Consolidated Financial Statements
June 30, 2018 and 2017

Metropolitan State University of Denver Foundation

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	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 3,621,101	$ 6,892,817
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	35,400	35,400
Realized and unrealized gain on investments	(339,999)	(274,206)
Amortization of discount on promises to give	(40,791)	(228,265)
Contributions restricted to endowment	(682,329)	(3,195,423)
Endowment net investment return	(596,499)	(728,264)
Change in value of beneficial interest in charitable trust held by others	(33,543)	(5,833)
Changes in operating assets and liabilities		
Receivable from University	(283)	640
Promises to give, net	(792,616)	(867,298)
Prepaids and other assets	(234)	(6,471)
Accounts payable and other liabilities	69,615	(4,355)
Due to University	(12,336)	(38,526)
Net Cash from Operating Activities	1,227,486	1,580,216
Cash flows from Investing Activities		
Purchases of investments	(2,140,870)	(3,550,633)
Proceeds from sales of investments	1,095,092	1,740,954
Additions to endowment	(827,140)	(1,611,829)
Net Cash used for Investing Activities	(1,872,918)	(3,421,508)
Cash Flows from Financing Activities		
Collections of contributions restricted to endowment	875,605	1,855,874
Net Cash from Financing Activities	875,605	1,855,874
Net Change in Cash and Cash Equivalents	230,173	14,582
Cash and Cash Equivalents, Beginning of Year	766,013	751,431
Cash and Cash Equivalents, End of Year	$ 996,186	$ 766,013

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Metropolitan State University of Denver Foundation (the Foundation) is a Colorado nonprofit organization established to promote the general welfare and development of Metropolitan State University of Denver (the University).

The Foundation is the sole member of 965 Santa Fe, LLC (the LLC), a Colorado limited liability company. The LLC owns and rents the Center for Visual Arts (the CVA) facility to the University.

The consolidated financial statements include the accounts of the Foundation and the LLC because the Foundation has both control and an economic interest in the LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the “Foundation”.

Adoption of FASB Accounting Standards Update 2015-07

As of July 1, 2017, for all periods presented, the Foundation adopted the provisions of FASB Accounting Standards Update (ASU) 2015-07*, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent),* which are effective for fiscal years beginning after December 15, 2016. ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net assets value practical expedient in Accounting Standards Codification 820.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowment or other long-term purposes of the Foundation are excluded from this definition.

Cash Held for Others

The Foundation serves as a repository of funds raised through the *Colorado Rockies Foundation 50/50 Raffle* on behalf of Metropolitan State University of Denver Alumni Association, a separate Colorado nonprofit organization.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

Property and Equipment

Property and equipment additions over $5,000 with useful lives exceeding one year are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, at present solely the building at 965 Santa Fe, of thirty years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2018 and 2017.

Property and equipment also includes works of art which are capitalized at original cost, or fair value if donated, and are not depreciated because the Foundation intends to preserve these assets in perpetuity.

Beneficial Interest in Charitable Trust Held by Others

The Foundation has been named as an irrevocable beneficiary of a charitable trust held and administered by an independent trustee. The trust was created independently by the donor and is administered by an outside agent designated by the donor. Therefore, the Foundation has neither possession nor control over the assets of the trust. At the date the Foundation received notice of the beneficial interest, a permanently restricted contribution was recorded in the consolidated statement of activities, and a beneficial interest in charitable trust held by others was recorded in the consolidated statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, the beneficial interest in the trust has been reported at fair value in the consolidated statement of financial position. At the end of the trust's term, the assets of the trust will be transferred to the permanent endowment for scholarships; earnings on the assets will be available for scholarships.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position. Net investment return is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for particular uses (Note 8).

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Board of Directors.

The Foundation reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Professional Services, In-kind Contributions, and Services Received from the University

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated services received from the University are recorded at the respective fair values of the services received (Note 9).

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 10 presents total expenses by function.

Income Taxes

The Foundation is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(iv), and has been determined not to be a private foundation under Section 509(a)(1). The LLC is treated as a disregarded entity for tax purposes, and is incorporated into the tax return filed by the Foundation.

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

Management believes that the Foundation has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation's Forms 990, 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for years before 2014.

Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals, corporations, and foundations supportive of the Foundation's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Subsequent Events

The Foundation has evaluated subsequent events through September 25, 2018, the date the consolidated financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset.

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds and investment trusts with readily determinable fair values based on daily redemption values.

The fair value of the Foundation's beneficial interest in a charitable trust held by others is determined by the Foundation using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets, and is based on the fair values of the trust investments as reported by the trustee. The investment in private equity is reported at fair value, as determined by the Foundation, utilizing the most current information provided by the investee. These are considered to be Level 3 measurements.

The Foundation uses net asset value (NAV) per share, or its equivalent, such as member units, as a practical expedient to estimate the fair value of a limited liability company, which does not have a readily determinable fair value. The investment, which is valued using NAV per share as practical expedient is not classified in the fair value hierarchy.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient, as identified below, at June 30, 2018:

		Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	$ 2,415,647	$ 2,415,647	$ -	$ -	$ -
Fixed income mutual funds					
U.S. Government securities	1,524,323	1,524,323	-	-	-
Bond	953,540	953,540	-	-	-
High-yield bond	288,081	288,081	-	-	-
Equity and other mutual funds					
U.S. common stocks	1,543,466	1,543,466	-	-	-
Small to mid-cap equity	931,127	931,127	-	-	-
International equity	544,606	544,606	-	-	-
Emerging market	271,445	271,445	-	-	-
Futures and commodity	540,807	540,807	-	-	-
Preferred stocks	3,208	3,208	-	-	-
Real estate investment trusts	97,973	97,973	-	-	-
Private equity	79,496	-	-	79,496	-
	$ 9,193,719	$ 9,114,223	$ -	$ 79,496	$ -
Endowment Investments					
Cash and money market funds (at cost)	$ 429,919	$ 429,919	$ -	$ -	$ -
Fixed income mutual funds					
U.S. Government securities	194,265	194,265	-	-	-
Bond	1,866,804	1,866,804	-	-	-
High-yield bond	582,515	582,515	-	-	-
Equity and other mutual funds					
U.S. common stocks	3,114,542	3,114,542	-	-	-
Small to mid-cap equity	1,811,085	1,811,085	-	-	-
International equity	1,084,243	1,084,243	-	-	-
Emerging market	554,187	554,187	-	-	-
Futures and commodity	779,093	779,093	-	-	-
Preferred stocks	7,484	7,484	-	-	-
Real estate investment trusts	193,743	193,743	-	-	-
Limited partnership	259,173	-	-	-	259,173
	$ 10,877,053	$ 10,617,880	$ -	$ -	$ 259,173
Beneficial interest in					
Charitable trust held by others	$ 151,946	$ -	$ -	$ 151,946	$ -

The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient, as identified below, at June 30, 2017:

		Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	$ 694,515	$ -	$ -	$ -	$ -
Fixed income mutual funds					
U.S. Government securities	1,555,176	1,555,176	-	-	-
Bond	1,061,402	1,061,402	-	-	-
High-yield bond	314,503	314,503	-	-	-
Equity mutual funds					
U.S. common stocks	1,563,594	1,563,594	-	-	-
Small to mid-cap equity	931,036	931,036	-	-	-
International equity	599,330	599,330	-	-	-
Emerging market	307,799	307,799	-	-	-
Futures and commodity	568,212	568,212	-	-	-
Preferred stocks	18,046	18,046	-	-	-
Real estate investment trusts	107,386	107,386	-	-	-
Private equity	86,943	-	-	86,943	-
	$ 7,807,942	$ 7,026,484	$ -	$ 86,943	$ -
Endowment Investments					
Cash and money market funds (at cost)	$ 598,879	$ -	$ -	$ -	$ -
Fixed income mutual funds					
U.S. Government securities	115,932	115932	-	-	-
Bond	1,628,057	1,628,057	-	-	-
High-yield bond	520,519	520,519	-	-	-
Equity and other mutual funds					
U.S. common stocks	2,653,610	2,653,610	-	-	-
Small to mid-cap equity	1,323,481	1,323,481	-	-	-
International equity	944,490	944,490	-	-	-
Emerging market	489,181	489,181	-	-	-
Futures and commodity	703,905	703,905	-	-	-
Preferred stocks	29,099	29,099	-	-	-
Real estate investment trusts	167,737	167,737	-	-	-
Limited partnership	278,524	-	-	-	278,524
	$ 9,453,414	$ 8,576,011	$ -	$ -	$ 278,524
Beneficial interest in charitable trust held by others	$ 118,403	$ -	$ -	$ 118,403	$ -

Below is a reconciliation of the beginning and ending balances of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2018 and 2017:

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)	
	Beneficial interest in charitable trust	Private equity
Year ended June 30, 2018		
Balance, beginning of year	$ 118,403	$ 86,943
Net realized and unrealized gain (loss)	33,543	(7,447)
Balance, end of year	$ 151,946	$ 79,496
Unrealized gain (loss) included in net investment return and change in beneficial interest in the statement of activities relating to assets still held at June 30, 2018	$ 33,543	$ (7,447)
Year ended June 30, 2017		
Balance, beginning of year	$ 112,570	$ 100,000
Net realized and unrealized gain (loss)	5,833	(13,057)
Balance, end of year	$ 118,403	$ 86,943
Unrealized gain (loss) included in net investment return and change in beneficial interest in the statement of activities relating to assets still held at June 30, 2017	$ 5,833	$ (13,057)

The Foundation has an investment in a limited liability company that calculates NAV per share, with a fair value of $259,173 and $278,524 at June 30, 2018 and 2017, respectively. Redemptions are permitted monthly and quarterly with a 90-day redemption notice. The Foundation has no unfunded commitments as of June 30, 2018. The investment’s objective is to provide exposure to European and U.S. sub-investment grade corporate debt while seeking to achieve total returns with modest volatility and focusing on capital preservation and risk mitigation.

Note 3 - Net Investment Return

Net investment return consists of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Investments		
Interest and dividend income	$ 125,342	$ 108,621
Net realized and unrealized gain	339,999	274,206
Less investment management and custodial fees	(33,863)	(26,286)
	431,478	356,541
Endowment investments		
Interest and dividend income	214,984	160,914
Net realized and unrealized gain	606,041	740,637
Less investment management and custodial fees	(224,526)	(173,287)
	596,499	728,264
	$ 1,027,977	$ 1,084,805

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2018 and 2017**:**

	2018	2017
Within one year	$ 1,552,105	$ 1,118,186
In one to five years	2,983,327	2,804,086
In more than five years	6,384	6,384
	4,541,816	3,928,656
Less discount to net present value (3.5% - 5.00%)	(228,615)	(272,586)
Less allowance for uncollectable promises to give	(56,000)	(39,000)
	$ 4,257,201	$ 3,617,070

Promises to give appear as follows in the consolidated statements of financial position:

	2018	2017
Promises to give, net	$ 1,874,527	$ 1,109,616
Endowment promises to give, net	2,382,674	2,507,454
	$ 4,257,201	$ 3,617,070

At June 30, 2018 and 2017, four and three donors accounted for 65% and 71% of total promises to give, respectively.

During the year ended June 30, 2017, the Foundation received an intention to give totaling $2,000,000 for the Endowed Scholarship and Capital Improvement Funds. The donors retain the right to extend the time frame of payments and intend to fulfill the gift from the remainder of their estate, the future value of which is not determinable; therefore, the intention to give has not been recognized.

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2018 and 2017:

	2018	2017
Center for Visual Arts		
Land	$ 456,400	$ 456,400
Building	1,023,472	1,023,472
	1,479,872	1,479,872
Less accumulated depreciation	(300,820)	(265,420)
	1,179,052	1,214,452
Nondepreciated artwork	261,950	261,950
	$ 1,441,002	$ 1,476,402

Note 6 - Leases

During the year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the operations of the CVA. Effective March 1, 2010, the LLC and the University entered into a three-year non-cancellable lease which has since been renewed through June 30, 2021. Under the agreement the University paid annual rent for the years ended June 30, 2018 and 2017 in the amount of $100,000. In addition to the annual minimum rent, the University reimburses the LLC for actual expenses incurred for the maintenance and operation of the premises, which approximate $35,000 per year.

Note 7 - Endowment

The Foundation’s endowment (Endowment) is composed of 55 individual permanent endowment funds (Permanent Endowment) and 123 purpose-restricted quasi-endowment funds (Quasi-Endowment). The funds were established by donors primarily to provide scholarships to eligible students of the University, and to support academic departments, student activities, and other purposes of the University. Permanent Endowment funds are permanent charitable funds whose principal must be preserved in perpetuity as a condition imposed by the donor. Quasi-Endowment funds are purpose-restricted board-designated gifts whose principal is intended to be maintained in perpetuity, but which may be expended in accordance with the University’s spending-rate policy, with no requirement that any such expenditure be replenished. The Foundation’s Board of Directors has not designated any of the Foundation’s unrestricted net assets to function as endowment. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation’s Board of Directors has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair values of original Permanent Endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2018 and 2017, there were no contrary donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts to the Permanent Endowment, (b) the original value of subsequent gifts to the Permanent Endowment, and (c) accumulations to the Permanent Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the Permanent Endowment funds not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate permanent endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

As of June 30, 2018 and 2017, the Foundation had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2018				
Purpose-restricted quasi-endowment	$ -	$ 5,802,310	$ -	$ 5,802,310
Donor-restricted permanent endowment	(1,742)	364,350	7,094,809	7,457,417
	$ (1,742)	$ 6,166,660	$ 7,094,809	$ 13,259,727
June 30, 2017				
Purpose-restricted quasi-endowment	$ -	$ 5,367,885	$ -	$ 5,367,885
Donor-restricted permanent endowment	(902)	230,723	6,363,162	6,592,983
	$ (902)	$ 5,598,608	$ 6,363,162	$ 11,960,868

At June 30, 2018 and 2017, certain Permanent Endowment funds had fair values less than the amount of the original gifts (the permanently restricted portion of the funds). Deficiencies of $1,742 and $902 have been reported in unrestricted net assets on those dates, respectively. The deficiencies resulted from unfavorable market fluctuations. The Foundation has suspended distributions from these funds until such time as the deficiencies are recovered via market returns; however, there is no legal obligation for the Foundation to fund the deficiencies.

Investment and Spending Policies

The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment. Under this policy, as approved by the Board of Directors, endowment assets are invested in a manner intended to maintain or increase the dollar value of the portfolio after annual distribution expenses and fees in order to provide the benefit intended by donors. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total-return strategy 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.

Effective January 1, 2014, the Foundation adopted a banded inflation method to determine endowment distributions based on the Higher Education Price Index (HEPI), with the resulting rate subject to a minimum of 3% and a maximum of 5%. Barring specific requirements for each individual endowment, distributions from Permanent Endowments are limited to the excess of the fair values of the Permanent Endowments over the sum of the original and subsequent gift amounts. In establishing this policy, the Foundation considered the long-term expected return on the Endowment, and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in Endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2018				
Endowment net assets, beginning of year	$ (902)	$ 5,598,608	$ 6,363,162	$ 11,960,868
Net investment return				
Investment loss, net of fees	-	(9,542)	-	(9,542)
Net realized and unrealized gain (loss)	(840)	606,881	-	606,041
Total net investment return	(840)	597,339	-	596,499
Contributions	-	239,420	442,909	682,329
Matching pursuant to donor agreements	-	133,787	234,694	368,481
Distributions pursuant to endowment spending-rate formula	-	(370,470)	-	(370,470)
Loss on uncollectable promise to give	-	-	(7,900)	(7,900)
Change in donor intent	-	(32,024)	61,944	29,920
Endowment net assets, end of year	$ (1,742)	$ 6,166,660	$ 7,094,809	$ 13,259,727
Year ended June 30, 2017				
Endowment net assets, beginning of year	$ (21,993)	$ 4,827,229	$ 3,280,504	$ 8,085,740
Net investment return				
Investment loss, net of fees	-	(12,373)	-	(12,373)
Net realized and unrealized gain	21,091	719,546	-	740,637
Total net investment return	21,091	707,173	-	728,264
Contributions	-	269,269	2,926,154	3,195,423
Matching pursuant to donor agreements	-	14,050	10,758	24,808
Distributions pursuant to endowment spending-rate formula	-	(257,992)	-	(257,992)
Change in donor intent	-	38,879	145,746	184,625
Endowment net assets, end of year	$ (902)	$ 5,598,608	$ 6,363,162	$ 11,960,868

Note 8 - Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, consist of:

	2018	2017
Restricted by donors for		
Scholarships	$ 2,770,045	$ 2,456,257
Academic, student and other activities	4,626,816	3,023,342
University capital projects	428,854	135,191
Purpose-restricted quasi-endowments		
Scholarships	5,428,034	5,016,251
Academic and other departments	374,276	351,634
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use	364,350	230,723
	$ 13,992,375	$ 11,213,398

Net assets were released from (added to) restrictions as follows during the years ended June 30, 2018 and 2017:

	2018	2017
Satisfaction of purpose restrictions		
Scholarships	$ 1,657,472	$ 1,344,918
Academic, student and other activities	1,499,879	1,815,709
University capital projects	182,994	213,254
Extension of donor restrictions under challenge match		
Scholarships (temporarily restricted)	(454,931)	(98,050)
Scholarships (permanently restricted)	(234,694)	(10,758)
	$ 2,650,720	$ 3,265,073

Permanently restricted net assets consist of a beneficial interest in a charitable trust administered by an independent trustee, the proceeds of which will be added to the Foundation’s Permanent Endowment for scholarships upon dissolution of the trust, and various endowment funds restricted by donors for investment in perpetuity. Earnings on endowment funds are available to the Foundation for the purposes specified by the donors.

Permanently restricted net asset balances, categorized by the nature of the restrictions on their earnings, are as follows at June 30, 2018 and 2017:

	2018	2017
Restricted by donors for		
Scholarships	$ 3,664,812	$ 4,346,903
Academic, student and other activities	3,581,943	2,134,662
	$ 7,246,755	$ 6,481,565

Board-designated net assets at June 30, 2018 and 2017 consist of:

	2018	2017
University program	$ 1,000,000	$ 1,000,000
Matching	201,567	891,192
	$ 1,201,567	$ 1,891,192

HLC@Metro transferred excess revenues of $2,000,000 to the Foundation during the year ended June 30, 2017 (Note 11). The Board of Directors designated $1,000,000 as reserve funding for the establishment of a new School within the University. The remaining $1,000,000 was designated for scholarships and applied to creating matching opportunities for gifts from new or lapsed donors, or stimulating increased levels of support from current donors. During the years ended June 30, 2018 and 2017, $689,625 and $108,808, respectively, of the funds were undesignated and used to satisfy the extension of donor restrictions under the challenge match program.

Note 9 - In-kind Contributions and Services Received from the University

The Foundation received in-kind contributions, and services from the University as follows during the years ended June 30, 2018 and 2017:

	2018	2017
Program services		
Materials	$ 33,513	$ 27,196
Equipment	125,930	-
Donor development		
Development office compensation - University	1,582,791	1,523,913
	$ 1,742,234	$ 1,551,109

Note 10 - Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Program services expense	$ 3,233,702	$ 3,170,827
General and administrative costs (includes investment management fees of $258,389 and $199,573, respectively)	821,286	708,940
Donor development costs	1,582,791	1,523,913
Cost of direct benefits to donors	59,963	180,292
Total functionalized expenses	$ 5,697,742	$ 5,583,972

Note 11 - Commitments and Contingencies

The Foundation has agreements with the University to use its best efforts to raise cash and in-kind contributions for University Hospitality Center (HLC@Metro), and for recently completed construction and improvement of the University's athletic fields. The agreements are conditioned on the Foundation's ability to collect donor contributions restricted to the respective projects; as contributions are collected, the Foundation records a liability to HLC@Metro or the University, as appropriate, and a corresponding contribution expense.

The agreements also require HLC@Metro to transfer excess revenues, after paying expenses and funding certain reserves, to the Foundation. The Foundation may use the funds distributed from HLC@Metro's excess revenues to further the general academic objectives and priorities of the University so long as at least 50% of such funds are used for scholarships.

Note 12 - Related Party Transactions

Transactions with the University consist of the following during the years ended June 30, 2018 and 2017:

	2018	2017
Funding provided to the University	$ 3,176,966	$ 3,107,250
Payable to the University	495,287	507,623
Cash held for the Alumni Association	121,928	-
Payments for salaries and benefits to the University	339,554	348,420
Payments for rent to the University	8,274	8,274
Professional services donated by the University	1,582,791	1,523,913
Support provided by University for Summer Soiree	-	56,345
HLC@Metro distribution	-	2,000,000
Due from University	10,081	9,798
Reimbursement for CVA operating expenses	20,706	27,547
Reimbursement for CVA rent expense	100,000	100,000