

**FREDONIA COLLEGE FOUNDATION
OF THE STATE UNIVERSITY OF NEW YORK, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2017 AND 2016

**FREDONIA COLLEGE FOUNDATION
OF THE STATE UNIVERSITY OF NEW YORK, INC.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Fredonia College
Foundation of the State University of New York, Inc.
Fredonia, New York

We have audited the accompanying financial statements of Fredonia College Foundation of the State University of New York, Inc., (a nonprofit organization) which comprise the statements of financial position as of December 31, 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 policies 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 auditors consider 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 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 Fredonia College Foundation of the State University of New York, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of administrative and Franklin Properties, LLC expenses for the years ended December 31, 2017 and 2016, on page 18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Saxton, Kocur and Associates, LLP

Saxton, Kocur and Associates, LLP
April 17, 2018

**FREDONIA COLLEGE FOUNDATION
OF THE STATE UNIVERSITY OF NEW YORK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (Note 1)	\$ 806,852	\$ 647,390
Cash portion of investments (Note 2)	548,071	528,657
Investments, at fair value (Note 2)	36,796,728	32,208,032
Receivables, net of allowance (Note 3)	81,082	130,174
Prepaid expenses and deposits	8,566	8,800
Unconditional promises to give (Note 4)	334,349	414,504
Other assets (Note 5)	65,139	58,486
Property and equipment - Foundation (Note 6)	311,715	228,214
Property - Fredonia Franklin Properties, LLC (Note 6)	609,000	1,650,000
TOTAL ASSETS	<u>\$ 39,561,502</u>	<u>\$ 35,874,257</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 63,885	\$ 58,974
Annuities payable (Note 8)	386,782	415,972
Due to State University of New York at Fredonia (Note 12)	232,027	161,635
Total liabilities	<u>682,694</u>	<u>636,581</u>

NET ASSETS

Unrestricted (Note 9):		
Undesignated operations fund	714,170	681,208
Fredonia Franklin Properties, LLC	609,000	1,650,000
Board designated endowment accumulated income	778,935	682,585
Unrestricted annuities	22,595	18,718
Total unrestricted	<u>2,124,700</u>	<u>3,032,511</u>
Temporarily restricted (Note 10)	12,488,674	9,700,716
Permanently restricted (Note 11)	24,265,434	22,504,449
Total net assets	<u>38,878,808</u>	<u>35,237,676</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,561,502</u>	<u>\$ 35,874,257</u>
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See accompanying notes to financial statements.

**FREDONIA COLLEGE FOUNDATION
OF THE STATE UNIVERSITY OF NEW YORK, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenues:				
Gifts, grants and bequests	\$ 144,869	\$ 1,131,848	\$ 1,750,550	\$ 3,027,267
Events receipts	-	132,380	-	132,380
Investment return (loss)	34,036	4,628,763	34,199	4,696,998
Change in cash surrender value of life insurance	6,653	-	-	6,653
Actuarial gain (loss) - annuities	(7,317)	-	(23,764)	(31,081)
Donated services	840,300	-	-	840,300
In-kind donations	-	6,640	-	6,640
Rent	42,000	-	-	42,000
Net assets released from restrictions (Note 10)	2,889,351	(2,889,351)	-	-
Transfer of investment return (Note 10)	222,322	(222,322)	-	-
	<u>4,172,214</u>	<u>2,787,958</u>	<u>1,760,985</u>	<u>8,721,157</u>
Expenses:				
Grants	2,630,763	-	-	2,630,763
Administrative expenses	1,337,701	-	-	1,337,701
Franklin Properties	70,561	-	-	70,561
	<u>4,039,025</u>	<u>-</u>	<u>-</u>	<u>4,039,025</u>
Change in net assets before impairment loss	133,189	2,787,958	1,760,985	4,682,132
Impairment loss (Note 6)	(1,041,000)	-	-	(1,041,000)
CHANGE IN NET ASSETS	(907,811)	2,787,958	1,760,985	3,641,132
NET ASSETS, beginning	<u>3,032,511</u>	<u>9,700,716</u>	<u>22,504,449</u>	<u>35,237,676</u>
NET ASSETS, ending	<u>\$ 2,124,700</u>	<u>\$ 12,488,674</u>	<u>\$ 24,265,434</u>	<u>\$ 38,878,808</u>

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 124,649	\$ 1,310,719	\$ 809,424	\$ 2,244,792
-	62,973	-	62,973
25,187	3,091,606	24,360	3,141,153
977	-	-	977
(29,440)	-	9,776	(19,664)
835,967	-	-	835,967
1,001	31,820	-	32,821
42,000	-	-	42,000
2,466,141	(2,466,141)	-	-
170,522	(170,522)	-	-
<u>3,637,004</u>	<u>1,860,455</u>	<u>843,560</u>	<u>6,341,019</u>
2,166,238	-	-	2,166,238
1,330,627	-	-	1,330,627
59,618	-	-	59,618
<u>3,556,483</u>	<u>-</u>	<u>-</u>	<u>3,556,483</u>
80,521	1,860,455	843,560	2,784,536
-	-	-	-
80,521	1,860,455	843,560	2,784,536
<u>2,951,990</u>	<u>7,840,261</u>	<u>21,660,889</u>	<u>32,453,140</u>
<u>\$ 3,032,511</u>	<u>\$ 9,700,716</u>	<u>\$ 22,504,449</u>	<u>\$ 35,237,676</u>

See accompanying notes to financial statements.

**FREDONIA COLLEGE FOUNDATION
OF THE STATE UNIVERSITY OF NEW YORK, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,641,132	\$ 2,784,536
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	20,968	20,805
Impairment loss	1,041,000	-
Realized (gains) losses from investments	(1,656,759)	(97,885)
Unrealized (gains) losses from investments	(2,031,886)	(2,203,201)
In-kind gifts and/or donated investments	(24,030)	(32,821)
(Increase) in cash surrender value of insurance	(6,653)	(977)
(Increase) decrease in:		
Receivables	49,092	26,034
Prepaid expenses	234	(1,824)
Unconditional promises to give	80,155	(225,833)
Increase (decrease) in:		
Accounts payable and accrued expenses	4,911	5,102
Annuities payable	(29,190)	(20,701)
Due to State University of New York at Fredonia	70,392	62,979
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,159,366	316,214
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	6,351,291	1,301,936
Purchases of investments	(7,246,726)	(1,452,152)
Purchases of property and equipment	(104,469)	-
NET CASH USED BY INVESTING ACTIVITIES	(999,904)	(150,216)
CHANGE IN CASH AND CASH EQUIVALENTS	159,462	165,998
CASH AND CASH EQUIVALENTS, beginning	647,390	481,392
CASH AND CASH EQUIVALENTS, ending	\$ 806,852	\$ 647,390

See accompanying notes to financial statements.

**FREDONIA COLLEGE FOUNDATION OF
THE STATE UNIVERSITY OF NEW YORK, INC.
NOTES TO FINANCIAL STATEMENTS**

ORGANIZATION AND PURPOSE

Fredonia College Foundation of the State of New York, Inc. (the Foundation), a not-for-profit corporation, was formed in 1964 to encourage and accept gifts and endowments in support of the priority needs of the State University of New York at Fredonia, its faculty and students.

Fredonia Franklin Properties, LLC (the LLC) was formed in December 2013 as a New York limited liability company and organized pursuant to an operating agreement dated December 13, 2013, between the Foundation and the LLC. The LLC was formed to receive and hold a gift of real property located at 60-62 Franklin Avenue, Dunkirk, NY. The Foundation is the sole member with a 100% interest in the LLC. As such, the LLC is classified a disregarded entity for federal and state tax purposes. Contributions to the LLC are deductible for tax purposes to the same extent as a contribution made directly to its sole member, the Foundation.

The Foundation announced the beginning of the public phase of a Comprehensive Campaign on October 20, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements of the Foundation, including the LLC, have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

BASIS OF PRESENTATION - The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

It is the policy of the Board of Directors to plan for the future by designating funds for specific purposes. Such Board designated unrestricted net assets are indicated as *Board designated endowment accumulated income* in these financial statements.

PROMISES TO GIVE - Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation has established an allowance for doubtful promises to give of 10% of the total outstanding promises to give at year-end.

ESTIMATES – The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

PROPERTY AND EQUIPMENT - Property and equipment are recorded at cost or if donated, at the fair market value at the date of the donation. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (three to thirty years). Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities.

CASH AND CASH EQUIVALENTS - For purposes of the statements of cash flows, the Foundation considers all highly liquid investments, including all certificates of deposits, to be cash equivalents. Cash held in investment accounts (Note 2) is not considered as cash and cash equivalents for purposes of the statements of cash flows.

	<u>2017</u>	<u>2016</u>
M&T Bank - Checking and Savings	\$ 533,949	\$ 421,550
Lake Shore Savings - CDs	250,535	205,229
PayPal account	<u>22,368</u>	<u>20,611</u>
	<u>\$ 806,852</u>	<u>\$ 647,390</u>

DONATED SERVICES - For 2017 and 2016, the value of donated services meeting the requirements for recognition in the financial statements amounted to \$840,300 and \$835,957, respectively. These services were provided by the State University of New York at Fredonia at no cost to the Foundation. The value of the use of donated facilities meeting the requirements for recognition in the financial statements was not material and has not been recorded.

ALLOCATION OF INCOME - The Board of Directors' policy is to calculate investment earnings on a total return basis. This method takes into account the income earned on securities, gains or losses on securities sold and the net change in the fair value of securities held. Available funds are credited to the accumulated income account of each participating endowment on a quarterly basis at an established fixed rate of return (spending rate). The spending rate is determined annually by the Board of Directors with the objective of attaining long-term maximum prudent total return. For both 2017 and 2016, the approved spending rate was 4.5% of the fair value of the total permanently restricted net assets.

In the event actual yield and increase in market value for a period are in excess of the guaranteed spending rate authorized by the Board, the excess is transferred to an earnings reserve account. Conversely, any shortfalls for a given period will be charged against the earnings reserve account. See Note 10 for an analysis of changes in the earnings reserve account.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Temporarily restricted net assets consist primarily of college department and organization accounts and generally do not receive an allocation of investment income. For 2017 and 2016, the Foundation charged a fee of 3% against deposits into these accounts.

A \$10,000 minimum balance is required in order to establish an endowment with the Foundation. All accounts created that do not meet this minimum are held and receive an allocation of investment income. No awards are made from these funds until the minimum endowment balance is attained through additional capital contributions. Endowed funds must earn at least four quarters of investment income before awards can be made.

ALLOCATION OF EXPENSES - The costs of providing various programs and other activities have been detailed in the statements of activities. Allocation of administrative expenses between program and supporting services is not considered significant to the operations of the Foundation, therefore, no such allocation has been provided.

INCOME TAXES - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from New York State income tax under Article 7 and EPTL of the Executive Law. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an agency other than a private foundation under Section 509(a)(3). As previously noted, the LLC is considered a disregarded entity for federal and state income tax purposes and contributions made to the LLC are deductible for tax purposes.

The Foundation has determined that no material uncertain tax positions existed at December 31, 2017 and 2016, requiring recognition or disclosure in the financial statements. The Foundation's federal and state exempt organization returns for 2014 and later years are subject to possible examination, generally for three years after filing.

IN-KIND DONATIONS - In-kind donations are recorded at estimated fair value at the date of donation. Donations with donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. In the year a donor's restriction is met, the donation is reflected as net assets released from restriction on the statement of activity.

NOTE 2 - INVESTMENTS

The Foundation reports marketable securities in accordance with FASB Accounting Standards Codification (ASC) 958-320. ASC 958-320 requires investment in equity securities with readily determinable fair values and all investments in debt securities to be measured at fair value at the statement of financial position date. Gains and losses on investments are reported in the statements of activities as increase or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations. The Foundation reports gains and losses on investments restricted for scholarships and grants in the statements of activities as increases or decreases in temporarily restricted net assets. The Foundation's assets are primarily invested with Fidelity Investments by consultant Alesco Advisors, LLC, of Pittsford, NY in a number of exchange-traded products (ETPs) and equity and bond mutual funds. It is the policy of the Foundation to liquidate gifts received in the form of securities as soon as possible.

The fair value of investments by type measured on a recurring basis at December 31, were as follows:

	2017	2016
Equities - ETPs	\$ 9,158,586	\$ 6,146,309
Common Stocks	17,390	-
Mutual Funds - Equities	13,442,660	13,759,970
Mutual Funds - Fixed Income	10,372,238	9,327,037
Fixed Income - ETPs	2,669,869	1,977,174
Mutual Funds - Commodities Broad Basket	1,135,985	997,542
	<u>36,796,728</u>	<u>32,208,032</u>
 Total cost of all investments at year-end	 <u>28,708,169</u>	 <u>26,159,637</u>
 Net unrealized gain (loss) at year-end	 <u>\$ 8,088,559</u>	 <u>\$ 6,048,395</u>
 Total cash investments held in all accounts at year-end	 \$ 548,071	 \$ 528,657

The fair values of the ETPs, common stocks, mutual funds, and cash investments at both December 31, 2017 and 2016, were based on Level I input data. Level I input data for determining fair value is based on quoted prices in active markets for identical assets.

Investment return (loss) consisted of the following:

	2017	2016
Dividends, interest and capital gain distributions	\$ 1,008,353	\$ 840,067
Realized gain (loss) of sales of investments	1,656,759	97,885
Unrealized gain (loss) on investments	2,031,886	2,203,201
	<u>\$ 4,696,998</u>	<u>\$ 3,141,153</u>

Investment fees are included in *Administrative expenses* on the statements of activities. Fees for 2017 and 2016 were \$104,908 and \$96,328, respectively.

NOTE 3 - RECEIVABLES

	2017	2016
State University of New York at Fredonia Alumni Association, Inc.	\$ 12,954	\$ 10,523
Loan to students	1,223	1,523
Overpayments receivable	345	345
Gifts and contributions	66,850	118,073
	<u>81,372</u>	<u>130,464</u>
Less: allowance for doubtful accounts	(290)	(290)
	<u>\$ 81,082</u>	<u>\$ 130,174</u>

The amount due from the Association is for reimbursement of employment related costs and scholarship payments made by the Foundation on behalf of the Association. There were three student loans receivable at December 31, 2017 and four loans at December 31, 2016. There is no interest charged to the Association or students.

Gifts and contributions of \$66,850 at December 31, 2017, were for 2017 dated donor contributions received and deposited in January, 2018.

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give, primarily to provide for scholarships, are reported net of a 10% allowance for doubtful promises and at present value using a discount rate of 5.50% at December 31, 2017, and 4.75% at December 31, 2016, and consisted of the following at December 31:

	2017	2016
Receivables due in less than one year	\$ 207,311	\$ 220,437
Receivables due in one to five years	173,900	262,666
	<u>381,211</u>	<u>483,103</u>
Allowance for doubtful promises	(38,121)	(48,310)
Discount to net present value	(8,741)	(20,289)
	<u>\$ 334,349</u>	<u>\$ 414,504</u>

NOTE 5 - OTHER ASSETS

	2017	2016
REITs	\$ 20,000	\$ 20,000
Cash surrender value of life insurance policies	45,139	38,486
	<u>\$ 65,139</u>	<u>\$ 58,486</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment held by the Foundation for operational purposes, was as follows:

	2017	2016
Land	\$ 5,000	\$ 5,000
Building	349,940	349,940
Improvements	241,659	137,190
Furnishing and equipment	9,430	9,430
	<u>606,029</u>	<u>501,560</u>
Less accumulated depreciation	<u>(294,314)</u>	<u>(273,346)</u>
	<u>\$ 311,715</u>	<u>\$ 228,214</u>

Depreciation expense for 2017 and 2016 was \$20,968 and \$20,805, respectively.

On June 16, 2014, the LLC accepted a donation of real property located at 60-62 Franklin Avenue, Dunkirk, NY. The property was been reflected as a 2014 unrestricted contribution of \$1,650,000 based on an appraisal dated September 16, 2013. As a condition of the donation, the donor stipulated that the property not be sold for a period of three years from the date of donation for less than the appraised value. After the end of the three years, the property can be sold for any amount. No depreciation expense has been recorded since the property was not utilized by the LLC.

In accordance with the requirements of FASB Accounting Standards Codification, 360-10-35, the Foundation has recognized in 2017 an impairment loss of \$1,041,000 on the Franklin Avenue property. The impairment loss was to write-down the original carrying amount of the property to its fair value at December 31, 2107, less estimated direct costs to sell. The impairment loss was determined as follows:

Fair value at December 31, 2017	\$ 650,000
Estimated direct costs - broker commissions, legal, and closing costs	<u>(41,000)</u>
	609,000
Original carrying value	<u>1,650,000</u>
Recognized impairment loss	<u>\$ (1,041,000)</u>

As of April 12, 2018, the Foundation had a signed Purchase and Sale Contract for \$650,000. An addendum to the contract has certain contingencies that need to be met satisfactorily to the purchaser. Management is of the opinion that satisfaction of all contingences will be timely met. Closing is scheduled to occur on or before July 1, 2018.

NOTE 7 - ENDOWMENTS

The Foundation's endowment as of December 31, 2017 and 2016 consisted of 504 and 467 individual funds, respectively, established for a variety of purposes. The total endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Prior to the New York Prudent Management of Institutional Funds Act (NYPMIFA) in September 2010, the Board of Directors of the Foundation had interpreted the New York State Not-For-Profit Corporation Law as allowing the appropriation for expenditure, for the uses and purposes for which an endowment fund is established, so much of the net appreciation, realized (with respect to all assets) and unrealized (with respect only to readily marketable assets), in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is prudent.

In accordance with the provisions of NYPMIFA, the Foundation will make expenditures over the historic dollar value of the fund for such funds established prior to NYPMIFA only upon the express approval of the original donors (if such donors can be reasonably identified and reasonable attempts are made to contact them).

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. At December 31, 2017, one endowment fund was deficient by \$822. There were five deficient endowment funds by a combined \$994 at December 31, 2016.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the underlying endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce average investment results that exceed the spending needs of the Foundation by 2% to 3% annually while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% after inflation annually. Actual returns in any given year may vary from this amount.

NOTE 7 - ENDOWMENTS, continued

Strategies Employed for Achieving Return Objectives

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 gains and losses) 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 Investment Objectives Relationship

For 2017 and 2016, the Foundation spending policy called for distribution of 4.5% of the average fair value of its endowment funds over the prior 12 quarters through the fourth quarter of the fiscal year preceding the fiscal year in which the distribution is planned. The Foundation will invest, reinvest, and account for the assets of the Endowment Fund in accordance with the standards established by the NYPMIFA that became law on September 17, 2010, and the general guidelines and policy adopted by the Foundation. The Foundation may expend so much of the endowment fund as it deems prudent after considering the factors and appropriate decisions as set forth in NYPMIFA. As part of this review, the Foundation considered the long term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2% to 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 8 - ANNUITIES PAYABLE

The actuarially determined value of annuities payable totaled \$386,782 and \$415,972 December 31, 2017 and 2016, respectively. The balance represents the present value of the aggregate liability for gift annuity agreements, based on acceptable life expectancy tables. Payments made in 2017 and 2016 on existing agreements were \$60,518 and \$65,682, respectively.

NOTE 9 - UNRESTRICTED NET ASSETS

Changes in unrestricted net assets in 2016 and 2017, were as follows:

	Undesignated operations fund and Franklin Properties, LLC	Board designated endowment accumulated income	Unrestricted annuities	Total
Balance at 12/31/2015	\$ 2,378,356	\$ 556,574	\$ 17,060	\$ 2,951,990
2016 Additions:				
Gifts, grants and bequests	124,649	-	-	124,649
Investment return (loss)	(226)	-	25,413	25,187
Change in cash surrender value of life insurance	977	-	-	977
Gain (loss) on annuities	(7,013)	-	(22,427)	(29,440)
Donated in-kind services	835,967	-	-	835,967
Rent	42,000	-	-	42,000
In-kind donations	1,001	-	-	1,001
Net assets released from restrictions (Note 10)	2,466,141	-	-	2,466,141
Transfer of investment return from temp. restricted net assets (Note 10)	-	170,522	-	170,522
2016 Appropriations:				
Grants and scholarships	(899,439)	(36,525)	-	(935,964)
Academic support	(1,222,288)	(7,986)	-	(1,230,274)
Administrative expenses	(1,388,917)	-	(1,328)	(1,390,245)
Balance at 12/31/2016	2,331,208	682,585	18,718	3,032,511
2017 Additions:				
Gifts, grants and bequests	144,869	-	-	144,869
Investment return (loss)	(609)	-	34,645	34,036
Change in cash surrender value of life insurance	6,653	-	-	6,653
Gain (loss) on annuities	22,022	-	(29,339)	(7,317)
Donated in-kind services	840,300	-	-	840,300
Rent	42,000	-	-	42,000
In-kind donations	-	-	-	-
Net assets released from restrictions (Note 10)	2,889,351	-	-	2,889,351
Transfer of investment return from temp. restricted net assets (Note 10)	-	222,322	-	222,322
2017 Appropriations:				
Grants and scholarships	(1,012,370)	(13,625)	-	(1,025,995)
Academic support	(1,492,421)	(112,347)	-	(1,604,768)
Administrative expenses	(1,406,833)	-	(1,429)	(1,408,262)
Other - impairment loss (Note 6)	(1,041,000)	-	-	(1,041,000)
Balance at 12/31/2017	<u>\$ 1,323,170</u>	<u>\$ 778,935</u>	<u>\$ 22,595</u>	<u>\$ 2,124,700</u>

Several Foundation endowments have been either board designated or donor designated for unrestricted spending. The board designated endowment accumulated income amount represents the total accumulated income and the portion of the Foundation's endowment earning reserve that is attributed to these endowments.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

	2017	2016
Earnings reserve**	\$ 7,066,052	\$ 4,454,306
Endowment accumulated income at historical cost (excluding earnings reserve)**	3,763,995	3,437,823
Building towards endowment accumulated income	6,508	4,865
College department and pass-through funds	<u>1,652,119</u>	<u>1,803,722</u>
	<u>\$ 12,488,674</u>	<u>\$ 9,700,716</u>

**The portion of perpetual endowment funds subject to a purpose restriction under NYS Not-for-Profit Corporation Law.

Changes in temporarily restricted net assets in 2016 and 2017, were as follows:

	Endowment earnings reserve	Endowment accumulated income (net of earnings reserve)	Building towards endowment accumulated income	College department and pass-through funds	Totals
Balance at 12/31/2015	\$ 3,208,050	\$ 3,133,786	\$ 4,259	\$ 1,494,166	\$ 7,840,261
2016 Additions:					
Gifts, grants and bequests	-	-	-	1,266,022	1,266,022
In-kind donations	-	-	-	31,820	31,820
Event receipts	-	-	-	62,973	62,973
Adjustments for promises made	-	-	-	44,697	44,697
Investment return (loss)	3,091,000	-	606	-	3,091,606
2016 Appropriations:					
Net assets released from restrictions (Note 9)	(1,674,222)	304,037	-	(1,095,956)	(2,466,141)
Transfer of investment return to unrestricted net assets (Note 9)	<u>(170,522)</u>	-	-	-	<u>(170,522)</u>
Balance at 12/31/2016	4,454,306	3,437,823	4,865	1,803,722	9,700,716

2017 Additions:

Gifts, grants and bequests	-	-	-	1,142,729	1,142,729
In-kind donations	-	-	-	6,640	6,640
Event receipts	-	-	-	132,380	132,380
Adjustments for promises made	-	-	-	(10,881)	(10,881)
Investment return (loss)	4,627,120	-	1,643	-	4,628,763
2017 Appropriations:					
Net assets released from restrictions (Note 9)	(1,793,052)	326,172	-	(1,422,471)	(2,889,351)
Transfer of investment return to unrestricted net assets (Note 9)	(222,322)	-	-	-	(222,322)
Balance at 12/31/2017	\$ 7,066,052	\$ 3,763,995	\$ 6,508	\$ 1,652,119	\$ 12,488,674

Net assets released from restrictions by incurring expenses in satisfaction of restrictions and transfer of a portion of investment return to unrestricted net assets in 2017 and 2016, were as follows:

	2017	2016
College departments, programs and support services	\$ 1,492,420	\$ 1,214,232
Scholarship and student awards	846,776	748,872
1.25% management fees	446,705	408,096
Brokerage fees	103,450	94,941
Net assets released from restrictions	2,889,351	2,466,141
Portion of investment return transferred to unrestricted net assets	222,322	170,522
Total net assets released from restrictions and transfer of investment return	\$ 3,111,673	\$ 2,636,663

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which may be expended to support the following purposes at December 31, 2017 and 2016:

	2017	2016
Endowment**	\$ 23,820,477	\$ 21,953,188
Building towards endowment	176,075	223,540
Permanently restricted bequests and pledges receivable	164,284	233,558
Permanently restricted annuities	104,598	94,163
	<u>\$ 24,265,434</u>	<u>\$ 22,504,449</u>

**The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by NYS Not-for-Profit Corporation Law.

Changes in permanently restricted net assets in 2016 and 2017, were as follows:

	Endowment	Building towards endowment	Bequests and pledges receivable	Permanently restricted annuities	Totals
Balance at 12/31/2015	\$ 21,202,418	\$ 247,179	\$ 180,076	\$ 31,216	\$ 21,660,889
2016 Activity and Changes:					
Gifts, grants and bequests	658,640	68,491	86,828	-	813,959
Adjustments for promises made	-	-	(33,346)	-	(33,346)
Gifts from annuity contracts	-	-	-	28,811	28,811
Actuarial gain/(loss) on annuities	-	-	-	9,776	9,776
Investment return (loss)	-	-	-	24,360	24,360
Transfers	92,130	(92,130)	-	-	-
Balance at 12/31/2016	21,953,188	223,540	233,558	94,163	22,504,449

2017 Activity and Changes:					
Gifts, grants and bequests	1,734,185	85,639	-	-	1,819,824
Adjustments for promises made	-	-	(69,274)	-	(69,274)
Gifts from annuity contracts	-	-	-	-	-
Actuarial gain/(loss) on annuities	-	-	-	(23,764)	(23,764)
Investment return (loss)	-	-	-	34,199	34,199
Transfers	133,104	(133,104)	-	-	-
Balance at 12/31/2017	<u>\$ 23,820,477</u>	<u>\$ 176,075</u>	<u>\$ 164,284</u>	<u>\$ 104,598</u>	<u>\$ 24,265,434</u>

NOTE 12 - AGREEMENTS WITH THE STATE UNIVERISTY OF NEW YORK AT FREDONIA

The Foundation utilizes certain office equipment and personnel of the State University of New York at Fredonia (Fredonia) at no cost. The current agreement is for the period March 1, 2015 through February 28, 2020. This agreement may be terminated in whole or part by Fredonia upon 45 days prior written notice. The value of donated services received from Fredonia under the term of this agreement was \$840,300 for 2017 and \$835,967 for 2016.

A Memorandum of Understanding (MOU) dated August 26, 2014, between the Foundation and Fredonia provides that Fredonia will reimburse the Foundation for certain services and costs incurred by the Foundation/LLC related to the property at 60-62 Franklin Avenue, Dunkirk, NY. Upon the sale of the property, or income received for leases of the property, or a combination thereof, the Foundation/LLC will reimburse Fredonia in full for all amounts reimbursed in accordance with the MOU. At December 31, 2017 and 2016, the amount due to Fredonia for actual reimbursements received from Fredonia was \$232,027 and \$161,635, respectively. The term of the MOU began June 24, 2014 and ended December 31, 2017. No formal extension of the MOU has been made due to the anticipated sale of the Franklin Avenue property (Note 6).

NOTE 13 - LINE OF CREDIT

The Foundation a \$200,000 line of credit with a local financial institution. There was no outstanding balance at December 31, 2017 or 2016. Interest is at the prime rate.

NOTE 14 - PENSION PLAN

The Foundation provides retirement benefits for substantially all eligible employees through a defined contribution retirement plan. The plan operates under Section 403(b) of the Internal Revenue Code and uses the Teachers Insurance and Annuity Association of America and College Retirement Equities Fund (TIAA-CREF) to provide benefits. The plan requires that the Foundation contribute 10% of the participant's annual salary if the participant makes voluntary contributions during the year in an amount equal to 7% of their salary. Additionally, the Foundation matches additional participant contributions of up to 3% of the participant's salary. Participants of the plan are fully vested upon becoming members of the plan. The Foundation's plan contribution for 2017 and 2016 was \$5,432 and \$5,274, respectively.

NOTE 15- CONCENTRATION OF CREDIT RISK

At December 31, 2017, the Foundation had a combined \$319,875 of cash in two financial institutions in excess of the FDIC insured limit. At December 31, 2016, \$213,006 in one financial institution was in excess of the limit.

NOTE 16 - SUBSEQUENT EVENTS

Events and transactions through April 17, 2018, the date the financial statements were available to be issued, have been evaluated by management for the purpose of determining whether there were any events that might require disclosure in these financial statements.

**FREDONIA COLLEGE FOUNDATION
OF THE STATE UNIVERSITY OF NEW YORK, INC.
SUPPLEMENTARY INFORMATION
SCHEDULES OF EXPENSES - ADMINISTRATIVE AND FRANKLIN PROPERTIES, LLC
YEARS ENDED DECEMBER 31, 2017 AND 2016**

ADMINISTRATIVE

	2017	2016
Payroll and employee benefits	\$ 188,613	\$ 181,134
Donated services	840,300	835,967
Broker commissions and management fees	104,908	96,328
Software and support	12,827	18,306
Professional fees	23,886	31,610
Travel expense	14,710	14,974
Donor and scholarship recipient recognition/cultivation	25,523	31,533
Printing and annual report	12,445	12,195
Contracted services	13,943	12,786
Donor recognition event	11,057	5,780
Meetings, conferences and seminars	9,604	8,240
Executive Director/VP expense	4,428	2,543
Insurance	5,618	5,842
President's discretionary fund	2,045	2,000
Miscellaneous	1,210	1,863
Memberships and dues	7,694	8,028
Publications	1,370	846
Capital campaign	4,485	7,784
Office supplies and postage	2,597	3,110
Foundation house expenses:		
Depreciation	20,968	20,805
Repairs and maintenance	23,133	22,942
Utilities	6,337	6,011
	<u>\$ 1,337,701</u>	<u>\$ 1,330,627</u>

FRANKLIN PROPERTIES, LLC

	2017	2016
Repairs and maintenance	\$ 6,834	\$ 5,450
Utilities	11,860	10,215
Property taxes	39,333	38,762
Insurance	12,534	5,191
	<u>\$ 70,561</u>	<u>\$ 59,618</u>