

June 30, 2008 and 2007

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**Note 1 - Summary of Significant Accounting Policies**

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**A. Organization and Nature of Activities**

Western State College Foundation (the Foundation) was incorporated on August 22, 1975 under the laws of the State of Colorado. The purpose of the Foundation is to aid, directly or indirectly, Western State College (the College) in fulfilling its education purposes. The Foundation is supported primarily through donor contributions.

**B. Financial Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with 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 may or 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** - Net assets subject to 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.

**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 conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value and at fair value if expected to be collected in more than one year.

The Foundation uses the allowance method to determine uncollectible unconditional promises to give. All unconditional promises to give are deemed collectible by management and accordingly, no allowance has been provided. The allowance is based on prior years' experience and management's analysis of specific promises made.

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

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**D. Cash Equivalents**

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. During the year ended June 30, 2007 for purposes of the statement of cash flows, the Foundation capitalized, as construction in progress, \$13,469 of debt issuance cost amortization and \$94,843 of accrued interest and no debt issuance cost or accrued interest was capitalized for the year ended June 30, 2008.

**E. Investment Securities**

Under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, 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.

**F. Property and Equipment**

The Foundation's capitalization policy requires individual assets to be capitalized if the original cost or fair value at date of donation exceeds \$1,000 and has a useful life greater than one year. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

**G. Income Taxes**

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

**H. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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**Note 2 - Concentration of Credit Risk**

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Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash balances at financial institutions in excess of federally insured limits. The Foundation maintains cash balances at a financial institution located in Western Colorado. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2008 and 2007, the Foundation had uninsured deposits of approximately \$105,950 and \$0, respectively. The Foundation periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

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**Note 3 - Contributions Receivable**

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The Foundation has unconditional promises to give (contributions receivable) of \$181,961 and \$430,687 as of June 30, 2008 and 2007, respectively. Of these amounts, \$116,800 and \$166,800 relate to the Borick Business Building as of June 30, 2008 and 2007, respectively.

Estimated annual collections on contributions receivable are as follows:

Less than one year	\$	97,561
One to five years		84,400
More than five years		--
	\$	<u>181,961</u>

Contributions receivable are net of unamortized discount of \$0 and \$18,068 at June 30, 2008 and 2007, respectively. This discount is calculated using a risk-free interest rate of 4%.

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**Note 4 - Investments**

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Short-term investments are recorded at fair market value and are comprised of the following:

	June 30, 2008		
	Cost	Market	Unrealized Gains
Investment securities.....	\$ 20,384,215	\$ 20,518,553	\$ 134,338
	June 30, 2007		
	Cost	Market	Unrealized Gains
Investment securities.....	\$ 17,986,104	\$ 19,320,122	\$ 1,334,018

Investment securities of the individual net asset classes, consisting of money market funds, equity securities, bonds and investments in limited partnerships, are combined to form a pool of investments. Income earned on investments is allocated, based on cost, to the individual net asset classes with earnings of the endowment investments being included as an increase of temporarily restricted net assets or unrestricted net assets. Investment fees are offset against investment income.

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**Note 4 - Investments (Continued)**

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Investments are as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents .....	\$ 5,092,791	\$ 6,805,256
Fixed income .....	1,888,554	977,616
Equities .....	<u>13,537,208</u>	<u>11,537,250</u>
Investment earnings (loss) .....	<u>\$ 20,518,553</u>	<u>\$ 19,320,122</u>

Investment returns are as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Interest income .....	\$ 648,865	\$ 653,845
Net realized gains .....	15,793	1,425,504
Net unrealized gains (losses) .....	(1,199,680)	386,462
Fees .....	<u>(169,005)</u>	<u>(115,009)</u>
Investment earnings (loss) .....	<u>\$ (704,027)</u>	<u>\$ 2,350,802</u>

Investment earnings (loss) are reported as follows in  
the Statements of Activities:

Unrestricted .....	\$ (206,507)	\$ 258,428
Temporarily restricted .....	<u>(497,520)</u>	<u>2,092,374</u>
	<u>\$ (704,027)</u>	<u>\$ 2,350,802</u>

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**Note 5 - Property and Equipment**

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Property and equipment consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Land .....	\$ 38,225	\$ 38,225
Buildings and improvements .....	8,379,170	1,050,312
Furniture and equipment .....	94,223	94,223
Construction period interest .....	--	232,061
Construction in progress .....	<u>--</u>	<u>6,113,923</u>
	8,511,618	7,528,744
Less accumulated depreciation .....	<u>(813,918)</u>	<u>(633,358)</u>
	<u>\$ 7,697,700</u>	<u>\$ 6,895,386</u>

The total depreciation expense for the years ended June 30, 2008 and 2007 was \$180,560 and \$30,243, respectively. Interest and debt issuance cost amortization capitalized as construction in progress amounted to \$232,061 during the year ended June 30, 2007.

Construction in progress represents the preliminary costs for the Borick Business Building. The total cost to construct was \$7,328,858. The cost of the building is to be financed by private contributions, including a \$3,000,000 challenge grant from Steve Borick and Family.

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**Note 6 - Other Assets**

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Other assets consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Art .....	\$ 5,680	\$ 5,740
Lithographs .....	3,000	3,000
Life insurance policy.....	58,688	52,952
Property.....	<u>6,000</u>	<u>6,000</u>
	<u>\$ 73,368</u>	<u>\$ 67,692</u>

Other assets are recorded at their estimated value on the date of contribution where market value is not available.

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**Note 7 - Restrictions on Net Assets**

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Temporarily restricted net assets are to be used for various programs and departments of the College.

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the tradition of the Foundation. Income generated by these assets is generally used for scholarships and awards.

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**Note 8 - Western State College**

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The Foundation rents part of its facilities to the College. The lease was extended and now expires June 30, 2010 with annual rentals of \$14,482. The rental income for the years ended June 30, 2008 and 2007 was \$14,482 and \$14,482, respectively. Effective August 1, 2007, the Foundation is renting the Borick Business Building to the College for 10 years for \$10. The building was built on College property which is subject to a 50 year ground lease to the Foundation.

The Foundation's Executive Director and the Director of Annual and Special Gifts are employed by the College. A portion of their compensation is paid by the Foundation.

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**Note 9 - Conditional Promises to Give**

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Conditional promises to give consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Will designation (estimated amounts), restricted for		
Western State College Savage Library .....	\$ 1,000,000	\$ 1,000,000
Art Chair .....	1,000,000	1,000,000
History.....	1,000,000	1,000,000
Other .....	<u>\$ 2,062,465</u>	<u>\$ 2,770,876</u>

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**Note 10 - Pension Plan**

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The Foundation has a 401(k) plan (the Plan) covering all employees working at least 20 hours per week. Covered employees are fully vested after two years of service. The Foundation contributes 3% of each participant's compensation to the Plan each year. Total expense for the years ended June 30, 2008 and 2007 was \$2,670 and \$2,423, respectively.

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**Note 11 - In-Kind Donations**

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The Foundation received non-cash contributions of services and materials totaling \$146,581 and \$142,171 for the years ended June 30, 2008 and 2007, respectively. The non-cash contributions are included in total contributions and program expenses in the Statements of Activities.

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**Note 12 – Bonds Payable**

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On August 30, 2006, the City of Gunnison issued its Revenue Bond (Western State College Foundation Project) Series 2006 to finance the construction of the Borick Business Building to be owned and operated by the Foundation and utilized by Western State College. The proceeds of the bond will be loaned by the city to the Foundation. Under the terms of the agreement with the city, the Foundation is obligated to repay the loan by paying to the registered owner of the bond, on behalf of the city, moneys sufficient to pay the principal of and interest on the bond. The bond was issued in the aggregate principal amount of \$6,000,000 at a 4.50% annual interest rate. The future maturities of the bonds are as follows:

June 30, 2009	\$ 797,160
2010	833,439
2011	871,366
2012	911,019
2013	952,476
2014	492,375

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**Note 13 – Subsequent Events**

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**Student Union Project**

In September 2008 the Board of Directors of the Foundation voted to participate in the funding of a new dining hall, student union and theater for the campus. The Foundations share of the project is a commitment of \$17,000,000. The College will pay the remaining balance of cost in the project. Construction has begun and the project is expected to be completed in September 2010. The project will funded by a bond issue which will also pay the obligation to the College for Kelly Hall.

**Market Conditions**

The Foundation value in its investment accounts have been affected by the current market conditions the market value of the investment accounts at September 30, 2008 are \$17,661,696 or an estimated unrealized loss of \$2,856,857 since June 30, 2008.