

**THE FORT LEWIS COLLEGE
FOUNDATION**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2019 and 2018

THE FORT LEWIS COLLEGE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Fort Lewis College Foundation
Durango, Colorado

We have audited the accompanying financial statements of The Fort Lewis College Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, of functional expenses, 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 The Fort Lewis College Foundation as of June 30, 2019 and 2018, 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
November 15, 2019

FINANCIAL STATEMENTS

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents (Note 3).....	\$ 115,555	\$ 477,661
Investments (Note 3).....	21,986,044	19,480,778
Pledges receivable (Note 4).....	363,003	620,543
Beneficial interest in assets held by others (Note 3).....	66,834	63,838
Tangible assets, net (Note 5).....	<u>7,635,623</u>	<u>7,692,324</u>
Total assets	<u>\$ 30,167,059</u>	<u>\$ 28,335,144</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses.....	\$ 11,303	\$ 6,724
Due to Fort Lewis College (Note 10).....	393,130	285,098
Gift annuity obligation payable.....	2,576	3,136
Margin loan (Note 6).....	<u>63,733</u>	<u>732,357</u>
Total liabilities	<u>470,742</u>	<u>1,027,315</u>
Net assets		
Net assets without donor restrictions		
General unrestricted.....	1,457,598	2,060,344
Board designated endowments (Notes 7 and 11).....	1,577,373	1,499,289
Other board designations (Note 7).....	188,734	312,089
Gifts-in-kind and other tangible assets (Note 5).....	<u>907,850</u>	<u>1,151,600</u>
Total net assets without donor restrictions.....	<u>4,131,555</u>	<u>5,023,322</u>
Net assets with donor restrictions		
Purpose and/or time restricted		
Scholarships, awards and other.....	7,195,193	4,903,823
Endowment funds (Note 11).....	2,040,111	1,857,415
Gifts-in-kind and other tangible assets (Note 5).....	<u>3,933,228</u>	<u>3,746,179</u>
Total purpose and time restricted net assets.....	<u>13,168,532</u>	<u>10,507,417</u>
Restricted in perpetuity (Note 9)		
Endowment funds (Note 11).....	9,601,685	8,982,545
Gifts-in-kind and other tangible assets (Note 5).....	<u>2,794,545</u>	<u>2,794,545</u>
Total restricted in perpetuity.....	<u>12,396,230</u>	<u>11,777,090</u>
Total net assets with donor restrictions.....	<u>25,564,762</u>	<u>22,284,507</u>
Total net assets	<u>29,696,317</u>	<u>27,307,829</u>
Total liabilities and net assets	<u>\$ 30,167,059</u>	<u>\$ 28,335,144</u>

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

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2019

	Without Donor	With Donor Restrictions			2019
	Restrictions	Purpose or time	Perpetuity	Total	Total
Net assets at beginning of year.....	\$ 5,023,322	\$ 10,507,417	\$ 11,777,090	\$ 22,284,507	\$ 27,307,829
Operating Activities:					
Support, revenue and gains					
Donations - cash.....	209,357	2,865,109	496,985	3,362,094	3,571,451
Donations - marketable securities.....	-	643,938	-	643,938	643,938
Donations - gifts-in-kind and other non-cash.....	-	270,715	-	270,715	270,715
Other income.....	55,555	273,539	-	273,539	329,094
Subtotal of donations and other income.....	264,912	4,053,301	496,985	4,550,286	4,815,198
Investment income, net (Note 3).....	140,049	973,106	-	973,106	1,113,155
Total before reclassifications.....	404,961	5,026,407	496,985	5,523,392	5,928,353
Reclassification of net assets					
released from restriction (Note 8).....	3,084,779	(3,084,779)	-	(3,084,779)	-
Total support, revenue and gains.....	3,489,740	1,941,628	496,985	2,438,613	5,928,353
Expenses					
Program.....	2,892,341				2,892,341
Management and general.....	242,517				242,517
Fundraising.....	180,007				180,007
Total expenses.....	3,314,865				3,314,865
Change in net assets from operating activities.....	174,875	1,941,628	496,985	2,438,613	2,613,488
Nonoperating Activities:					
Loss in value of donated property (Note 5).....	(225,000)	-	-	-	(225,000)
Changes in donor restrictions, net.....	(841,642)	719,487	122,155	841,642	-
Change in net assets from nonoperating activities.....	(1,066,642)	719,487	122,155	841,642	(225,000)
Change in net assets for the year.....	(891,767)	2,661,115	619,140	3,280,255	2,388,488
Net assets at end of year.....	<u>\$ 4,131,555</u>	<u>\$ 13,168,532</u>	<u>\$ 12,396,230</u>	<u>\$ 25,564,762</u>	<u>\$ 29,696,317</u>

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

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions		2018 Total	
		Purpose or time	Perpetuity		Total
Net assets at beginning of year.....	\$ 4,882,701	\$ 10,354,276	\$ 11,019,764	\$ 21,374,040	\$ 26,256,741
Operating Activities:					
Support, revenue and gains					
Donations - cash.....	127,674	2,120,076	744,810	2,864,886	2,992,560
Donations - marketable securities.....	-	167,484	-	167,484	167,484
Donations - gifts-in-kind and other non-cash.....	-	306,088	-	306,088	306,088
Other income.....	52,649	140,644	463	141,107	193,756
Subtotal of donations and other income.....	180,323	2,734,292	745,273	3,479,565	3,659,888
Investment income, net (Note 3).....	405,340	192,535	-	192,535	597,875
Total before reclassifications.....	585,663	2,926,827	745,273	3,672,100	4,257,763
Reclassification of net assets					
released from restriction (Note 8).....	2,996,283	(2,996,283)	-	(2,996,283)	-
Total support, revenue and gains.....	3,581,946	(69,456)	745,273	675,817	4,257,763
Expenses					
Program.....	2,827,360				2,827,360
Management and general.....	205,656				205,656
Fundraising.....	173,659				173,659
Total expenses.....	3,206,675				3,206,675
Change in net assets from operating activities.....	375,271	(69,456)	745,273	675,817	1,051,088
Nonoperating Activities:					
Changes in donor restrictions, net.....	(234,650)	222,597	12,053	234,650	-
Change in net assets from nonoperating activities.....	(234,650)	222,597	12,053	234,650	-
Change in net assets for the year.....	140,621	153,141	757,326	910,467	1,051,088
Net assets at end of year.....	\$ 5,023,322	\$ 10,507,417	\$ 11,777,090	\$ 22,284,507	\$ 27,307,829

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

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

With Comparative Totals for 2018

Description	Program Services	Supporting Services			Total 2019 Expenses	Total 2018 Expenses
		Management and General	Fund Raising	Total Supporting Services		
Fort Lewis College support.....	\$ 1,782,117	\$ -	\$ -	\$ -	\$ 1,782,117	\$ 1,630,450
Scholarships.....	840,240	-	-	-	840,240	825,190
Fees for College services.....	72,540	145,082	145,082	290,164	362,704	362,704
Professional fees.....	78,138	21,600	-	21,600	99,738	203,336
Other expense.....	58,768	35,827	21,288	57,115	115,883	72,537
Depreciation.....	35,787	-	-	-	35,787	35,787
Food and beverage.....	24,751	-	10,743	10,743	35,494	35,462
Bank and credit card fees.....	-	-	2,894	2,894	2,894	9,847
Insurance.....	-	8,583	-	8,583	8,583	7,809
Rental expense.....	-	7,430	-	7,430	7,430	7,444
Repairs and maintenance.....	-	15,155	-	15,155	15,155	7,225
Licenses, dues and fees.....	-	5,200	-	5,200	5,200	5,200
Property taxes.....	-	3,640	-	3,640	3,640	3,684
Total expenses.....	\$ 2,892,341	\$ 242,517	\$ 180,007	\$ 422,524	\$ 3,314,865	\$ 3,206,675

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

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

Description	Program Services	Supporting Services			Total 2018 Expenses
		Management and General	Fund Raising	Total Supporting Services	
Fort Lewis College support.....	\$ 1,630,450	\$ -	\$ -	\$ -	\$ 1,630,450
Scholarships.....	825,190	-	-	-	825,190
Fees for College services.....	72,784	144,960	144,960	289,920	362,704
Professional fees.....	177,436	25,900	-	25,900	203,336
Other expense.....	61,403	3,434	7,700	11,134	72,537
Depreciation.....	35,787	-	-	-	35,787
Food and beverage.....	24,310	-	11,152	11,152	35,462
Bank and credit card fees.....	-	-	9,847	9,847	9,847
Insurance.....	-	7,809	-	7,809	7,809
Rental Expenses.....	-	7,444	-	7,444	7,444
Repairs and maintenance.....	-	7,225	-	7,225	7,225
Licenses, dues and fees.....	-	5,200	-	5,200	5,200
Property taxes.....	-	3,684	-	3,684	3,684
Total expenses.....	<u>\$ 2,827,360</u>	<u>\$ 205,656</u>	<u>\$ 173,659</u>	<u>\$ 379,315</u>	<u>\$ 3,206,675</u>

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

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2019 and 2018

Increase (Decrease) in Cash and Cash Equivalents

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from donors and others.....	\$ 3,637,610	\$ 2,359,637
Investment income received.....	653,617	1,324,178
Scholarships and awards paid.....	(840,240)	(825,190)
Cash paid for program and other expenses.....	(2,188,415)	(2,100,038)
Interest paid.....	(17,429)	(24,197)
Net cash provided by operating activities.....	<u>1,245,143</u>	<u>734,390</u>
Cash flows from investing activities:		
Proceeds from sales of investments.....	21,063,582	21,496,729
Purchases of investments.....	(22,498,632)	(22,855,122)
Payments on gift annuity obligation.....	(560)	(560)
Net cash used by investing activities.....	<u>(1,435,610)</u>	<u>(1,358,953)</u>
Cash flows from financing activities:		
Endowment donations received in cash.....	496,985	569,273
Borrowing from margin loan.....	145,752	712,065
Payments on margin loan (Note 6).....	(814,376)	(912,002)
Net cash provided (used) by financing activities.....	<u>(171,639)</u>	<u>369,336</u>
Net decrease in cash and cash equivalents.....	(362,106)	(255,227)
Cash and cash equivalents, beginning of year.....	<u>477,661</u>	<u>732,888</u>
Cash and cash equivalents, end of year.....	<u>\$ 115,555</u>	<u>\$ 477,661</u>

Non-cash investing and financing activities

During the year ended June 30, 2019, the Foundation recognized a determinable value adjustment on donated land of \$225,000.

THE FORT LEWIS COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS - Continued For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets.....	\$ 2,388,488	\$ 1,051,088
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Permanent endowment donations, cash and non-cash.....	(496,985)	(569,273)
Other non-cash donations received.....	(729,766)	(284,802)
Depreciation.....	35,787	35,787
Net realized and unrealized (gains) losses on investments.....	(547,532)	631,541
Decrease in value of donated property.....	225,000	-
Decrease (increase) in pledges receivable, net.....	257,540	(219,482)
Increase in amount due to Fort Lewis College.....	108,032	85,596
Increase in accounts payable.....	4,579	3,935
Total adjustments.....	<u>(1,143,345)</u>	<u>(316,698)</u>
Net cash provided by operating activities.....	<u>\$ 1,245,143</u>	<u>\$ 734,390</u>

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

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - MISSION OF THE FOUNDATION

The 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The Foundation maintains its accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund.

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with the U.S. generally accepted accounting principles (GAAP). Net assets and revenues, expenses, gains and losses are classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

Without Donor Restrictions - These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, receiving interest from operating investments, less expenses incurred in providing academic department support, scholarships, raising contributions, and performing administrative functions.

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt; endowment, annuity, and life income gifts; pledges; and investment returns on endowment funds held in perpetuity, and endowments where the principal may be expended upon the passage of a stated period of time. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

Cash and cash equivalents

For purposes of the statements of cash flows, the Foundation considers all cash and highly liquid investments with an initial maturity of three months or less, including those held as components of the Foundation's investment portfolio, to be cash equivalents. Cash funds are pooled to maximize amounts available for investment. Cash balances maintained with a commercial bank have, at times, exceeded the level of insurance provided by the Federal Deposit Insurance Corporation. The Foundation strives to limit these occurrences, has not experienced any losses in such account, and considers the risk of loss to be minimal.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments and investment valuation

The Foundation maintains pooled investment accounts for the majority of its funds. For the year ended June 30, 2019, investment income and realized and unrealized gains and losses, net of investment and management fees, from securities in the pooled investment accounts were allocated to the individual funds based on the relationship of the fair value of the interest of each fund to the total fair value of the pooled investment accounts as adjusted for additions to or deductions from those accounts. In prior years, semi-annually the Foundation distributed a portion of the net investment income to the respective funds based on the classification and size of individual funds. In prior years, the Foundation's Executive Board determined semi-annually the amount of net investment income to distribute, if any, depending on investment performance, and the distribution was made to the respective funds based on the classification and amount of individual funds. Any remaining undistributed net investment income was carried in a restricted fund as an approach to minimize the impact of market fluctuations.

Investments are stated at fair value as further described in Note 3. Investment returns include dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. In certain cases, investment managers report realized and unrealized gains and losses net of investment fees; accordingly, the Foundation has reported the net amount in unrealized and realized gains and losses on the accompanying statement of activities. Investment returns are reflected on the statement of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions on those earnings.

Fair value of financial instruments

The Foundation follows accounting guidance surrounding fair value measurements. This guidance requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value (Note 3).

Donations and pledges receivable

Donations received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. When a donor restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

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 Foundation's 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.

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 and expensed along with program and other expenses. Gains and losses on the deaccession of collection items, if any, are classified on the statement of activities depending on donor restrictions, if any, placed on the item at the time of accession.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income taxes

The Foundation is a non-profit entity exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Under Colorado statutes, any organization receiving exemption from federal income tax is also exempt from Colorado income tax. Income from activities not directly related to the entity's tax-exempt purpose may be subject to taxation as unrelated business taxable income. During the years ended June 30, 2019 and 2018, the unrelated business income tax liability was not significant. Accordingly, no provision for income taxes is made in these financial statements.

The Foundation files a federal income tax return annually. The Foundation applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2019 and 2018.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on the statement of functional expenses. 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.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

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 support with donor restrictions for the purpose of the associated fund.

Accounting pronouncement adopted

Effective July 1, 2018, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities and applied it retrospectively to all periods presented. The ASU applies to all not-for-profit entities. The ASU reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the requirement for reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.

In addition, the ASU provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A recap of the net asset reclassifications driven by adoption of the ASU as of June 30, 2018 follows:

<u>Net Assets Classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total Net Assets</u>
As previously presented:			
Unrestricted	\$ 5,023,322	\$ -	\$ 5,023,322
Temporarily restricted	-	10,507,417	10,507,417
Permanently restricted	-	11,777,090	11,777,090
Net assets as currently presented:	<u>\$ 5,023,322</u>	<u>\$ 22,284,507</u>	<u>\$ 27,307,829</u>

Reclassifications

Certain reclassifications have been made to the prior year statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged by these reclassifications.

Subsequent events

Management has evaluated subsequent events through November 15, 2019, the date the financial statements were available to be issued. Except as described in Notes 5 and 6, no events were identified that required additional disclosure in the financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the statement of financial position for cash and cash equivalents, accounts payable and accrued expenses, and certain other liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The following methods and assumptions were considered by the Foundation in estimating the fair value of its other financial instruments. Any variance in resulting fair value from recorded values was insignificant.

Pledges

The fair value of pledges is determined by discounting multi-year pledges to net present value using a discount rate commensurate with the payment terms of the pledge.

Beneficial interest in long-term trusts held by others

The fair value of the beneficial interest in long-term trusts held by others is determined by the fair value of the underlying investments held by the third-party trustees.

Obligations under gift annuity agreements

The fair value of obligations under gift annuity agreements is based upon the payments to be made over the estimated remaining lives of the income beneficiaries and is discounted to present value using applicable discount rate.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued

Investments

The Foundation values its investments at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted in active markets but are corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest level priority to Level 3 inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following is a description of valuation methodologies used for assets measured at fair value:

Equity securities and mutual funds (cash, equities, fixed income, commodities) - Valued at the closing price as reported on the active market on which the individual securities or funds are traded.

Fixed income (bond funds or individual bonds) - Valued based on yields currently available on comparable securities of the issuer or other issuers with similar credit ratings (other than investments in certain entities that calculate net asset value ("NAV") per share).

Alternative investments - Valued at the NAV as provided by the investment managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2019 and 2018, the Foundation had no plans to sell investments at amounts different from NAV. Funds measured at NAV as a practical expedient to estimate fair value are not classified in the fair value hierarchy.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued

No changes were made to the valuation methodologies during the years ended June 30, 2019 and 2018. 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, 2019 and 2018:

Description	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 115,555	\$ -	\$ -	\$ 115,555
Investments at fair value				
Equities				
Domestic	5,968,395	-	-	5,968,395
International	4,477,077	-	-	4,477,077
Emerging markets	1,700,487	-	-	1,700,487
Fixed income				
Domestic	7,194,687	-	-	7,194,687
International	1,034,299	-	-	1,034,299
Emerging markets	1,301,370	-	-	1,301,370
Alternative investments				
Private equity - measured at NAV	-	-	-	159,456
Master limited partnerships	150,273	-	-	150,273
Total investments at fair value	21,826,588	-	-	21,986,044
Beneficial interest in assets held by others	66,834	-	-	66,834
Total	<u>\$ 22,008,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,168,433</u>

Description	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 477,661	\$ -	\$ -	\$ 477,661
Investments at fair value				
Equities				
Domestic	5,194,080	-	-	5,194,080
International	3,296,540	-	-	3,296,540
Emerging markets	1,126,798	-	-	1,126,798
Fixed income				
Domestic	8,835,749	-	-	8,835,749
International	625,756	-	-	625,756
Emerging markets	281,545	-	-	281,545
Alternative investments				
Master limited partnerships	120,310	-	-	120,310
Total Investments	19,480,778	-	-	19,480,778
Beneficial interest in assets held by others	63,838	-	-	63,838
Total	<u>\$ 20,022,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,022,276</u>

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued

Return on investments is summarized as follows for the respective years ended June 30, 2019 and 2018:

	2019	2018
Interest	\$ 173,789	\$ 187,542
Dividends	520,910	441,701
Total interest and dividends	694,699	629,243
Net realized gain (loss)	(64,550)	1,156,790
Total realized investment income	630,149	1,786,033
Net unrealized gain (loss)	603,266	(1,069,199)
Total return on investments before expenses	1,233,415	716,834
Brokerage and custodial fees	(102,831)	(94,762)
Interest expense	(17,429)	(24,197)
Return on investments, net of expenses	\$ 1,113,155	\$ 597,875

Investments in certain entities that calculate NAV per share are as follows:

Description	June 30, 2019 NAV	June 30, 2019 Unfunded Commitments	Redemption Frequency
Private equity	\$ 159,456	\$ 594,000	Upon fund termination

Private equity funds focus on buyout, growth equity, and/or distressed debt. These investments are not readily redeemable, but a secondary market does exist. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. The terms of these investments range from 1 to 12 years.

NOTE 4 - PLEDGES RECEIVABLE

Due to the short duration (2 to 5 years) and low discount rates from the United States Treasury zero-coupon bond rates ranging from 1.71% to 2.00%, the carrying value reasonably approximates fair value at those dates. Management considers all pledges receivable to be collectible as of June 30, 2019.

Scheduled estimated collections of pledges receivable are as follows:

	2019	2018
Amounts due in		
Less than one year	\$ 185,888	\$ 276,802
One to five years	146,543	422,997
More than five years	30,572	27,500
Pledges receivable	\$ 363,003	\$ 620,543

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 4 - PLEDGES RECEIVABLE - Continued

Approximately 69% of the Foundation's pledges receivable as of June 30, 2019 consisted of pledges from three donors. Approximately 65% of the Foundation's pledges receivable for the year ended June 30, 2018 consisted of pledges from two donors.

Related party pledges, included in pledges receivable, as of June 30, 2019 and 2018 were \$35,500 and \$50,481, respectively, representing 10% and 8%, respectively.

NOTE 5 - TANGIBLE ASSETS

Tangible assets include gifts-in-kind and purchased items held by the Foundation. Included in gifts-in-kind are two townhomes, which the Foundation is depreciating over a period of forty years using the straight-line method. Depreciation expense for each of the years ended June 30, 2019 and 2018 was \$35,787. Subsequent to year end, the Foundation recognized a net gain on the sale of one of the townhomes.

The Foundation's collection items 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.

At June 30, 2019, tangible assets are composed of the following:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or time	Perpetuity	
Gifts-in-kind				
Land and buildings	\$ 1,025,000 (a)	\$ 12,000	\$ -	\$ 1,037,000
Accumulated depreciation	(168,750)	-	-	(168,750)
Collection items	<u>51,600</u>	<u>3,015,263</u>	<u>2,641,550</u>	<u>5,708,413</u>
Total gifts-in-kind	<u>907,850</u>	<u>3,027,263</u>	<u>2,641,550</u>	<u>6,576,663</u>
Purchased assets				
Land and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(254,670)	-	(254,670)
Collection items	-	92,335	152,995	245,330
Concert pianos	<u>-</u>	<u>73,900</u>	<u>-</u>	<u>73,900</u>
Total purchased assets	<u>-</u>	<u>905,965</u>	<u>152,995</u>	<u>1,058,960</u>
Total tangible assets	<u>\$ 907,850</u>	<u>\$ 3,933,228</u>	<u>\$ 2,794,545</u>	<u>\$ 7,635,623</u>

(a) The Foundation recognized a determinable market value loss of \$225,000 on land donated in a prior year.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 5 - TANGIBLE ASSETS - Continued

At June 30, 2018, tangible assets are composed of the following:

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or time	Perpetuity	
Gifts-in-kind				
Land and buildings	\$ 1,250,000	\$ 12,000	\$ -	\$ 1,262,000
Accumulated depreciation	(150,000)	-	-	(150,000)
Collection items	51,600	2,811,177	2,641,550	5,504,327
Total gifts-in-kind	1,151,600	2,823,177	2,641,550	6,616,327
Purchased assets				
Land and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(237,633)	-	(237,633)
Collection items	-	92,335	152,995	245,330
Concert pianos	-	73,900	-	73,900
Total purchased assets	-	923,002	152,995	1,075,997
 Total tangible assets	 \$ 1,151,600	 \$ 3,746,179	 \$ 2,794,545	 \$ 7,692,324

NOTE 6 - MARGIN LOAN

The margin loan balances of \$63,733 and \$732,357 at June 30, 2019 and 2018, respectively, are collateralized by investment securities to the full extent of the outstanding loan balance, and are subject to a variable interest rate that changes with LIBOR (4.15% at June 30, 2019 and 2.09% at June 30, 2018). 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's Executive Board approves the management of the margin loan balance. The outstanding margin loan balance as of June 30, 2019 was fully retired in August 2019.

Interest expense was \$17,428 and \$24,197, for the years ended June 30, 2019 and 2018, respectively.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 7 - BOARD DESIGNATED FUNDS

Board designated endowments

The activity in Board designated endowments during the years ended June 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 1,499,289	\$ 1,434,032
Net investment income	78,084	65,257
Ending balance	<u>\$ 1,577,373</u>	<u>\$ 1,499,289</u>

Other Board designations

At June 30, 2019 and 2018, the respective \$188,734 and \$312,089 balances of other Board designations represented funds without donor restrictions designated by the Executive Board primarily for scholarships.

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTION

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

	<u>2019</u>	<u>2018</u>
Purpose restriction accomplished		
Scholarships	\$ 808,990	\$ 808,690
Other program expense	2,249,624	2,173,572
Fundraising expense	26,165	14,021
Total released from restriction	<u>\$ 3,084,779</u>	<u>\$ 2,996,283</u>

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS IN PERPETUITY

Net assets held in perpetuity at June 30, 2019 and 2018 were for the following purposes:

	<u>2019</u>	<u>2018</u>
Specific scholarship programs	\$ 9,064,713	\$ 8,456,698
Artists in Residence	260,257	249,132
Durango Collection	<u>3,071,260</u>	<u>3,071,260</u>
Total net assets with donor restrictions in perpetuity	<u>\$ 12,396,230</u>	<u>\$ 11,777,090</u>

NOTE 10 - 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, 2019 and 2018, the Foundation recognized support and offsetting expenses of \$324,304 under the terms of the respective MOUs.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 10 - RELATED PARTY TRANSACTIONS - Continued

At June 30, 2019 and 2018, respectively, the Foundation reflected \$393,130 and \$285,098 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, 2019 and 2018, the College contributed \$25,629 and \$125,048, respectively, to the Foundation, restricted for payment of professional fees incurred on behalf of the College.

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, 2019 and 2018.

Related party pledges represented 10% and 8% of the pledges receivable balance as of June 30, 2019 and 2018, respectively.

The Foundation charged an administrative fee to all funds for the year ended June 30, 2019 to support operations and advancement activities. A total fee of \$450,495 was assessed, of which \$47,125 was charged to funds without donor restrictions and \$403,370 to funds with donor restrictions. This included \$213,495 charged to endowment funds. In prior years, a portion of net investment income was allocated to the Foundation's unrestricted fund to support operations and advancement activities. For the year ended June 30, 2018, the amount allocated was \$305,000.

NOTE 11 - ENDOWMENTS

Foundation endowment funds consist of cash, securities, or other assets held to provide income to fulfill the purpose of the Foundation. The use of the assets may be with or without donor restrictions. The portion of the funds that must be maintained in perpetuity, not used up, expended or otherwise exhausted and the portion of the funds that must be maintained for a specific term or for a specified purpose are classified as net assets with donor restrictions. The portion of the funds that may be expended at the discretion of the Executive Board is classified as net assets without restrictions.

Relevant law

The Foundation follows the Uniform Prudent Management of Institutional 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 net assets without donor restrictions until the amounts are appropriated for expenditure by the Executive Board in a manner consistent with the standard of prudence prescribed in UPMIFA.

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.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 11 - ENDOWMENTS - Continued

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, 2019 is summarized as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose or time</u>	<u>Perpetuity</u>	
Donor-restricted endowment funds	\$ -	\$ 2,040,111	\$ 9,601,685	\$ 11,641,796
Board-designated endowment funds	1,577,373	-	-	1,577,373
Total funds	<u>\$ 1,577,373</u>	<u>\$ 2,040,111</u>	<u>\$ 9,601,685</u>	<u>\$ 13,219,169</u>

Endowment net asset composition by type of fund as of June 30, 2018 is summarized as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		<u>Restrictions</u>
		<u>Purpose or time</u>	<u>Perpetuity</u>	
Donor-restricted endowment funds	\$ -	\$ 1,857,415	\$ 8,982,545	\$ 10,839,960
Board-designated endowment funds	1,499,289	-	-	1,499,289
Total funds	<u>\$ 1,499,289</u>	<u>\$ 1,857,415</u>	<u>\$ 8,982,545</u>	<u>\$ 12,339,249</u>

The change in endowment net assets for the two-year period ended June 30, 2019 is as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		<u>Restrictions</u>
		<u>Purpose or time</u>	<u>Perpetuity</u>	
Endowment net assets, July 1, 2017	\$ 1,434,032	\$ 1,702,249	\$ 8,225,219	\$ 11,361,500
Contributions and other income	-	58,744	745,273	804,017
Investment income and net appreciation	65,257	433,191	-	498,448
Program expenditures and scholarships	-	(295,848)	-	(295,848)
Changes in donor restrictions	-	<u>(40,921)</u>	<u>12,053</u>	<u>(28,868)</u>
Endowment net assets, June 30, 2018	1,499,289	1,857,415	8,982,545	12,339,249
Contributions and other income	-	53,906	496,986	550,892
Investment income and net appreciation	78,222	578,356	-	656,578
Program expenditures and scholarships	(138)	(607,258)	-	(607,396)
Changes in donor restrictions	-	<u>157,692</u>	<u>122,155</u>	<u>279,847</u>
Endowment net assets, June 30, 2019	<u>\$ 1,577,373</u>	<u>\$ 2,040,111</u>	<u>\$ 9,601,685</u>	<u>\$ 13,219,169</u>

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 11 - ENDOWMENTS - Continued

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, accumulated deficiencies of this nature are to be reported in net assets without donor restrictions. Disclosure of these deficiencies is required under GAAP; however, there is no legal obligation for the Foundation to fund these deficiencies. There were no endowment funds with deficiencies for the years ended June 30, 2019 and 2018.

NOTE 12 - FUNDS HELD IN TRUST

GAAP requires the recording of all unconditional, irrevocable split-interest agreements under which the Foundation is entitled to receive a benefit. With the exception of charitable gift annuities, split interest agreements are carried out through the formation of charitable trusts, the trustees of which may be either the Foundation or third parties, such as commercial banks.

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

Perpetual trusts provide for the distribution of the net income of the trusts to the Foundation; however, the Foundation will never receive the assets of the trust. At June 30, 2019 and 2018, the fair value of assets held in the trust for the benefit of the Foundation was \$146,886 and \$143,026, respectively.

NOTE 13 - LIQUIDITY

The Foundation's primary sources of support are contributions and income from investing. Most of that support is required to be used in accordance with the purpose restrictions imposed by the donors. Donor-restricted support has historically funded approximately 80% of annual program and supporting activities, with the remainder funded by investment income without donor restrictions.

THE FORT LEWIS COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 13 - LIQUIDITY - Continued

The following table reflects the Foundation's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or Board designations. In the event the need arises to utilize Board designated funds for liquidity purposes, such funds could be drawn upon through resolution.

	<u>2019</u>
Financial assets:	
Cash and cash equivalents	\$ 115,555
Pledges receivable	363,003
Investments	21,986,044
Beneficial interest in assets	66,834
Current liabilities	<u>(404,443)</u>
Financial assets, at year-end	22,127,003
Less those unavailable for general expenditure within one year due to:	
Pledges receivable	(177,115)
Purpose restrictions	(9,235,304)
Perpetual endowments	(9,601,685)
Board designated endowments	<u>(1,766,107)</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 1,346,792</u>