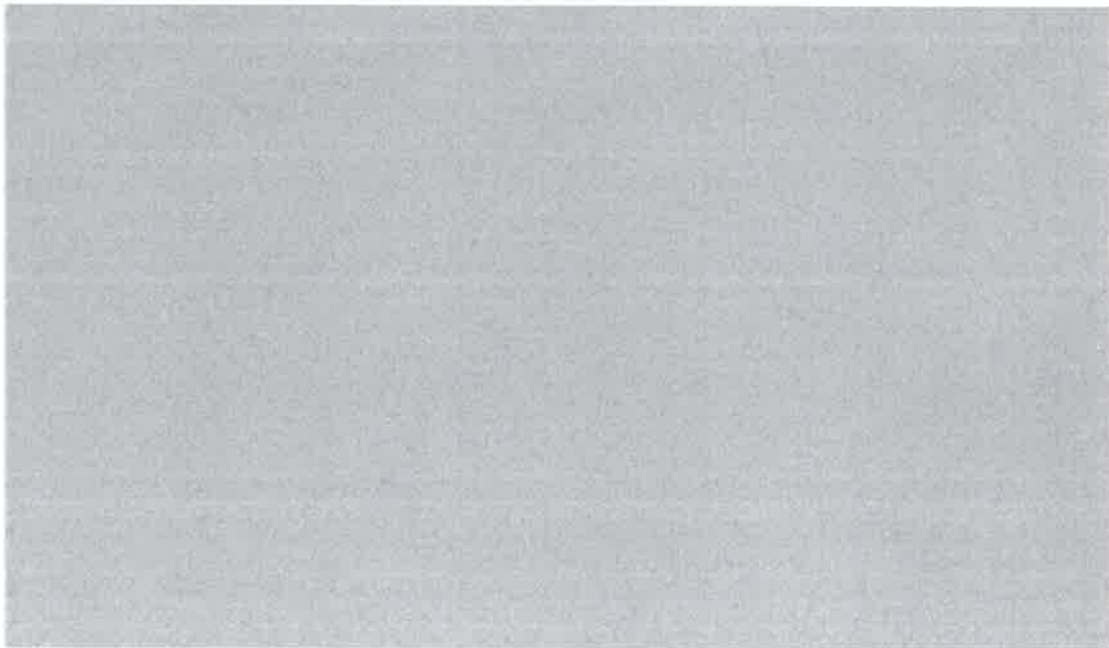


ADAMS STATE UNIVERSITY FOUNDATION

FINANCIAL STATEMENTS

June 30, 2017 and 2016



**Wall,
Smith,
Bateman** Inc.
Certified Public Accountants

ADAMS STATE UNIVERSITY FOUNDATION
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June 30, 2017 and 2016

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Wall,
Smith,
Bateman Inc.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Adams State University Foundation, Inc.

We have audited the accompanying financial statements of Adams State University Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

Auditors' 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 auditors' 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 that 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 Adams State University Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, CO
October 12, 2017

Certified Public Accountants

700 Main Street, Suite 200 PO Box 809 Alamosa, CO 81101 | 719-589-3619 | f 719-589-5492 | www.wsbcpa.com

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| ASSETS | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Cash in Bank | \$ 176,625 | \$ 329,323 |
| Pooled Cash - Brokerage Accounts | 105,776 | 41,642 |
| Segregated Cash - Brokerage Accounts | 27,069 | 125,657 |
| Certificates of Deposit | 300,000 | 300,000 |
| Pooled Investments, at Fair Value | 12,669,461 | 11,007,603 |
| Restricted Investments, at Fair Value | 7,327,485 | 6,661,219 |
| Pledges Receivable, net of allowance | 24,000 | 36,250 |
| Inventories | 7,240 | 7,240 |
| TOTAL ASSETS | <u><u>\$ 20,637,656</u></u> | <u><u>\$ 18,508,934</u></u> |
| LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$ 41,345 | \$ 92,301 |
| TOTAL LIABILITIES | <u>41,345</u> | <u>92,301</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Unreserved | 2,647,429 | 1,666,289 |
| Board Designated | 654,750 | 622,250 |
| Total Unrestricted | <u>3,302,179</u> | <u>2,288,539</u> |
| Temporarily Restricted Net Assets: | | |
| Temporarily Restricted | 2,063,641 | 2,075,429 |
| Total Temporarily Restricted Net Assets | <u>2,063,641</u> | <u>2,075,429</u> |
| Permanently Restricted Net Assets | <u>15,230,491</u> | <u>14,052,665</u> |
| TOTAL NET ASSETS | <u>20,596,311</u> | <u>18,416,633</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 20,637,656</u></u> | <u><u>\$ 18,508,934</u></u> |

The accompanying notes are an integral part of this financial statement.

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

| | 2017 | | | Total |
|---|---------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| NET ASSETS, BEGINNING OF YEAR | \$ 2,288,539 | \$ 2,075,429 | \$ 14,052,665 | \$ 18,416,633 |
| REVENUES, GAINS, AND OTHER SUPPORT | | | | |
| Donations - Cash | 75,200 | 1,220,050 | 654,060 | 1,949,310 |
| Investment Income (Net) | (73,103) | 565,535 | - | 492,432 |
| Net Realized Gains (Losses) on long-term investments | 16,482 | 111,347 | - | 127,829 |
| Net Unrealized Gains (Losses) on long-term investments | 1,123,675 | 436,368 | - | 1,560,043 |
| Subtotal | 1,142,254 | 2,333,300 | 654,060 | 4,129,614 |
| Net Assets Released from Restriction | 1,720,801 | (1,720,801) | - | - |
| Total from Revenues, Gains, and Other Support | 2,863,055 | 612,499 | 654,060 | 4,129,614 |
| EXPENSES AND LOSSES | | | | |
| Scholarships and Awards | 1,119,707 | - | - | 1,119,707 |
| Program Services | 616,094 | - | - | 616,094 |
| Management and General Activities | 187,947 | - | - | 187,947 |
| Fundraising | 26,188 | - | - | 26,188 |
| Total Expenses and Losses | 1,949,936 | - | - | 1,949,936 |
| Transfers: | | | | |
| Transfers In/(Out) | 100,521 | (624,287) | 523,766 | - |
| Change in Net Assets for the Year | 1,013,640 | (11,788) | 1,177,826 | 2,179,678 |
| NET ASSETS AT END OF YEAR | \$ 3,302,179 | \$ 2,063,641 | \$ 15,230,491 | \$ 20,596,311 |

The accompanying notes are an integral part of this financial statement.

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

| | 2016 | | | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| NET ASSETS, BEGINNING OF YEAR | \$ 2,593,765 | \$ 2,025,532 | \$ 13,248,951 | \$ 17,868,248 |
| REVENUES, GAINS, AND OTHER SUPPORT | | | | |
| Donations - Cash | 186,101 | 1,409,748 | 782,973 | 2,378,822 |
| Donations - Noncash | 44,326 | - | - | 44,326 |
| Investment Income | 16,355 | 640,550 | - | 656,905 |
| Net Realized Gains (Losses) | | | | |
| on long-term investments | 73,334 | 26,320 | - | 99,654 |
| Net Unrealized Gains (Losses) | | | | |
| on long-term investments | (410,807) | (175,334) | - | (586,141) |
| Subtotal | (90,691) | 1,901,284 | 782,973 | 2,593,566 |
| Net Assets Released from Restriction | 1,754,876 | (1,754,876) | - | - |
| Total from Revenues, Gains, and Other Support | 1,664,185 | 146,408 | 782,973 | 2,593,566 |
| EXPENSES AND LOSSES | | | | |
| Scholarships and Awards | 1,063,933 | - | - | 1,063,933 |
| Program Services | 730,270 | - | - | 730,270 |
| Management and General Activities | 219,224 | - | - | 219,224 |
| Fundraising | 21,754 | - | - | 21,754 |
| Total Expenses and Losses | 2,035,181 | - | - | 2,035,181 |
| Loss on Disposal of Asset | (10,000) | - | - | (10,000) |
| Transfers: | | | | |
| Transfers In/(Out) | 75,770 | (96,511) | 20,741 | - |
| Change in Net Assets for the Year | (305,226) | 49,897 | 803,714 | 548,385 |
| NET ASSETS AT END OF YEAR | \$ 2,288,539 | \$ 2,075,429 | \$ 14,052,665 | \$ 18,416,633 |

The accompanying notes are an integral part of this financial statement.

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENTS OF CASH FLOW
For the Year Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Donors | \$ 1,307,500 | \$ 1,653,432 |
| Investment Income | 492,432 | 656,905 |
| Scholarships and Awards | (1,119,707) | (1,063,933) |
| Program Services Paid | (667,050) | (693,245) |
| Supporting Services Paid | (214,135) | (240,978) |
| | (200,960) | 312,181 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Sale of Investments | 2,364,359 | 1,982,959 |
| Payment for Purchase of Investments | (3,004,611) | (3,107,811) |
| | (640,252) | (1,124,852) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | | |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for: | | |
| Investment in Endowment | 654,060 | 782,973 |
| | (187,152) | (29,698) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 496,622 | 526,320 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 309,470 | \$ 496,622 |
| CHANGE IN NET ASSETS | \$ 2,179,678 | \$ 548,385 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| (Increase) Decrease in Pledges Receivable, net | 12,250 | 57,583 |
| Increase (Decrease) in Accounts Payable | (50,956) | 37,025 |
| Net Unrealized and Realized (Gain) Loss on Investments | (1,687,872) | 486,487 |
| Gain (Loss) on Sale of Land | - | 10,000 |
| Noncash Contributions Received | - | (44,326) |
| Contributions Restricted for Long-Term Investment | (654,060) | (782,973) |
| | (2,380,638) | (236,204) |
| Total Adjustments | | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ (200,960) | \$ 312,181 |
| Supplemental data for noncash investing activities | | |
| Land Donation Received | \$ - | \$ 20,000 |
| Law Library Donation Received | - | 24,326 |

The accompanying notes are an integral part of this financial statement.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

Adams State University Foundation (the Foundation) was incorporated on January 23, 1962, and was recognized as a Colorado nonprofit corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code in April of 1964. Its purpose is to promote, develop, and enhance the facilities and programs of Adams State University and to provide broader educational opportunities and services to students, faculty, and alumni. Although legally separate, Adams State University considers the Foundation a component unit under its governmental reporting requirements. Accordingly, the financial statements of Adams State University include a discrete presentation of assets, liabilities, net assets, and activities of the Foundation.

The Foundation receives and accounts for all contributions and expenses for the Adams State University Athletic Foundation and the Associated Alumni of Adams State University. The Memorandum of Understanding with each organization was updated in May 2016, and shall continue on a year to year basis. The memorandum of understanding may be terminated by the appropriate authorities of either party, giving three months' notice to the other party in writing, unless an earlier termination date is mutually agreed upon.

A. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles. 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 stipulations that will be met either by 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 any related investments for general or specific purposes such as scholarships and awards.

B. 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, supplemental information has been maintained on the fund accounting basis that has been applied historically. A “fund” represents the net accumulated resources identified by original donor, by donor intent, or by specific activity. A fund is increased for additional donations, allocated earnings and other income and reduced by scholarships, and direct program expenses.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

C. Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the contributions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value.

D. Cash and Cash Equivalents

For the purposes of the statements 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.

E. Inventory

Inventory consists of bronze statues that are valued at cost.

F. Valuation of Assets

Corporate stocks and partnership interests are recorded at market value on the date of the contribution, or at an estimated value where the market value is not available.

G. Investments

Under FASB ASC 320-958-25, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Fair values are determined by quoted markets. Unrealized gains and losses are included in the change in net assets.

H. Administrative Fee

The Foundation approved in February of 2010 an administrative fee to be applied annually as a percentage to the market value of the pooled investments and the Porter Investments. The administrative fee is for costs incurred by the Foundation for the management of assets, the raising of funds to support scholarships, and the distribution of such funds. Annually, the Foundation will review and set the necessary administrative fee. The current year administrative fee was set at 1% or \$180,482.

I. Use of Estimates

The preparation of financial statements in conformity with 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.

J. Earnings Allocation

It is the Foundation's policy that available investment earnings are allocated on a pro rata basis among participating funds on the beginning fund balance for the years ending June 30, 2017 and 2016, respectively.

K. 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.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

The Foundation files federal income tax returns. The federal income tax returns prior to fiscal year 2013 are closed. The Foundation's policy for evaluating uncertain income tax positions is to only take 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. There is no cumulative effect of the change on net assets of applying the provisions of FASB ASC 740-10, in the statements of financial condition.

L. Endowment Policies

The Foundation follows FASB ASC 958-205 which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA was ratified into Colorado state law as of September 1, 2008.

NOTE 2 INVESTMENTS AND CONCENTRATIONS OF RISK

Investments of the individual net asset classes are combined to form pools of investments, which are managed by five asset management groups (Wells Fargo, Clark Capital, Edward Jones, Cetera, and LPL Financial). For the fiscal years ending June 30, 2017 and 2016, income earned on all pooled investments was recorded in the unrestricted fund and then allocated at a rate of 5.00%, as determined by the board, on the balances of selected funds at the beginning of the fiscal year. Funds that receive this allocation are the endowment funds and a few others as instructed and documented by the board.

For the fiscal years ending June 30, 2017 and 2016, income earned by the Hurley segregated investment was recorded in the temporarily restricted net asset fund.

For fiscal years ending June 30, 2017 and 2016, income earned on Porter segregated funds was recorded in the temporarily restricted fund, used for scholarships and other expenses, and the remainder, if any, moved into the permanently restricted fund through "transfers in".

All values are derived from quoted prices in active markets for identical assets.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation had bank deposits that exceeded insurance coverage by a total of \$129,888 and \$251,219 for years ended June 30, 2017 and 2016, respectively.

Investments recorded at fair value are comprised of pooled and segregated cash and investments.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

Pooled cash and investments

Pooled cash and investments at June 30, 2017 and 2016, are summarized as follows:

| | 2017 | | | 2016 | | |
|-------------------------|-----------------------------|-----------------------------|--------------------|-----------------------------|-----------------------------|--------------------|
| | Cost Basis | Fair Market Value | % of Total | Cost Basis | Fair Market Value | % of Total |
| Money Market Funds | \$ 105,776 | \$ 105,776 | 1% | \$ 41,642 | \$ 41,642 | 0% |
| Marketable Securities | | | | | | |
| Fixed Income | 2,341,691 | 2,395,007 | 19% | 2,239,455 | 2,376,336 | 22% |
| Equities | 7,748,011 | 9,678,448 | 75% | 7,249,360 | 8,080,574 | 73% |
| Alternative Investments | 557,652 | 596,006 | 5% | 557,652 | 550,663 | 5% |
| TOTAL | <u>\$ 10,753,130</u> | <u>\$ 12,775,237</u> | <u>100%</u> | <u>\$ 10,088,109</u> | <u>\$ 11,049,215</u> | <u>100%</u> |

Segregated cash and investments

Segregated cash and investments at June 30, 2017 and 2016, are summarized as follows:

| | 2017 | | | 2016 | | |
|-----------------------|----------------------------|----------------------------|--------------------|----------------------------|----------------------------|--------------------|
| | Cost Basis | Fair Market Value | % of Total | Cost Basis | Fair Market Value | % of Total |
| Money Market Funds | \$ 27,069 | \$ 27,069 | 0% | \$ 125,657 | \$ 125,657 | 2% |
| Marketable Securities | | | | | | |
| Fixed Income | 3,332,177 | 3,454,965 | 47% | 2,717,314 | 2,828,118 | 42% |
| Equities | 3,187,042 | 3,872,520 | 53% | 3,630,023 | 3,833,101 | 56% |
| TOTAL | <u>\$ 6,546,288</u> | <u>\$ 7,354,554</u> | <u>100%</u> | <u>\$ 6,472,994</u> | <u>\$ 6,786,876</u> | <u>100%</u> |

NOTE 3 INVESTMENT INCOME

Interest and dividend income of \$626,752 and \$777,969 was recognized on marketable securities as of June 30, 2017 and 2016, respectively. Investment fees of \$130,480 and \$116,176 were incurred as of June 30, 2017 and 2016, respectively.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 PLEDGES RECEIVABLE

At June 30, 2017, the Foundation had 2 pledges receivable from two donors. The total balance at June 30, 2017 was \$24,000. This balance approximates fair value. Collection on pledges is expected as follows:

| <u>Year Ending June 30,</u> | | |
|-----------------------------|-----------|---------------|
| 2018 | \$ | 7,500 |
| 2019 | | 7,500 |
| 2020 | | 9,000 |
| | <u>\$</u> | <u>24,000</u> |

NOTE 5 OPERATING LEASES

The Foundation has entered into an operating lease arrangement for a copy machine.

The future minimum rental payments under all operating leases outstanding at June 30, 2017, are as follows:

| | |
|-------|-----------------|
| 2018 | 2,829 |
| 2019 | 2,829 |
| 2020 | 2,829 |
| 2021 | 1,179 |
| Total | <u>\$ 9,666</u> |

Rental expense for the operating lease for the year ended June 30, 2017, was approximately \$3,156.

NOTE 6 RELATED PARTY TRANSACTIONS

The Foundation exists only to benefit the Adams State University students, programs and activities, and, as such, is supported in several ways by the University. Support includes sharing of certain personnel and facilities, as well as through less tangible means. Starting July 1, 2010, Adams State University no longer requires the Foundation to reimburse the University to help defray the cost of the salaries of certain university employees who devote substantial time to the management and operation of the Foundation. However, as of July 1, 2014, the Board of Directors approved a new position and a salary adjustment which will be funded by the Foundation. During the years ended June 30, 2017 and 2016, the University contributed \$215,743 and \$191,348, respectively, of which the Foundation reimbursed Adams State University \$56,766 and \$66,435, respectively.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 FAIR VALUE MEASUREMENTS

Financial Instruments

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

- Cash and cash equivalents, accounts receivable, accrued interest receivable, short-term unconditional promises to give, accounts payable, and other liabilities: The carrying amounts reported in the statement of financial position approximates fair values because of the short maturities of those instruments.
- Marketable securities: The fair values of investments are based on quoted market prices for those or similar instruments.
- Alternative Investments: There is no readily ascertainable market value for these investments, the values are based on the latest available valuations which may be determined by the general partner or fund manager. Due to this uncertainty of valuations, these valuations may differ materially from values that would be determined if the investments were publicly traded.

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

| | Carrying Amount | Fair Value |
|--------------------------------|--------------------|------------|
| Financial Assets | | |
| Cash and cash equivalents | \$ 609,470 | \$ 609,470 |
| Unconditional promises to give | 24,000 | 24,000 |
| Investment securities | 19,400,936 | 19,400,936 |
| Alternative investments | 596,010 | 596,010 |
| Financial Liabilities | | |
| Accounts payable | \$ 41,345 | \$ 41,345 |

The Foundation is subject to the provisions of FASB ASC 820-10, which establishes a framework for measuring fair value of financial instruments. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) 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 center 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 asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially 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.

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

| June 30, 2017 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------|----------------------|---|--|--|
| Money Market | \$ 132,845 | \$ 132,845 | \$ - | \$ - |
| Mutual Funds | 13,550,968 | 13,550,968 | - | - |
| Corporate Bonds | 3,818,924 | 3,818,924 | - | - |
| Government Bonds | 9,168 | 9,168 | - | - |
| Municipal Bonds | 2,021,880 | 2,021,880 | - | - |
| Alternative Investments | 596,006 | - | - | 596,006 |
| TOTAL | \$ 20,129,791 | \$ 19,533,785 | \$ - | \$ 596,006 |

| June 30, 2016 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------|----------------------|---|--|--|
| Money Market | \$ 167,299 | \$ 167,299 | \$ - | \$ - |
| Certificates of Deposits | 149,959 | 149,959 | - | - |
| Mutual Funds | 11,913,676 | 11,913,676 | - | - |
| Corporate Bonds | 2,984,035 | 2,984,035 | - | - |
| Government Bonds | 114,190 | 114,190 | - | - |
| Municipal Bonds | 1,956,299 | 1,956,299 | - | - |
| Alternative Investments | 550,663 | - | - | 550,663 |
| TOTAL | \$ 17,836,121 | \$ 17,285,458 | \$ - | \$ 550,663 |

NOTE 8 ENDOWMENT FUNDS

Adams State University 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

ADAMS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

or otherwise exhausted, is classified as permanently restricted net assets. The portion of the funds that must be maintained for a specified 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 Adams State University Foundation Board of Directors follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 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 perseverance of the endowment fund;
2. The purposes of the Foundation and the endowment fund;
3. General economic conditions;
4. The possible effect 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.

Investment and Spending Policies

The Foundation has established an investment pool to support Foundation objectives. The Foundation's investment policy is to: 1) protect the corpus of the Foundation; 2) preserve the spending power of the income from the fund; 3) obtain maximum possible investment return commensurate with reasonable risk and operational considerations; and 4) comply with applicable law.

The investment objectives for the Foundation will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run, achieving at a minimum, annual compound total rate of return of 5% in excess of the rate of inflation, through a combination of investment income and capital appreciation, a competitive investment performance versus appropriate or relative capital market measure, such as securities indices. This objective shall be measured primarily by comparing investment results, over a moving annualized three and five year time period to:

- A. The S&P 500 Index as a benchmark for the Equity Component;
- B. The Barclays Capital Aggregate Index as a benchmark for the Fixed Income Component;
- C. The 90-Day Treasury Bill Index as the benchmark for the Cash and Cash Equivalent Component;
- D. The Morgan Stanley EAFE Index Composite as the benchmark for the International Component.

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This does not restrict the Foundation's Board of Directors or Investment Committee from initiating action prior to five years if the action, or lack thereof, of a particular Investment Manager or Custodian warrants such action.

The Foundation implemented a policy to use excess investment earnings to create an investment reserve fund to be used only in years of investment losses. The investment reserve fund balance is included in the total unrestricted net position as of June 30, 2017 and 2016 and amounted to \$2,049,523 and \$1,155,281 respectively.

Changes in Endowment Net Assets, for the two- year period ending June 30, 2017:

| | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment Net Assets, June 30, 2015 | 603,920 | 13,248,951 | 13,852,871 |
| Contributions | 18,814 | 782,973 | 801,787 |
| Investment Income | 476,078 | - | 476,078 |
| Program Expenditures/Scholarships | (488,914) | - | (488,914) |
| Changes in Donor Restrictions | (10,602) | 20,741 | 10,139 |
| Endowment Net Assets, June 30, 2016 | 599,296 | 14,052,665 | 14,651,961 |
| Contributions | 54,027 | 654,061 | 708,088 |
| Investment Income | 1,091,450 | - | 1,091,450 |
| Program Expenditures/Scholarships | (486,560) | - | (486,560) |
| Changes in Donor Restrictions | (577,681) | 523,766 | (53,915) |
| Endowment Net Assets, June 30, 2017 | <u>\$ 680,532</u> | <u>\$ 15,230,492</u> | <u>\$ 15,911,024</u> |

NOTE 9 SUBSEQUENT EVENTS

Date of Management Evaluation

Subsequent events have been evaluated through the date of the financial statement issuance date of October 12, 2017.