

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met either with actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently restricted net assets – Permanently restricted net assets are endowment funds restricted in perpetuity by donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for specific or general purposes such as scholarships and awards.

Financial statement presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, as described above.

For purposes of individual fund analysis and for allocation of earnings, losses and shared costs, supplemental information has been maintained on the fund accounting basis that has been applied historically. In that context, a "fund" represents the net accumulated resources identified by the original donor, by donor intent, or by specific activity. A fund is increased for additional donations, allocated investment earnings and other income and reduced by allocated losses, scholarships, awards, program expenses, direct fundraising expenses and allocated costs.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donations

Donations, including any unconditional promises to give, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of a time or purpose restriction.

Cash and cash equivalents

Cash funds are pooled to maximize amounts available for investment except in the instance where a donor specifies that a gift is to be physically segregated.

For purposes of the statement of cash flows, the Foundation considers all demand deposits and highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

Investments

Investments are carried at fair market value and are composed of fixed income securities, equities, and precious metals. Included in equities are individual stocks, exchange traded funds, and mutual funds. Investment income consists of interest, dividends, realized gains and losses, and unrealized gains and losses.

Disbursement policy and how investment objectives relate to disbursement policy

The disbursement policy calculates the amount of money distributed bi-annually from the Foundation's various endowed funds, for student scholarships, to finance 'special projects' needs of the College, and to supplement operating budget needs as necessary in periods of negative cash flow. The current disbursement policy is to distribute a portion of the net investment income as recommended by the Distribution Committee and approved by the Executive Board. Accordingly, over the long term, the Foundation expects its disbursement policy to allow endowed assets to maintain spendable value as well as to provide additional real growth through new gifts and investment return.

Use of estimates

The preparation of the financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Gifts-in-kind

Gifts-in-kind are non-cash gifts including real estate, collection items and other assets, recorded as contributions at estimated fair value as of the date received by the Foundation. Independent appraisals are obtained for significant contributions. Gifts in excess of \$5,000 are capitalized, while smaller gifts are recognized along with program and other expenses. Gains and losses on the deaccession of collection items, if any, are classified on the statement of activities as unrestricted or restricted depending on donor restrictions, if any, placed on the item at the time of accession.

Tangible assets

Tangible assets are capitalized at cost if purchased or at the estimated fair value at the date received if donated. In accordance with the gift acceptance policy, acquisitions of tangible assets in excess of \$5,000 and having a useful life of over one year, whether purchased or donated, are capitalized. Lesser amounts are expensed. Absent a specific time restriction on donated real estate, it is the Foundation's policy to imply a time restriction on the use of donated real estate that expires over the assets' useful lives. Buildings and building improvements are being depreciated over estimated useful lives of 40 years using the straight-line method.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Earnings and loss allocations

It is the Foundation's policy that income earned on investments is presumed to be temporarily restricted for the same purpose as the original donations, and that this understanding is implicit in the donation transaction. The allocation of earnings or losses is determined by the Foundation's Executive Board through a Distribution Committee every six months. Allocations are made each six month period ending December 31 and June 30. Charitable gift annuities and gifts-in-kind do not share in the allocation.

Fundraising and special event cost

To the extent that direct costs of a fundraising event or drive are associated with income received by a particular fund, income is deemed to be available to cover those direct costs. The excess of income over those expenses is treated as temporarily restricted support for the purpose of the associated fund.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Where it is difficult or impractical to directly identify costs, the costs are pooled and then allocated to the programs and supporting services benefited based upon estimates by management.

Income taxes

The Foundation is exempt from federal income taxes on income substantially related to the Foundation's exempt purpose under Section 501(c)(3) of the Internal Revenue Code. Under Colorado statutes, any organization receiving exemption from federal income taxes is also exempt from Colorado income taxes.

The Foundation files a federal income tax return annually. Federal income tax returns for the years prior to fiscal year 2013 are closed. The Foundation's policy for evaluation of uncertain income tax positions is to take only income tax positions that are more likely than not to be sustained if the taxing authorities were to examine the positions. If applicable, the Foundation classifies interest and penalties as interest expense.

Recent accounting developments

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*, which changes several of the existing requirements for financial statements and notes in Accounting Standards Codification Topic 958, Not-for-Profit Entities. The new ASU is effective for fiscal years beginning after December 15, 2017. Management continues to evaluate the effect of the change in accounting standards. For the year ending June 30, 2017 and prior years, there is no anticipated significant impact on the financial statements.

Subsequent events

Management has evaluated subsequent events through September 14, 2017, the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 3 - CASH AND INVESTMENTS

Investments are identified and allocated using the following investment classes: cash and cash equivalents, fixed income securities, equities and commodities. Asset allocation is reviewed at least quarterly by the Investment Committee, focusing on the maintenance of liquidity for cash flow and on long-term and opportunistic growth. For the years reported herein, cash and cash equivalents consist of demand deposits and money market accounts. Fixed income securities include GNMA pools, and other government backed securities and are held individually, in exchange traded funds and in mutual funds. Equities are held individually, in exchange traded funds and stock mutual funds. All values are derived from quoted prices in active markets for identical assets.

During the fiscal year ended June 30, 2017, all investments were transferred directly from the Foundation's previous investment manager, UBS Financial Services Inc., to Morgan Stanley. The transfer of securities took place over a number of months, at no cost to the Foundation. Historical cost information for each security was also transferred.

During the year ended June 30, 2016, the Foundation had a secured line of credit with UBS Bank USA, with a balance of \$1,045,033 outstanding at fiscal year-end. Investments totaling \$17,287,625 at June 30, 2016, including cash in the investment accounts, served as collateral for the line of credit. In November 2016, the UBS Bank USA line of credit was retired with the proceeds of a margin loan from Morgan Stanley. See Note 9 for discussion of collateralization of the margin loan.

Concentrations of risk

Cash and cash equivalents include cash in brokerage and bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and considers the risk of loss to be minimal.

The Foundation maintains cash on deposit with a financial institution which is a member of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures deposits up to \$250,000 for each depositor at each institution. Based on bank account balances at June 30, 2017, the Foundation had \$341,470 in excess of the insured limit at First National Bank of Durango. Subsequent to year end, the Foundation paid the recorded amounts due to Fort Lewis College, bringing the balances within insured limits.

The Foundation has significant investments in mutual funds and government backed securities and is therefore subject to concentrations of credit risk. Investment policy is set by the Executive Board and managed through its Investment Committee. Investments are made and held by the Foundation's investment manager (Morgan Stanley in 2017, UBS Financial Services, Inc. in 2016) and monitored regularly by the Investment Committee.

The Investment Committee reviews adherence to the investment policy at least quarterly. Even though the market value of investments is subject to short-term fluctuation, management and the Executive Board believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 3 - CASH AND INVESTMENTS - Continued

Cash and investments

Cash and investments as of June 30, 2017 are summarized as follows:

	2017			
	Cost basis	Fair Value	% of Total	Unrealized Appreciation (Depreciation)
Cash and cash equivalents	\$ 732,888	\$ 732,888	4%	\$ -
Investments:				
Marketable securities				
Fixed income	9,030,374	9,210,124	48%	179,750
Equities	8,626,307	9,375,538	48%	749,231
Total investments	17,656,681	18,585,662	96%	928,981
Total cash and investments	\$ 18,389,569	\$ 19,318,550	100%	\$ 928,981

Cash and investments as of June 30, 2016 are summarized as follows:

	2016			
	Cost basis	Fair Value	% of Total	Unrealized Appreciation (Depreciation)
Cash and cash equivalents	\$ 307,276	\$ 307,276	2%	\$ -
Investments:				
Marketable securities				
Fixed income	7,972,438	8,466,189	48%	493,751
Equities	8,062,502	8,717,661	50%	655,159
Total investments	16,034,940	17,183,850	98%	1,148,910
Total cash and investments	\$ 16,342,216	\$ 17,491,126	100%	\$ 1,148,910

During the year ended June 30, 2017, net realized gains of \$1,440,032 were recognized on investments, along with net unrealized losses of \$255,408 and amortization of premiums of \$22,706. During the year ended June 30, 2016, net realized losses of \$278,740 were recognized on investments, along with net unrealized gains of \$43,845 and amortization of premiums of \$85,479.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 4 - RETURN ON INVESTMENTS

Return on investments generated by the investments described in Notes 3 and 5 is summarized as follows for the respective years ended June 30, 2017 and 2016:

	2017	2016
Interest	\$ 188,291	\$ 220,705
Dividends	387,505	393,226
Total interest and dividends	575,796	613,931
Net realized gain (loss)	1,440,032	(276,553)
Total realized investment income	2,015,828	337,378
Amortization of premiums	(22,706)	(85,479)
Net unrealized gains (losses)	(253,605)	5,150
Total return on investments before expenses	1,739,517	257,049
Brokerage and custodial fees	(84,121)	(92,511)
Interest expense (Note 9)	(19,318)	(16,911)
Return on investments, net of expenses	\$ 1,636,078	\$ 147,627

The Distribution Committee recommends what is considered a fair rate of return for allocating investment earnings to individual funds as well as recommending allocations made to accomplish specific goals. The allocation methodology is proposed semi-annually, for the six-month periods ending on December 31 and June 30, and requires approval of the Executive Board. For the years ended June 30, 2017 and 2016, the allocation methodology provided for \$305,000 to be added to the general unrestricted fund annually to support operations, while other funds received investment income based on annualized rates varying with fund size as of the end of each six-month period.

During the years ended June 30, 2017 and 2016, allocations were applied using the following rates, representing half of the approved annualized rate:

	2017		2016	
	December 2016	June 2017	December 2015	June 2016
Annualized rate by fund:				
All funds with balances from \$10,000 - \$25,000	0.50%	0.50%	-	0.50%
Term and unrestricted funds with balances over \$25,000	1.25%	1.25%	-	1.25%
Endowment funds with balances over \$25,000	2.00%	2.00%	-	2.00%
Endowment funds with balances over \$100,000	2.25%	2.25%	-	2.25%

For the year ended June 30, 2017, amounts allocated were as follows:

	December	June	Total
General unrestricted fund	\$ 152,500	\$ 152,500	\$ 305,000
Term funds and unrestricted funds	65,003	66,222	131,225
Endowment funds	253,848	245,920	499,768
Total allocations	\$ 471,351	\$ 464,642	\$ 935,993

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 4 - RETURN ON INVESTMENTS - Continued

Unallocated, undistributed earnings are carried forward as a cushion against possible future market losses and amounted to \$1,593,516 and \$880,930 at June 30, 2017 and 2016, respectively. Those balances are included in temporarily restricted net assets in the accompanying statement of financial position under the caption Scholarships, awards and other.

For the year ended June 30, 2016, amounts allocated were as follows:

	December	June	Total
General unrestricted fund	\$ -	\$ 305,000	\$ 305,000
Term and unrestricted funds	-	62,708	62,708
Endowment funds	-	<u>220,952</u>	<u>220,952</u>
Total allocations	\$ -	\$ 588,660	\$ 558,660

NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS AND GIFT ANNUITY OBLIGATIONS

The Foundation has a beneficial interest in assets held by others and reports them at fair market value. During, and prior to the year ended June 30, 2016, such assets were held and managed by the Wells Fargo Bank trust department. During the year ended June 30, 2017, the funds were transferred to Morgan Stanley. Trusts are established to fund long term annuity obligations. When annuity obligations have been satisfied, any remaining funds are distributed to the Foundation.

The gift annuities are managed by the Foundation. The balance of the gift annuity obligations payable was \$3,696 and \$4,256 at June 30, 2017 and 2016, respectively, representing two annuitants. During 2016, one annuitant passed away, resulting in the remaining related liability of \$73,384 being recognized as contribution income. Accordingly, the related assets of \$354,176, including cash and marketable securities, held as a beneficial interest, were transferred to the Foundation.

Beneficial interest in assets held by others as of June 30, 2017 is summarized as follows:

	2017		
	Cost basis	Fair Value	Unrealized Appreciation
Cash and cash equivalents	\$ 2,196	\$ 2,196	\$ -
Investments:			
Fixed income	28,359	28,721	362
Equities	<u>32,889</u>	<u>33,701</u>	<u>812</u>
Total investments	<u>61,248</u>	<u>62,422</u>	<u>1,174</u>
Total cash and investments	\$ 63,444	\$ 64,618	\$ 1,174

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS AND GIFT ANNUITY OBLIGATIONS - Continued

Beneficial interest in assets held by others as of June 30, 2016 is summarized as follows:

	2016		
	<u>Cost basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash and cash equivalents	<u>\$ 4,366</u>	<u>\$ 4,366</u>	<u>\$ -</u>
Investments:			
Fixed income	23,827	24,446	619
Equities	<u>59,963</u>	<u>66,114</u>	<u>6,151</u>
Total investments	<u>83,790</u>	<u>90,560</u>	<u>6,770</u>
Total cash and investments	<u>\$ 88,156</u>	<u>\$ 94,926</u>	<u>\$ 6,770</u>

During the year ended June 30, 2017, net realized gains of \$1,975 were recognized on these investments, along with net unrealized gains of \$1,803. During the year ended June 30, 2016, net realized gains of \$2,187 were recognized on these investments, along with net unrealized losses of \$38,695.

NOTE 6 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Foundation in estimating its fair value measurements for financial instruments:

Cash and cash equivalents, accounts receivable, accrued interest receivable, short-term unconditional promises to give, accounts payable, and other liabilities: the carrying amounts reported in the statement of financial position approximates fair values because of the short-term maturities of those instruments.

Marketable securities: the fair values of investments are based on quoted market prices for those or similar instruments.

Tangible assets: The carrying amounts are represented by fair market value as of the date of donation and management believes the fair market value has not changed significantly. The valuation of major items received are supported by appraisal at the time of receipt.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 6 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued

The estimated fair values of the Foundation's financial instruments at June 30, 2017 are as follows:

	<u>Carrying Amounts</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 732,888	\$ 732,888
Unconditional promises to give (pledges)	401,061	401,061
Investment securities and commodities	18,585,662	18,585,662
Beneficial interest in assets held by others	64,618	64,618
Tangible assets, net	7,610,793	7,610,793
Financial liabilities		
Accounts payable	202,291	202,291
Gift annuity obligation payable	3,696	3,696
Line of credit payable	932,294	932,294

The Foundation is subject to the provisions of the Financial Accounting Standards Board that establish a framework for measuring fair value of financial instruments. That framework provides a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted price in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2: Prices determined using significant other observable inputs including the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the assets or liabilities have a specified (contractual) term, the Level 2 input must be observable for sustainability during the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

An investment's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 6 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued

The following tables set forth, by level within the fair value hierarchy, the Foundation's assets that are measured at fair value on a recurring basis, as of June 30, 2017 and 2016:

	<u>Fair Value</u>	<u>Quoted price in active markets for identical assets (Level1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<u>June 30, 2017</u>				
Fixed income securities	\$ 9,210,124	\$ 9,210,124	\$ -	\$ -
Equities	9,375,538	9,375,538	-	-
Pledges receivable	401,061	-	401,061	-
Beneficial interest in assets held by others	<u>64,618</u>	<u>64,618</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 19,051,341</u>	<u>\$ 18,650,280</u>	<u>\$ 401,061</u>	<u>\$ -</u>
<u>June 30, 2016</u>				
Fixed income securities	\$ 8,466,189	\$ 8,466,189	\$ -	\$ -
Equities	8,717,661	8,717,661	-	-
Pledges receivable	285,900	-	285,900	-
Beneficial interest in assets held by others	<u>94,926</u>	<u>94,926</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 17,564,676</u>	<u>\$ 17,278,776</u>	<u>\$ 285,900</u>	<u>\$ -</u>

NOTE 7 - PLEDGES RECEIVABLE

At June 30, 2017, and 2016, the Foundation had multi-year pledges receivable from several donors. The balance due was \$401,061 and \$285,900, at June 30, 2017 and 2016, respectively. Due to the short duration (2 to 5 years) and low discount rates, the carrying value reasonably approximates fair value at those dates.

NOTE 8 - TANGIBLE ASSETS

Tangible assets include gifts-in-kind and purchased items held by the Foundation. Included in real estate are two condominiums, which the Foundation is depreciating over a period of forty years using the straight-line method. Depreciation expense for both years ended June 30, 2017 and 2016 was \$35,787.

The Foundation's collections are made up of artifacts of historical significance and art objects that are held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved and cared for by Fort Lewis College staff, and activities verifying their existence and assessing their condition are performed continuously.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 8 - TANGIBLE ASSETS - Continued

At June 30, 2017, tangible assets are composed of the following:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Gifts-in-kind				
Land and buildings	\$ 1,250,000	\$ 12,000	\$ -	\$ 1,262,000
Accumulated depreciation	(131,250)	-	-	(131,250)
Collection items	-	2,745,459	2,641,550	5,387,009
Total gifts-in-kind	1,118,750	2,757,459	2,641,550	6,517,759
Purchased assets				
Land and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(220,596)	-	(220,596)
Collection items	-	92,335	152,995	245,330
Concert piano	-	73,900	-	73,900
Total purchased assets	-	940,039	152,995	1,093,034
Total tangible assets	\$ 1,118,750	\$ 3,697,498	\$ 2,794,545	\$ 7,610,793

At June 30, 2016, tangible assets are composed of the following:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Gifts-in-kind				
Land and buildings	\$ 1,250,000	\$ 12,000	\$ -	\$ 1,262,000
Accumulated depreciation	(112,500)	-	-	(112,500)
Collection items	-	2,646,317	2,641,550	5,287,867
Total gifts-in-kind	1,137,500	2,658,317	2,641,550	6,437,367
Purchased assets				
Land and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(203,559)	-	(203,559)
Collection items	-	92,335	152,995	245,330
Concert piano	-	73,900	-	73,900
Total purchased assets	-	957,076	152,995	1,110,071
Total tangible assets	\$ 1,137,500	\$ 3,615,393	\$ 2,794,545	\$ 7,547,438

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 9 - LINE OF CREDIT AND MARGIN LOAN

In November 2016, in conjunction with the transfer of investment securities from UBS Financial Services, Inc. to Morgan Stanley (see Note 3), a margin loan was established with Morgan Stanley and the proceeds from that loan were used to retire the secured line of credit with UBS Bank USA. The Morgan Stanley margin loan balance (\$932,294 at June 30, 2017) is collateralized by held investment securities to the full extent of the outstanding loan balance, and is subject to a variable interest rate that changes with LIBOR (2.30% at June 30, 2017). The Foundation manages the margin loan balance by applying the return of principal and interest income from the GNMA portfolio (which reduces the loan balance) and by purchasing additional GNMA securities (which increases the margin loan balance). The Foundation Executive Board approves the management of the margin loan balance. In addition, when the line of credit with UBS Bank USA was retired, the portion of that debt related to the President's residence was also retired, so that the entire Morgan Stanley margin loan balance is related to investments at June 30, 2017.

As of June 30, 2016, the Foundation had an \$8,000,000 secured line of credit available with UBS Bank USA. The balance outstanding on the line of credit was \$1,045,033 at June 30, 2016, consisting of \$782,018 related to investments and \$263,015 related to the President's residence.

Interest expense was \$19,318 and 16,911, for the years ended June 30, 2017 and 2016, respectively.

NOTE 10 - BOARD DESIGNATED FUNDS

Board designated endowments

In 2007, a total of \$1,113,576 had been contributed to the Foundation by a decedent's estate. While the gifts were made for the general purposes of the Foundation, the Board of Directors elected to treat them as endowments.

The activity in Board designated endowments during the years ended June 30, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 1,368,269	\$ 1,338,161
Investment allocation	65,763	30,108
Ending balance	<u>\$ 1,434,032</u>	<u>\$ 1,368,269</u>

Other Board designations

At June 30, 2017 and 2016, the respective \$238,258 and \$265,816 balances of other Board designations represented unrestricted funds designated by the Board of Directors primarily for scholarships.

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTION

Net assets are released from donor restrictions by either satisfying the purpose restriction or by the expiration of a time restriction. Net assets were released as follows:

	<u>2017</u>	<u>2016</u>
Purpose restriction accomplished		
Scholarships	\$ 840,464	\$ 772,660
Other program expense	1,652,062	1,809,294
Fundraising expense	<u>10,276</u>	<u>15,925</u>
Total released from restriction	<u>\$ 2,502,802</u>	<u>\$ 2,597,879</u>

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Specific scholarship programs	\$ 7,699,372	\$ 7,442,173
Artists in Residence	249,132	248,882
Durango Collection fund	276,715	276,715
Durango Collection	<u>2,794,545</u>	<u>2,794,545</u>
Total permanently restricted net assets	<u>\$ 11,019,764</u>	<u>\$ 10,762,315</u>

NOTE 13 - FUNDS HELD IN TRUST

During the year ended June 30, 1988, a trust was established by the estate of Roy Dalpra for the benefit of Fort Lewis College students who are residents of La Plata County, Colorado. Citizens Bank of Farmington, New Mexico is the trustee of the funds. The Trustee determines the use of the funds and the amount to be transferred to the Foundation during the year.

The market value of the trust fund was \$736,926 and \$712,777 at June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, the trustee transferred \$40,542 and \$24,300, respectively, to the Foundation's Dalpra fund for scholarships.

NOTE 14 - RELATED PARTY TRANSACTIONS

The Foundation exists only to benefit Fort Lewis College students, programs and activities and, as such, is supported in several ways by the College, which is thus deemed to be a related party. The Foundation Board and the Board of Trustees of the College enter into an annual Memorandum of Understanding (MOU) which addresses payment for the use of facilities, personnel and services, provided directly by the College, as well as other less tangible support. The College also provides coordination of fundraising initiatives and major gift solicitations. For each of the years ended June 30, 2017 and 2016, the Foundation recognized support and offsetting expenses of \$324,304 under the terms of the respective MOUs.

At June 30, 2017 and 2016, respectively, the Foundation reflected \$200,660 and \$132,773 as the balance due to Fort Lewis College for reimbursements from individual department funds for amounts advanced by the College.

During the years ended June 30, 2017 and 2016, the College contributed \$123,542 and \$132,968, respectively, to the Foundation, restricted for payment of professional fees.

The College leases the residence of the College President from the Foundation at an estimated annual value of \$38,400 which was recorded as rental income during each of the years ended June 30, 2017 and 2016.

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 15 - ENDOWMENTS

Fort Lewis College Foundation endowment funds consist of cash, securities, or other assets to provide income to fulfill the purpose of the Foundation. The use of the assets may be permanently restricted, temporarily restricted, or unrestricted. The portion of the funds that must be maintained permanently, not used up, expended or otherwise exhausted, is classified as permanently restricted net assets. The portion of the funds that must be maintained for a specific term or for a specified purpose is classified as temporarily restricted net assets. The portion of the funds that may be expended at the discretion of the Board is classified as unrestricted net assets.

Interpretation of relevant law

The Fort Lewis College Foundation Board of Directors follows the Uniform Prudent Management of Institution Funds Act (UPMIFA) as stated in Colorado Revised Statutes, as well as other applicable state and federal laws to comply with explicit donor stipulations on each gift in determining the classification of net assets as described above. Generally, all gifts to the Foundation include explicit donor stipulations regarding the use of the gifts. However, in the absence of explicit donor stipulations, the gifts are classified as temporarily restricted net assets until the amounts are appropriated for expenditure by the Executive Board in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Board considers the following factors in making a determination to appropriate or to accumulate funds.

1. The duration and preservation of the endowment fund;
2. The purpose of the Foundation and endowment fund;
3. General economic conditions;
4. The possible effects of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Foundation; and
7. The investment policy of the Foundation.

Return objectives and risk parameters

The Foundation's investment and spending policies for endowment assets are intended to address the needs of future generations and maintain spendable value of the investments which provide funding for student scholarships, finance 'special projects' needs of the College, and supplemental operating budget needs as necessary in periods of negative cash flow. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, endowment assets are invested in a manner that is intended to produce results that equal or exceed the Dow Jones Global Moderately Aggressive Portfolio while assuming a moderate level of investment risk.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a strategic (non-tactical) investment approach in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment net asset composition and changes

Endowment net asset composition by type of fund as of June 30, 2017 is summarized as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,702,249	\$ 8,225,219	\$ 9,927,468
Board-designated endowment funds	1,434,032	-	-	1,434,032
Total funds	<u>\$ 1,434,032</u>	<u>\$ 1,702,249</u>	<u>\$ 8,225,219</u>	<u>\$ 11,361,500</u>

FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 15 - ENDOWMENTS - Continued

Endowment net asset composition by type of fund as of June 30, 2016 is summarized as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,410,542	\$ 7,967,770	\$ 9,378,312
Board-designated endowment funds	1,368,269	-	-	1,368,269
Total funds	<u>\$ 1,368,269</u>	<u>\$ 1,410,542</u>	<u>\$ 7,967,770</u>	<u>\$ 10,746,581</u>

The change in endowment net assets for the two year period ended June 30, 2017 is as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 1,338,161	\$ 1,339,743	\$ 6,216,862	\$ 8,894,766
Contributions and other income	-	62,241	1,706,847	1,769,088
Investment income and net appreciation	30,108	164,896	-	195,004
Program expenditures and scholarships	-	(261,661)	-	(261,661)
Changes in donor restrictions	-	105,323	44,061	149,384
Endowment net assets, June 30, 2016	1,368,269	1,410,542	7,967,770	10,746,581
Contributions and other income	-	64,443	161,974	226,417
Investment income and net appreciation	65,763	440,256	-	506,019
Program expenditures and scholarships	-	(257,240)	-	(257,240)
Changes in donor restrictions	-	44,248	95,475	139,723
Endowment net assets, June 30, 2017	<u>\$ 1,434,032</u>	<u>\$ 1,702,249</u>	<u>\$ 8,225,219</u>	<u>\$ 11,361,500</u>