

**FORT LEWIS COLLEGE
FOUNDATION, INC.**

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

June 30, 2013 and 2012

FORT LEWIS COLLEGE FOUNDATION, INC.

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June 30, 2013 and 2012

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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, 2013 and 2012, 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

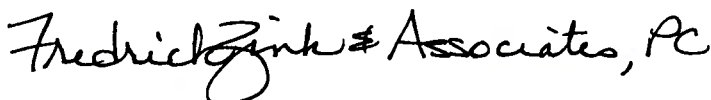
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2013 and 2012, 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 3, 2013

FINANCIAL STATEMENTS

FORT LEWIS COLLEGE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Assets		
Pooled cash and cash equivalents (Note 3).....	\$ 1,092,619	\$ 513,657
Pooled investments (Note 3).....	14,404,265	13,246,513
Pledges receivables (Note 6).....	40,149	51,346
Segregated cash and cash equivalents (Note 3).....	8,677	8,660
Segregated investments (Note 3).....	71,678	72,913
Accounts receivable.....	352	100
Tangible assets, net (Note 7)	<u>7,927,778</u>	<u>7,825,085</u>
Total assets.....	<u>\$ 23,545,518</u>	<u>\$ 21,718,274</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses.....	\$ 195	\$ 1,223
Accounts payable - Fort Lewis College (Note 14).....	85,118	110,355
Gift annuity obligation payable (Note 8).....	5,248	12,208
Line of credit payable (Note 9).....	<u>1,256,860</u>	<u>382,792</u>
Total liabilities.....	<u>1,347,421</u>	<u>506,578</u>
Net assets		
Unrestricted		
General unrestricted.....	1,021,046	1,107,785
Board designated endowments (Note 10 and 15).....	1,227,208	1,176,670
Gifts-in-kind (Note 7).....	290,104	291,854
Board designated (Note 10).....	<u>1,608</u>	<u>2,375</u>
Total unrestricted net assets.....	<u>2,539,966</u>	<u>2,578,684</u>
Temporarily restricted		
Scholarship, awards and other.....	6,118,388	5,176,963
Endowment funds (Note 15).....	1,036,315	1,116,253
Gifts-in-kind and tangible assets (Note 7).....	<u>4,843,129</u>	<u>4,748,681</u>
Total temporarily restricted net assets.....	<u>11,997,832</u>	<u>11,041,897</u>
Permanently restricted (Note 12)		
True endowments (Note 15).....	4,865,754	4,806,565
Gifts-in-kind and other tangible assets (Note 7).....	<u>2,794,545</u>	<u>2,784,550</u>
Total permanently restricted net assets.....	<u>7,660,299</u>	<u>7,591,115</u>
Total net assets.....	<u>22,198,097</u>	<u>21,211,696</u>
Total liabilities and net assets.....	<u>\$ 23,545,518</u>	<u>\$ 21,718,274</u>

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			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year.....	\$ 2,578,684	\$ 11,041,897	\$ 7,591,115	\$ 21,211,696
Revenue, gains, and other support				
Donations - cash.....	129,490	1,974,204	53,492	2,157,186
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.....	<u>479,058</u>	<u>2,974,043</u>	<u>53,950</u>	<u>3,507,051</u>
Net assets released from restrictions (Note 11).....	<u>2,002,874</u>	<u>(2,002,874)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support.....	<u>2,481,932</u>	<u>971,169</u>	<u>53,950</u>	<u>3,507,051</u>
Expenses and losses				
Scholarships and awards.....	841,182			841,182
Program expenses.....	1,299,292			1,299,292
Fundraising.....	218,117			218,117
Management and general.....	162,059			162,059
Total expenses and losses.....	<u>2,520,650</u>	<u>-</u>	<u>-</u>	<u>2,520,650</u>
Changes in donor restrictions.....	<u>-</u>	<u>(15,234)</u>	<u>15,234</u>	<u>-</u>
Change in net assets for the year.....	<u>(38,718)</u>	<u>955,935</u>	<u>69,184</u>	<u>986,401</u>
Net assets at end of year.....	<u>\$ 2,539,966</u>	<u>\$ 11,997,832</u>	<u>\$ 7,660,299</u>	<u>\$ 22,198,097</u>

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, 2012

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets at beginning of year	\$ 2,508,939	\$ 12,102,255	\$ 7,391,425	\$ 22,002,619
Revenue, gains, and other support				
Donations - cash.....	112,740	1,896,978	198,851	2,208,569
Donations - gifts-in-kind.....	-	170,646	-	170,646
Investment income (loss), net (Note 4).....	279,085	(527,806)	-	(248,721)
Gain on sale of gift-in-kind.....	-	113,004	-	113,004
Other income.....	17,694	224,052	-	241,746
Subtotal.....	409,519	1,876,874	198,851	2,485,244
Net assets released from restrictions (Note 11).....	2,890,910	(2,890,910)	-	-
Total revenue, gains, and other support.....	3,300,429	(1,014,036)	198,851	2,485,244
Expenses and losses				
Scholarships and awards.....	851,738			851,738
Program expenses.....	1,994,577			1,994,577
Fundraising.....	240,630			240,630
Management and general.....	153,722			153,722
Provision for uncollectible pledges.....	-	5,500	30,000	35,500
Total expenses and losses.....	3,240,667	5,500	30,000	3,276,167
Change in donor restrictions.....	9,983	(40,822)	30,839	-
Change in net assets	69,745	(1,060,358)	199,690	(790,923)
Net assets at end of year	\$ 2,578,684	\$ 11,041,897	\$ 7,591,115	\$ 21,211,696

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, 2013 and 2012

Increase (Decrease) in Cash and Cash Equivalents

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from donors.....	\$ 2,289,906	\$ 2,463,490
Investment income received.....	406,109	466,848
Scholarships and awards paid.....	(841,182)	(851,738)
Cash paid for program and other expenses.....	(1,605,530)	(2,599,448)
Interest paid.....	(14,891)	(7,007)
Net cash provided (used) by operating activities.....	<u>234,412</u>	<u>(527,855)</u>
Cash flows from investing activities:		
Proceeds from sales of investments.....	4,709,021	7,242,884
Purchases of investments.....	(5,275,076)	(7,743,387)
Proceeds from sale of gifts-in-kind.....	-	633,305
Purchase of tangible items.....	(9,995)	(143,325)
Payments under split-interest gift arrangements.....	(6,960)	(6,960)
Net cash used by investing activities.....	<u>(583,010)</u>	<u>(17,483)</u>
Cash flows from financing activities:		
Endowment contributions received.....	53,492	198,851
Borrowings on line of credit.....	1,000,000	-
Principal payments on line of credit.....	(125,932)	(28,257)
Net cash provided by financing activities.....	<u>927,560</u>	<u>170,594</u>
Net increase (decrease) in cash and cash equivalents.....	578,962	(374,744)
Cash and cash equivalents, beginning of year.....	<u>513,657</u>	<u>888,401</u>
Cash and cash equivalents, end of year.....	<u>\$ 1,092,619</u>	<u>\$ 513,657</u>

FORT LEWIS COLLEGE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS - Continued
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets.....	\$ 986,401	\$ (790,923)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Endowment contributions received.....	(53,492)	(198,851)
Non-cash donations received.....	(209,686)	(170,646)
Depreciation.....	46,912	34,412
Net realized and unrealized (gain) loss on investments.....	(520,403)	643,124
Gain on sale of gifts-in-kind.....	-	(113,004)
Increase in obligation under split-interest gift arrangements.....	-	7,056
Decrease in pledges receivable, net.....	11,197	183,571
Decrease (increase) in accounts receivable.....	(252)	25,452
Increase (decrease) in accounts payable.....	(26,265)	(148,046)
Total adjustments.....	<u>(751,989)</u>	<u>263,068</u>
Net cash provided (used) by operating activities.....	<u>\$ 234,412</u>	<u>\$ (527,855)</u>

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

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 presentation

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.

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 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, 2013 and 2012

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. Restricted cash representing separate cash accounts established for those instances is included in segregated cash and investments.

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, excluding those included in the segregated category.

Investments

Investments are comprised of money market funds, fixed income securities, equities, and commodities, and are carried at fair value. 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. 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.

Buildings and building improvements

Buildings and building improvements are capitalized at cost. It is the Foundation's policy to capitalize expenditures for such items in excess of \$5,000. Lesser amounts are expensed. 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. 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, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 2008 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.

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.

Reclassifications

Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation. Most significant is the reclassification of \$149,215 from program expenses to fundraising to reflect the cost of staff time devoted to fundraising efforts.

Subsequent events

Management has evaluated subsequent events through September 3, 2013 the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

NOTE 3 - CASH AND INVESTMENTS

Under the Foundation's adopted investment policy, 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 and stock mutual funds. All values are derived from quoted prices in active markets for identical assets.

Investments totaling \$15,104,097 serve as collateral on the line of credit at June 30, 2013. At June 30, 2012, \$7,195,215 of investments served as collateral. See Note 9.

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, 2013 and 2012

NOTE 3 - CASH AND INVESTMENTS - Continued

Pooled cash and investments

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

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

Pooled cash and investments as of June 30, 2012 are summarized as follows:

	<u>2012</u>		
	<u>Cost basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Pooled cash and cash equivalents	\$ <u>511,923</u>	\$ <u>513,657</u>	\$ <u>1,734</u>
Pooled investments:			
Marketable securities			
Fixed income	4,645,467	4,897,391	251,924
Equity	<u>7,367,194</u>	<u>7,686,204</u>	<u>319,010</u>
Total marketable securities	12,012,661	12,583,595	570,934
Precious metals (gold)	<u>539,049</u>	<u>662,918</u>	<u>123,869</u>
Total pooled investments	<u>12,551,710</u>	<u>13,246,513</u>	<u>694,803</u>
Total pooled cash and investments	<u>\$ 13,063,633</u>	<u>\$ 13,760,170</u>	<u>\$ 696,537</u>

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. During the year ended June 30, 2012, net realized gains of \$86,674 were recognized on pooled investments, along with net unrealized losses of \$727,378.

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 3 - CASH AND INVESTMENTS - Continued

Segregated cash and investments

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

	2013		
	<u>Cost basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Segregated cash and cash equivalents	\$ <u>8,677</u>	\$ <u>8,677</u>	\$ <u>-</u>
Segregated investments:			
Marketable securities			
Fixed income	12,279	12,878	599
Equity	<u>48,199</u>	<u>58,800</u>	<u>10,601</u>
Total segregated investments	<u>60,478</u>	<u>71,678</u>	<u>11,200</u>
Total segregated cash and investments	\$ <u>69,155</u>	\$ <u>80,355</u>	\$ <u>11,200</u>

Segregated cash and investments as of June 30, 2012 are summarized as follows:

	2012		
	<u>Cost basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Segregated cash and cash equivalents	\$ <u>8,660</u>	\$ <u>8,660</u>	\$ <u>-</u>
Segregated investments:			
Marketable securities			
Fixed income	23,353	25,035	1,682
Equity	<u>41,962</u>	<u>47,878</u>	<u>5,916</u>
Total segregated investments	<u>65,315</u>	<u>72,913</u>	<u>7,598</u>
Total segregated cash and investments	\$ <u>73,975</u>	\$ <u>81,573</u>	\$ <u>7,598</u>

During the year ended June 30, 2013, net realized gains of \$1,027 were recognized on segregated investments, along with net unrealized gains of \$3,544. During the year ended June 30, 2012, net realized gains of \$1,893 were recognized on segregated investments, along with net unrealized losses of \$4,313.

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2013 and 2012

NOTE 3 - CASH AND INVESTMENTS - Continued

Total cash and investments

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

	2013			
	Cost basis	Fair Value	Unrealized Appreciation (Depreciation)	% of Total
Cash and cash equivalents	\$ 1,103,036	\$ 1,101,296	\$ (1,740)	7%
Investments:				
Marketable securities				
Fixed income	4,280,268	4,395,063	114,795	28%
Equity	8,865,205	9,710,938	845,733	62%
Total marketable securities	13,145,473	14,106,001	960,528	90%
Precious metals (gold)	412,551	369,942	(42,609)	3%
Total investments	13,558,024	14,475,943	917,919	93%
Total cash and investments	\$ 14,661,060	\$ 15,577,239	\$ 916,179	100%

Total cash and investments as of June 30, 2012 are summarized as follows:

	2012			
	Cost basis	Fair Value	Unrealized Appreciation (Depreciation)	% of Total
Cash and cash equivalents	\$ 520,583	\$ 522,317	\$ 1,734	4%
Investments:				
Marketable securities				
Fixed income	4,668,820	4,922,426	253,606	35%
Equity	7,409,156	7,734,082	324,926	56%
Total marketable securities	12,077,976	12,656,508	578,532	91%
Precious metals (gold)	539,049	662,918	123,869	5%
Total investments	12,617,025	13,319,426	702,401	96%
Total cash and investments	\$ 13,137,608	\$ 13,841,743	\$ 704,135	100%

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2013 and 2012

NOTE 4 - INVESTMENT INCOME

Investment income for the respective years ended June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest	\$ 230,297	\$ 248,216
Dividends	260,023	218,632
Total interest and dividends	<u>490,320</u>	<u>466,848</u>
Net realized gain	427,537	88,567
Net unrealized gain (loss)	92,866	(731,691)
Total investment income (loss)	<u>1,010,723</u>	<u>(176,276)</u>
Brokerage and custodial fees	(75,680)	(72,445)
Interest expense (Note 9)	(8,531)	-
Investment income (loss), net	<u>\$ 926,512</u>	<u>\$ (248,721)</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. In addition to interest, dividends and realized and unrealized gains and losses, gains from the sale of property (\$113,004 in 2012) are included in allocable income.

For the years ended June 30, 2013 and 2012, the allocation methodology provided for \$270,000 to be added to the general unrestricted fund annually to support operations, while other funds received investment income based on annualized rates varying with fund size as of the end of each six-month period.

During the years ended June 30, 2013 and 2012, allocations were based on the following rates:

	<u>2013</u>		<u>2012</u>	
	<u>December 2012</u>	<u>June 2013</u>	<u>December 2011</u>	<u>June 2012</u>
Annualized rate by fund:				
All funds with balances from \$10,000 - \$25,000	1.5%	1.0%	3.0%	3.0%
Term and unrestricted funds with balances over \$25,000	3.0%	2.5%	4.5%	4.5%
Endowment funds with balances over \$25,000	4.5%	3.5%	4.5%	4.5%
Endowment funds with balances over \$100,000	4.5%	4.0%	4.5%	4.5%

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

	<u>December</u>	<u>June</u>	<u>Total</u>
General unrestricted fund	\$ 135,000	\$ 135,000	\$ 270,000
Temporarily restricted term funds	100,565	83,783	184,348
Temporarily restricted endowment funds	151,650	127,009	278,659
Total allocations	<u>\$ 387,215</u>	<u>\$ 345,792</u>	<u>\$ 733,007</u>

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 4 - INVESTMENT INCOME - Continued

For the year ended June 30, 2012, allocations were made for the first six-month period, but not the second, due to market conditions. Results were as follows:

	<u>December</u>	<u>June</u>	<u>Total</u>
General unrestricted fund	\$ 135,000	\$ 135,000	\$ 270,000
Temporarily restricted term funds	115,779	-	115,779
Temporarily restricted endowment funds	124,875	-	124,875
Total allocations	<u>\$ 375,654</u>	<u>\$ 135,000</u>	<u>\$ 510,654</u>

NOTE 5 - 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, 2013 are as follows:

	<u>Carrying Amounts</u>	<u>Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 1,101,296	\$ 1,101,296
Unconditional promises to give (pledges)	40,149	40,149
Investment securities and commodities	14,475,943	14,475,943
Tangible assets, net	7,927,778	7,927,778
Financial liabilities		
Accounts payable	85,313	85,313
Line of credit payable	1,256,860	1,256,860

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 wise to measure fair value. The hierarchy gives the highest priority to unadjusted quotes prices 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.

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 5 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - Continued

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

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

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

Level 3: Prices determined using significant unobservable inputs.

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 2012 to 2013 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, 2013 and 2012:

	<u>Fair Value</u>	<u>Quoted price in active markets for identical assets (Level1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<u>June 30, 2013</u>				
Fixed income securities	\$ 4,395,063	\$ 4,395,063	\$ -	\$ -
Equity securities	9,710,938	9,710,938	-	-
Precious metals	369,942	369,942	-	-
Pledges receivable	40,149	-	40,149	-
Tangible assets	<u>7,927,778</u>	<u>-</u>	<u>2,642,036</u>	<u>5,285,742</u>
Total	<u>\$ 22,443,870</u>	<u>\$ 14,475,943</u>	<u>\$ 2,682,185</u>	<u>\$ 5,285,742</u>
<u>June 30, 2012</u>				
Fixed income securities	\$ 4,922,426	\$ 4,922,426	\$ -	\$ -
Equity securities	7,734,082	7,734,082	-	-
Precious metals	662,918	662,918	-	-
Pledges receivable	51,346	-	51,346	-
Tangible assets	<u>7,825,085</u>	<u>-</u>	<u>2,688,948</u>	<u>5,136,137</u>
Total	<u>\$ 21,195,857</u>	<u>\$ 13,319,426</u>	<u>\$ 2,740,294</u>	<u>\$ 5,136,137</u>

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 6 - PLEDGES RECEIVABLE

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. Collection of pledges is expected during the year ending June 30, 2014.

At June 30, 2012, the Foundation had pledges receivable from three donors. The total balance due at June 30, 2012 was \$51,346, which approximates fair value. Pledges totaling \$35,500 were written off in 2012 as uncollectible.

NOTE 7 - TANGIBLE ASSETS

Tangible assets include gifts-in-kind and purchased items held by the Foundation. Included in real estate are six condominiums, which the Foundation is depreciating over a period of forty years using the straight-line method. Depreciation expense for the years ended June 30, 2013 and 2012 was \$46,912 and \$34,412, respectively.

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, 2013, tangible assets are comprised of the following:

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>290,104</u>	<u>3,834,942</u>	<u>2,641,550</u>	<u>6,766,596</u>
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	<u>-</u>	<u>1,008,187</u>	<u>152,995</u>	<u>1,161,182</u>
Total tangible assets	<u>\$ 290,104</u>	<u>\$ 4,843,129</u>	<u>\$ 2,794,545</u>	<u>\$ 7,927,778</u>

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 7 - TANGIBLE ASSETS - Continued

At June 30, 2012, tangible assets are comprised of the following:

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Gifts-in-kind				
Real estate and buildings	\$ 320,000	\$ 1,512,000	\$ -	\$ 1,832,000
Accumulated depreciation	(28,146)	(56,250)	-	(84,396)
Collection items	-	2,267,707	2,641,550	4,909,257
Total gifts-in-kind	291,854	3,723,457	2,641,550	6,656,861
Purchased assets				
Real estate and buildings	-	994,400	-	994,400
Accumulated depreciation	-	(135,411)	-	(135,411)
Collection items	-	92,335	143,000	235,335
Concert piano	-	73,900	-	73,900
Total purchased assets	-	1,025,224	143,000	1,168,224
Total tangible assets	\$ 291,854	\$ 4,748,681	\$ 2,784,550	\$ 7,825,085

NOTE 8 - GIFT ANNUITY OBLIGATION PAYABLE

The Foundation has accepted two split-interest gifts totaling \$110,000 (\$100,000 and \$10,000) in exchange for commitments to pay quarterly payments to the respective donors during their lifetimes. Based on life expectancy, internal rates of return of 5% and 5.6%, respectively, and discount rates of 4.6% and 3%, respectively, a gift of \$46,626 was recognized in 2005, along with liability of \$53,374 and a gift of \$2,944 was recognized in 2012, along with a liability of \$7,056. The Foundation established a trust account managed by Wells Fargo Bank trust department to fund the obligations. The account, the balance of which exceeds the expected obligation, is included in segregated cash and investments and carried at market value.

As of June 30, 2013 and 2012, the estimated remaining obligation under gift annuity arrangements was \$5,248 and \$12,208, respectively.

NOTE 9 - 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 (1.693% at June 30, 2013), has no required monthly payment, and is secured by the Foundation's investments in UBS accounts (see Note 3). The balance at June 30, 2012 was \$382,792, representing financing on the College President's residence, which the College leases from the Foundation (see Note 14). 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 \$1,256,860 outstanding at June 30, 2013 consists 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. Interest expense for the year ended June 30, 2012 was \$7,007, all related to the residence.

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 10 - 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 descendant'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, 2013 and 2012 was as follows:

Quasi-endowment funds	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 1,176,670	\$ 1,176,670
Investment allocation	50,538	-
Ending balance	<u>\$ 1,227,208</u>	<u>\$ 1,176,670</u>

At June 30, 2013 and 2012 the Board had designated unrestricted funds for grants to Fort Lewis College faculty and staff totaling \$1,608 and \$2,375, respectively.

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2013</u>	<u>2012</u>
Purpose restriction accomplished		
Scholarships	\$ 793,107	\$ 808,348
Other program expense	1,188,497	2,015,890
Fundraising expense	<u>21,270</u>	<u>66,672</u>
Total restrictions released	<u>\$ 2,002,874</u>	<u>\$ 2,890,910</u>

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Specific scholarship programs	\$ 4,342,306	\$ 4,284,467
Artists in Residence	246,733	245,383
Durango Collection fund	276,715	276,715
Durango Collection	<u>2,794,545</u>	<u>2,784,550</u>
Total permanently restricted net assets	<u>\$ 7,660,299</u>	<u>\$ 7,591,115</u>

NOTE 13 - FUNDS HELD IN TRUST

During the year ended June 30, 1988, a trust was established by the estate of Roy Dalpra for the benefit of Fort Lewis College students who are residents of La Plata County, Colorado. Citizens Bank of Farmington, New Mexico is the trustee of the funds. The Trustee determines the use of the funds and the amount to be transferred to the Foundation during the year. The market value of the trust fund was \$681,017 and \$588,075 at June 30, 2013 and 2012, respectively. During the years ended June 30, 2013 and 2012, the trustee transferred \$21,500 and \$30,000, respectively, to the Foundation's Dalpra term fund for scholarships.

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 14 - RELATED PARTY TRANSACTIONS

The Foundation exists only to benefit Fort Lewis College students, programs and activities and, as such, is supported in several ways by the College. Support included the sharing of certain personnel and facilities, as well as through less tangible means. For the years ended June 30, 2013 and 2012, the Foundation entered into annual agreements with the College and paid \$343,103 and \$298,624, respectively, for its share of the cost of facilities and salaries.

During the years ended June 30, 2013 and 2012, the College contributed \$111,356 and \$105,000, 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, 2013 and 2012.

At June 30, 2013 and 2012, the Foundation reflected \$85,118 and \$110,355, respectively, as amounts due to Fort Lewis College for reimbursements from individual department funds for amounts advanced by the College.

NOTE 15 - ENDOWMENTS

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

Interpretation of relevant law

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

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

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2013 and 2012

NOTE 15 - ENDOWMENTS – Continued

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 that attempt 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.

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>

Endowment net asset composition by type of fund as of June 30, 2012 is summarized as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,116,253	\$ 4,806,565	\$ 5,922,818
Board-designated endowment funds	1,176,670	-	-	1,176,670
Total funds	<u>\$ 1,176,670</u>	<u>\$ 1,116,253</u>	<u>\$ 4,806,565</u>	<u>\$ 7,099,488</u>

FORT LEWIS COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS - Continued
June 30, 2013 and 2012

NOTE 15 - ENDOWMENTS – Continued

The change in net assets for the two year period ended June 30, 2013 is as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 1,176,670	\$ 991,788	\$ 4,749,875	\$ 6,918,333
Contributions and other income	-	42,606	55,850	98,456
Investment income and net appreciation	-	124,875	-	124,875
Program expenditures and scholarships	-	(162,261)	-	(162,261)
Provision for uncollectible pledge	-	-	(30,000)	(30,000)
Changes in donor restrictions	<u>-</u>	<u>119,245</u>	<u>30,840</u>	<u>150,085</u>
Endowment net assets, June 30, 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	<u>-</u>	<u>(168,617)</u>	<u>5,239</u>	<u>(163,378)</u>
Endowment net assets, June 30, 2013	<u>\$ 1,227,208</u>	<u>\$ 1,036,315</u>	<u>\$ 4,865,754</u>	<u>\$ 7,129,277</u>