

**FORT LEWIS COLLEGE  
FOUNDATION, INC.**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

June 30, 2014 and 2013

**FORT LEWIS COLLEGE FOUNDATION, INC.**

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June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Fort Lewis College Foundation, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and 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**

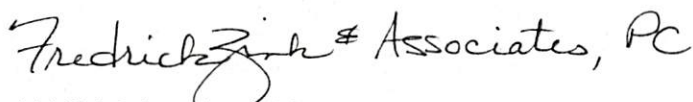
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, Inc. as of June 30, 2014 and 2013, 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  
September 12, 2014

**FINANCIAL STATEMENTS**

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **STATEMENTS OF FINANCIAL POSITION**

June 30, 2014 and 2013

### **ASSETS**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Pooled cash and cash equivalents (Note 3).....	\$ 632,332	\$ 1,092,619
Pooled investments (Note 3).....	16,239,443	14,404,265
Pledges receivables (Note 7).....	50,000	40,149
Beneficial interest in assets held by others (Note 5).....	520,208	80,355
Accounts receivable.....	-	352
Tangible assets, net (Note 8) .....	<u>7,910,394</u>	<u>7,927,778</u>
<b>Total assets</b> .....	<b><u>\$ 25,352,377</u></b>	<b><u>\$ 23,545,518</u></b>

### **LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Accounts payable and accrued expenses.....	\$ 1,247	\$ 195
Accounts payable - Fort Lewis College (Note 15).....	210,823	85,118
Gift annuity obligation payable (Note 9).....	106,122	5,248
Line of credit payable (Note 10).....	<u>1,143,071</u>	<u>1,256,860</u>
<b>Total liabilities</b> .....	<u>1,461,263</u>	<u>1,347,421</u>
<b>Net assets</b>		
Unrestricted		
General unrestricted.....	1,037,066	1,021,046
Board designated endowments (Notes 11 and 16).....	1,279,917	1,227,208
Other board designations (Note 11).....	-	1,608
Gifts-in-kind and other tangible assets (Note 8).....	<u>1,675,854</u>	<u>290,104</u>
Total unrestricted net assets.....	<u>3,992,837</u>	<u>2,539,966</u>
Temporarily restricted		
Scholarships, awards and other (Note 4).....	6,723,878	6,118,388
Endowment funds (Note 16).....	1,171,670	1,036,315
Gifts-in-kind and other tangible assets (Note 8).....	<u>3,439,995</u>	<u>4,843,129</u>
Total temporarily restricted net assets.....	<u>11,335,543</u>	<u>11,997,832</u>
Permanently restricted (Note 13)		
Endowment funds (Note 16).....	5,768,189	4,865,754
Gifts-in-kind (Note 8).....	<u>2,794,545</u>	<u>2,794,545</u>
Total permanently restricted net assets.....	<u>8,562,734</u>	<u>7,660,299</u>
<b>Total net assets</b> .....	<u>23,891,114</u>	<u>22,198,097</u>
<b>Total liabilities and net assets</b> .....	<b><u>\$ 25,352,377</u></b>	<b><u>\$ 23,545,518</u></b>

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

**FORT LEWIS COLLEGE FOUNDATION, INC.**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Net assets at beginning of year.....</b>	<b>\$ 2,539,966</b>	<b>\$ 11,997,832</b>	<b>\$ 7,660,299</b>	<b>\$ 22,198,097</b>
Revenue, gains, and other support				
Donations - cash.....	170,444	1,461,250	160,033	1,791,727
Donations - marketable securities.....	-	42,647	318,775	361,422
Donations - gifts-in-kind.....	-	75,485	-	75,485
Investment income, net (Note 4).....	378,703	1,688,761	-	2,067,464
Other income.....	26,735	244,848	-	271,583
Subtotal.....	575,882	3,512,991	478,808	4,567,681
Net assets released from restrictions (Note 12).....	3,756,520	(3,756,520)	-	-
Total revenue, gains, and other support.....	4,332,402	(243,529)	478,808	4,567,681
Expenses and losses				
Scholarships and awards.....	921,846			921,846
Program expenses.....	1,612,668			1,612,668
Fundraising.....	190,597			190,597
Management and general.....	149,553			149,553
Total expenses and losses.....	2,874,664			2,874,664
Changes in donor restrictions.....	(4,867)	(418,760)	423,627	-
<b>Change in net assets for the year.....</b>	<b>1,452,871</b>	<b>(662,289)</b>	<b>902,435</b>	<b>1,693,017</b>
<b>Net assets at end of year.....</b>	<b>\$ 3,992,837</b>	<b>\$ 11,335,543</b>	<b>\$ 8,562,734</b>	<b>\$ 23,891,114</b>

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

**FORT LEWIS COLLEGE FOUNDATION, INC.**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Net assets at beginning of year.....</b>	<b>\$ 2,578,684</b>	<b>\$ 11,041,897</b>	<b>\$ 7,591,115</b>	<b>\$ 21,211,696</b>
Revenue, gains, and other support				
Donations - cash.....	129,490	1,904,128	53,492	2,087,110
Donations - marketable securities.....	-	70,076	-	70,076
Donations - gifts-in-kind.....	-	166,181	-	166,181
Investment income, net (Note 4).....	346,993	579,519	-	926,512
Other income.....	2,575	254,139	458	257,172
Subtotal.....	479,058	2,974,043	53,950	3,507,051
Net assets released from restrictions (Note 12).....	2,002,874	(2,002,874)	-	-
Total revenue, gains, and other support.....	2,481,932	971,169	53,950	3,507,051
Expenses and losses				
Scholarships and awards.....	841,182			841,182
Program expenses.....	1,348,606			1,348,606
Fundraising.....	190,791			190,791
Management and general.....	140,071			140,071
Total expenses and losses.....	2,520,650			2,520,650
Changes in donor restrictions.....	-	(15,234)	15,234	-
<b>Change in net assets for the year.....</b>	<b>(38,718)</b>	<b>955,935</b>	<b>69,184</b>	<b>986,401</b>
<b>Net assets at end of year.....</b>	<b>\$ 2,539,966</b>	<b>\$ 11,997,832</b>	<b>\$ 7,660,299</b>	<b>\$ 22,198,097</b>

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

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **STATEMENTS OF CASH FLOWS** For the Years Ended June 30, 2014 and 2013

### **Increase (Decrease) in Cash and Cash Equivalents**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Cash received from donors and others.....	\$ 1,855,378	\$ 2,289,906
Investment income received.....	424,388	406,109
Scholarships and awards paid.....	(921,846)	(841,182)
Cash paid for program and other expenses.....	(1,672,906)	(1,605,530)
Interest paid.....	(21,886)	(14,891)
Net cash provided (used) by operating activities.....	<u>(336,872)</u>	<u>234,412</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments.....	5,101,090	4,709,021
Purchases of investments.....	(5,257,902)	(5,275,076)
Purchase of tangible items.....	-	(9,995)
Payments under split-interest gift arrangements.....	(12,847)	(6,960)
Net cash used by investing activities.....	<u>(169,659)</u>	<u>(583,010)</u>
<b>Cash flows from financing activities:</b>		
Endowment donations received in cash.....	160,033	53,492
Borrowings on line of credit.....	-	1,000,000
Principal payments on line of credit.....	(113,789)	(125,932)
Net cash provided by financing activities.....	<u>46,244</u>	<u>927,560</u>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(460,287)</b>	<b>578,962</b>
Cash and cash equivalents, beginning of year.....	<u>1,092,619</u>	<u>513,657</u>
Cash and cash equivalents, end of year.....	<u>\$ 632,332</u>	<u>\$ 1,092,619</u>



**FORT LEWIS COLLEGE FOUNDATION, INC.**

STATEMENTS OF CASH FLOWS - Continued  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of change in net assets to net cash provided (used) by operating activities:</b>		
Change in net assets.....	\$ 1,693,017	\$ 986,401
<b>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:</b>		
Endowment donations received, cash and non-cash.....	(478,808)	(53,492)
Other non-cash donations received.....	(72,175)	(209,686)
Depreciation.....	46,912	46,912
Net realized and unrealized gain on investments.....	(1,643,076)	(520,403)
Decrease (increase) in pledges receivable, net.....	(9,851)	11,197
Decrease (increase) in accounts receivable.....	352	(252)
Increase (decrease) in accounts payable.....	126,757	(26,265)
Total adjustments.....	<u>(2,029,889)</u>	<u>(751,989)</u>
Net cash provided (used) by operating activities.....	<u>\$ (336,872)</u>	<u>\$ 234,412</u>

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

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2014 and 2013

### **NOTE 1 - MISSION OF THE ORGANIZATION**

Fort Lewis College Foundation, Inc. (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 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**

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 restrictions.

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. Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation. Such reclassifications had no effect on total net assets or the change in net assets.

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 fund raising expenses and allocated costs.

#### **Donations**

Donations, including 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.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **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 from operating cash.

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.

#### **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 (GIK) 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. Acquisitions of tangible assets in excess of \$5,000 and having a useful life of over one year 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.

#### **Earnings and loss allocations**

It is the Foundation's policy that income earned on pooled 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 policy for 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. See Note 4 for allocation results. 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 fund raising 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.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **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 State 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 2009 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.

#### **Subsequent events**

Management has evaluated subsequent events through September 12, 2014 the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

### **NOTE 3 - CASH AND INVESTMENTS**

Investments are identified and allocated using four asset classes. Asset classes include cash and cash equivalents, fixed income securities, equities, and commodities. Asset allocation is reviewed at least annually by the Investment Committee. For the years reported herein, cash and cash equivalents consist of demand deposits and money market accounts. Fixed income securities include GNMA pools, other government backed securities individually held and mutual funds. Equities include individual stocks, exchange traded funds, and stock mutual funds. All values are derived from quoted prices in active markets for identical assets.

Investments totaling \$12,535,726 serve as collateral on the line of credit at June 30, 2014. At June 30, 2013, \$15,104,097 of investments served as collateral. See Note 10.

#### **Concentration of credit risk**

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 through its Investment Committee. Investments are made and monitored by the Foundation's investment advisor. 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, INC.**

### NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2014 and 2013

#### **NOTE 3 - CASH AND INVESTMENTS - Continued**

##### Pooled cash and investments

Pooled cash and investments as of June 30, 2014 are summarized as follows:

	2014			
	Cost basis	Fair Value	% of Total	Unrealized Appreciation (Depreciation)
Pooled cash and cash equivalents	\$ 632,332	\$ 632,332	4%	\$ -
Pooled investments:				
Marketable securities				
Fixed income	5,312,166	5,562,222	33%	250,056
Equities	8,517,003	10,279,139	61%	1,762,136
Total marketable securities	13,829,169	15,841,361	94%	2,012,192
Precious metals (gold)	412,551	398,082	2%	(14,469)
Total pooled investments	14,241,720	16,239,443	96%	1,997,723
Total pooled cash and investments	\$ 14,874,052	\$ 16,871,775	100%	\$ 1,997,723

Pooled cash and investments as of June 30, 2013 are summarized as follows:

	2013			
	Cost basis	Fair Value	% of Total	Unrealized Appreciation (Depreciation)
Pooled cash and cash equivalents	\$ 1,094,359	\$ 1,092,619	7%	\$ (1,740)
Pooled investments:				
Marketable securities				
Fixed income	4,267,989	4,382,185	28%	114,196
Equities	8,817,006	9,652,138	62%	835,132
Total marketable securities	13,084,995	14,034,323	90%	949,328
Precious metals (gold)	412,551	369,942	3%	(42,609)
Total pooled investments	13,497,546	14,404,265	93%	906,719
Total pooled cash and investments	\$ 14,591,905	\$ 15,496,884	100%	\$ 904,979

During the year ended June 30, 2014, net realized gains of \$711,991 were recognized on pooled investments, along with net unrealized gains of \$927,690. During the year ended June 30, 2013, net realized gains of \$426,510 were recognized on pooled investments, along with net unrealized gains of \$89,322.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2014 and 2013

### **NOTE 4 - INVESTMENT INCOME**

Investment income for the respective years ended June 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest	\$ 217,318	\$ 230,297
Dividends	317,099	260,023
Total interest and dividends	<u>534,417</u>	<u>490,320</u>
Net realized gain	715,386	427,537
Net unrealized gain	<u>927,690</u>	<u>92,866</u>
Total investment income	2,177,493	1,010,723
Brokerage and custodial fees	(94,068)	(75,680)
Interest expense (Note 10)	<u>(15,961)</u>	<u>(8,531)</u>
Investment income, net	<u>\$ 2,067,464</u>	<u>\$ 926,512</u>

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 Committee. For the years ended June 30, 2014 and 2013, the allocation methodology provided for \$305,000 and \$270,000, respectively, 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, 2014 and 2013, allocations were based on the following rates:

	<u>2014</u>		<u>2013</u>	
	<u>December 2013</u>	<u>June 2014</u>	<u>December 2012</u>	<u>June 2013</u>
Annualized rate by fund:				
All funds with balances from \$10,000 - \$25,000	1.0%	1.0%	1.5%	1.0%
Term and unrestricted funds with balances over \$25,000	2.5%	2.5%	3.0%	2.5%
Endowment funds with balances over \$25,000	3.5%	4.0%	4.5%	3.5%
Endowment funds with balances over \$100,000	4.0%	4.5%	4.5%	4.0%

For the year ended June 30, 2014, amounts allocated under the approved policy were as follows:

	<u>December</u>	<u>June</u>	<u>Total</u>
General unrestricted fund	\$ 152,500	\$ 152,500	\$ 305,000
Term funds and unrestricted funds	65,978	58,364	124,342
Endowment funds	<u>158,929</u>	<u>199,108</u>	<u>358,037</u>
Total allocations	<u>\$ 377,407</u>	<u>\$ 409,972</u>	<u>\$ 787,379</u>

Unallocated, undistributed earnings are carried forward as a cushion against possible future market volatility and amounted to \$2,425,981 and \$1,171,119 at June 30, 2014 and 2013, respectively, included in temporarily restricted net assets in the accompanying statement of financial position, under the caption Scholarships, awards and other.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 4 - INVESTMENT INCOME - Continued**

For the year ended June 30, 2013, amounts allocated under the approved policy were as follows:

	December	June	Total
General unrestricted fund	\$ 135,000	\$ 135,000	\$ 270,000
Term and unrestricted funds	100,565	83,783	184,348
Endowment funds	151,650	127,009	278,659
Total allocations	\$ 387,215	\$ 345,792	\$ 733,007

### **NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

The Foundation has a beneficial interest in assets held and managed by the Wells Fargo Bank trust department and reports them at fair market value. As described in Note 9, trusts are established to fund long term annuity obligations. When annuity obligations have been satisfied, any remaining funds will be distributed to the Foundation.

Beneficial interest in assets held by others as of June 30, 2014 are summarized as follows:

	2014		
	Cost basis	Fair Value	Unrealized Appreciation
Cash and cash equivalents	\$ 14,038	\$ 14,038	\$ -
Investments:			
Fixed income	122,909	134,314	11,405
Equities	268,790	371,856	103,066
Total investments	391,699	506,170	114,471
Total cash and investments	\$ 405,737	\$ 520,208	\$ 114,471

Beneficial interest in assets held by others as of June 30, 2013 are summarized as follows:

	2013		
	Cost basis	Fair Value	Unrealized Appreciation
Cash and cash equivalents	\$ 8,677	\$ 8,677	\$ -
Investments:			
Marketable securities			
Fixed income	12,279	12,878	599
Equities	48,199	58,800	10,601
Total investments	60,478	71,678	11,200
Total cash and investments	\$ 69,155	\$ 80,355	\$ 11,200

During the year ended June 30, 2014, net realized gains of \$3,395 were recognized on these investments. There were no unrealized gains as of June 30, 2014. During the year ended June 30, 2013, net realized gains of \$1,027 were recognized along with net unrealized gains of \$3,544.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **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 approximated 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.

Gifts-in-kind: 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 estimated fair values of the Foundation's financial instruments at June 30, 2014 are as follows:

	<u>Carrying Amounts</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 632,332	\$ 632,332
Unconditional promises to give (pledges)	50,000	50,000
Investment securities and commodities	16,239,443	16,239,443
Beneficial interest in assets held by others	520,208	520,208
Tangible assets, net	7,910,394	7,910,394
Financial liabilities		
Accounts payable	212,070	212,070
Gift annuity obligation payable	106,122	106,122
Line of credit payable	1,143,071	1,143,071

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.



# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 6 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued**

Level 3: Prices determined using significant unobservable inputs.

The 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. Collection items are classified under Level 3. Major items received as gifts are supported by appraisal at the time of receipt. The increase from 2013 to 2014 under Level 3 is attributable to purchases and gifts-in-kind received during the year.

The following tables set forth, by level within the fair value hierarchy, the Foundation's financial instrument assets stated at fair value on a recurring basis as of June 30, 2014 and 2013:

	<u>Fair Value</u>	<u>Quoted price in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<b><u>June 30, 2014</u></b>				
Fixed income securities	\$ 5,562,222	\$ 5,562,222	\$ -	\$ -
Equities	10,279,139	10,279,139	-	-
Precious metals	398,082	398,082	-	-
Pledges receivable	50,000	-	50,000	-
Beneficial interest in assets held by others	520,208	520,208	-	-
Tangible assets	<u>7,910,394</u>	<u>-</u>	<u>2,595,124</u>	<u>5,315,270</u>
Total	<u>\$ 24,720,045</u>	<u>\$ 16,759,651</u>	<u>\$ 2,645,124</u>	<u>\$ 5,315,270</u>
<b><u>June 30, 2013</u></b>				
Fixed income securities	\$ 4,382,185	\$ 4,382,185	\$ -	\$ -
Equities	9,652,138	9,652,138	-	-
Precious metals	369,942	369,942	-	-
Pledges receivable	40,149	-	40,149	-
Beneficial interest in assets held by others	80,355	80,355	-	-
Tangible assets	<u>7,927,778</u>	<u>-</u>	<u>2,642,036</u>	<u>5,285,742</u>
Total	<u>\$ 22,452,547</u>	<u>\$ 14,484,620</u>	<u>\$ 2,682,185</u>	<u>\$ 5,285,742</u>

### **NOTE 7 - PLEDGES RECEIVABLE**

At June 30, 2014, the Foundation had a pledge receivable from one donor. The total balance due at June 30, 2014 was \$50,000, which approximates fair value. Collection of the pledge is expected during the year ending June 30, 2015.

At June 30, 2013, the Foundation had pledges receivable from two donors. The total balance due at June 30, 2013 was \$40,149, which approximates fair value.

## **FORT LEWIS COLLEGE FOUNDATION, INC.**

### NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2014 and 2013

#### **NOTE 8 - TANGIBLE ASSETS**

Tangible assets include gifts-in-kind and purchased items held by the Foundation. Included in real estate are condominiums, 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, 2014 and 2013 was \$46,912.

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.

At June 30, 2014, tangible assets are composed of the following:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Gifts-in-kind				
Real estate and buildings	\$ 1,820,000	\$ 12,000	\$ -	\$ 1,832,000
Accumulated depreciation	(144,146)	-	-	(144,146)
Collection items	-	2,436,845	2,641,550	5,078,395
Total gifts-in-kind	1,675,854	2,448,845	2,641,550	6,766,249
Purchased assets				
Real estate and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(169,485)	-	(169,485)
Collection items	-	92,335	152,995	245,330
Concert piano	-	73,900	-	73,900
Total purchased assets	-	991,150	152,995	1,114,145
Total tangible assets	\$ 1,675,854	\$ 3,439,995	\$ 2,794,545	\$ 7,910,394

At June 30, 2013, tangible assets are composed of the following:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Gifts-in-kind				
Real estate and buildings	\$ 320,000	\$ 1,512,000	\$ -	\$ 1,832,000
Accumulated depreciation	(29,896)	(84,375)	-	(114,271)
Collection items	-	2,407,317	2,641,550	5,048,867
Total gifts-in-kind	290,104	3,834,942	2,641,550	6,766,596
Purchased assets				
Real estate and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(152,448)	-	(152,448)
Collection items	-	92,335	152,995	245,330
Concert piano	-	73,900	-	73,900
Total purchased assets	-	1,008,187	152,995	1,161,182
Total tangible assets	\$ 290,104	\$ 4,843,129	\$ 2,794,545	\$ 7,927,778

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 9 - GIFT ANNUITY OBLIGATION PAYABLE**

During the year ended June 30, 2014, the Foundation accepted a split-interest gift, receiving a beneficial interest in assets valued at \$432,496 in exchange for a commitment to make periodic payments to a specified party during that person's lifetime. Based on life expectancy, an internal rate of return of 5.8%, and a discount rate of 2.2%, a gift of \$318,775 was recognized in 2014, along with a liability of \$113,721. As discussed in Note 5, donors had established trust accounts managed by Wells Fargo Bank trust department to fund this and past obligations. The total of the accounts, the balance of which exceeds the expected obligation, is carried at market value.

As of June 30, 2014 the estimated remaining obligation under the new gift annuity arrangement and a \$10,000 arrangement accepted in 2012, was \$106,122. The obligation balance of \$5,248 at June 30, 2013 represented the estimated amount due at the time under the 2012 arrangement.

### **NOTE 10 - LINE OF CREDIT**

The Foundation has an \$8,000,000 line of credit available with UBS. Any outstanding balance is subject to a variable interest rate (1.905% at June 30, 2014 and 1.693% at June 30, 2013), has no required monthly payment, and is secured by the Foundation's investments in UBS accounts (see Note 3). Initial borrowing under the line was to finance the acquisition of the College President's residence, which the College leases from the Foundation. During the year ended June 30, 2013, the Foundation drew \$1,000,000 on the line for the purpose of investing in equity securities. The balance of \$1,143,071 outstanding at June 30, 2014 consisted of \$820,749 related to the investments and \$322,322 related to the College President's residence. Interest expense for the year ended June 30, 2014 was \$21,886, \$15,961 related to investments (Note 4) and \$5,925 related to the residence. The balance of \$1,256,860 outstanding at June 30, 2013 consisted of \$904,044 related to the investments and \$352,816 related to the residence. Interest expense for the year ended June 30, 2013 was \$14,891, \$8,531 related to investments and \$6,360 related to the residence.

### **NOTE 11 - BOARD DESIGNATED FUNDS**

During the years ended June 30, 2003 and 2007, \$267,461 and \$846,115, respectively, was contributed to the Foundation by a decedent's estate. These gifts were made for the general purposes of the Foundation. The Board elected to treat the gifts as endowments. The activity in these Board designated endowments during the years ended June 30, 2014 and 2013 was as follows:

Quasi-endowment funds	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 1,227,208	\$ 1,176,670
Investment allocation	<u>52,709</u>	<u>50,538</u>
Ending balance	<u>\$ 1,279,917</u>	<u>\$ 1,227,208</u>

At June 30, 2014 the Board had no other designated unrestricted funds. At June 30, 2013 the Board had designated unrestricted funds for grants to Fort Lewis College faculty and staff totaling \$1,608.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS**

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>2014</u>	<u>2013</u>
Purpose restriction accomplished		
Scholarships	\$ 899,896	\$ 793,107
Other program expense	1,435,121	1,188,497
Fundraising expense	<u>34,003</u>	<u>21,270</u>
Total released from purpose restriction	2,369,020	2,002,874
Time restriction expired	<u>1,387,500</u>	<u>-</u>
Total released from restriction	<u>\$ 3,756,520</u>	<u>\$ 2,002,874</u>

### **NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Specific scholarship programs	\$ 5,243,592	\$ 4,342,306
Artists in Residence	247,882	246,733
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>\$ 8,562,734</u>	<u>\$ 7,660,299</u>

### **NOTE 14 - 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 \$758,395 and \$681,017 at June 30, 2014 and 2013, respectively. During the years ended June 30, 2014 and 2013, the trustee transferred \$21,008 and \$21,500, respectively, to the Foundation's Dalpra term fund for scholarships.

### **NOTE 15 - 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. Support included the sharing of certain personnel and facilities, as well as through less tangible means. For each of the years ended June 30, 2014 and 2013, the Foundation entered into an annual agreement with the College and paid \$333,504 and \$343,103, respectively, for its share of direct personnel costs.

During the years ended June 30, 2014 and 2013, the College contributed \$121,741 and \$111,356, respectively, to the Foundation, restricted for professional fees. The College leases the home 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, 2014 and 2013.

At June 30, 2014 and 2013, the Foundation reflected \$210,823 and \$85,118, respectively, as amounts due to Fort Lewis College for reimbursements from individual department funds for amounts advanced by the College.

# **FORT LEWIS COLLEGE FOUNDATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2014 and 2013

### **NOTE 16 - 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**

During the fiscal year ended June 30, 2012, the Foundation made revisions to its investment and spending policies for endowment assets 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 school, 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.

#### **Spending policy and how the investment objectives relate to spending policy**

The spending 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 school, and to supplement operating budget needs as necessary in periods of negative cash flow. The current spending 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 spending policy to allow endowed assets to maintain spendable value as well as to provide additional real growth through new gifts and investment return.

## **FORT LEWIS COLLEGE FOUNDATION, INC.**

### NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2014 and 2013

#### **NOTE 16 - ENDOWMENTS - Continued**

Endowment net asset composition by type of fund as of June 30, 2014 is summarized as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,171,670	\$ 5,768,189	\$ 6,939,859
Board-designated endowment funds	1,279,917	-	-	1,279,917
Total funds	<u>\$ 1,279,917</u>	<u>\$ 1,171,670</u>	<u>\$ 5,768,189</u>	<u>\$ 8,219,776</u>

Endowment net asset composition by type of fund as of June 30, 2013 is summarized as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,036,315	\$ 4,865,754	\$ 5,902,069
Board-designated endowment funds	1,227,208	-	-	1,227,208
Total funds	<u>\$ 1,227,208</u>	<u>\$ 1,036,315</u>	<u>\$ 4,865,754</u>	<u>\$ 7,129,277</u>

The change in net assets for the two year period ended June 30, 2014 is as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 1,176,670	\$ 1,116,253	\$ 4,806,565	\$ 7,099,488
Contributions and other income	-	61,709	53,950	115,659
Investment income and net appreciation	50,538	228,642	-	279,180
Program expenditures and scholarships	-	(201,672)	-	(201,672)
Changes in donor restrictions	-	(168,617)	5,239	(163,378)
Endowment net assets, June 30, 2013	1,227,208	1,036,315	4,865,754	7,129,277
Contributions and other income	-	57,883	478,808	536,691
Investment income and net appreciation	52,709	249,054	-	301,763
Program expenditures and scholarships	-	(179,219)	-	(179,219)
Changes in donor restrictions	-	7,637	423,627	431,264
Endowment net assets, June 30, 2014	<u>\$ 1,279,917</u>	<u>\$ 1,171,670</u>	<u>\$ 5,768,189</u>	<u>\$ 8,219,776</u>