



Financial Statements
May 31, 2017 and 2016
E.S.A. Foundation

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Independent Auditor's Report

To the Board of Directors
E.S.A. Foundation
Fort Collins, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of E.S.A. Foundation, which comprise the statements of financial position as of May 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 principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 E.S.A. Foundation as of May 31, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fort Collins, Colorado
July 12, 2017

E.S.A. Foundation
Statements of Financial Position
May 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 144,681	\$ 129,666
Cash held for Packs For Hunger	101,835	49,375
Cash held for CSU Bass Fishing Team	-	1,859
Operating investments	290,534	451,624
Website, net	35,762	16,160
Endowment investments	4,443,461	3,829,424
Total assets	\$ 5,016,273	\$ 4,478,108
Liabilities		
Scholarships payable	\$ 138,600	\$ 230,300
Due to Packs For Hunger	101,835	49,375
Due to CSU Bass Fishing Team	-	1,859
Deferred revenue	-	1,500
Total liabilities	240,435	283,034
Net Assets		
Unrestricted		
Undesignated	332,377	365,650
Board designated endowment	283,157	262,543
	615,534	628,193
Temporarily restricted	3,107,774	2,527,941
Permanently restricted	1,052,530	1,038,940
Total net assets	4,775,838	4,195,074
Total liabilities and net assets	\$ 5,016,273	\$ 4,478,108

E.S.A. Foundation
Statement of Activities
Year Ended May 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	\$ 55,590	\$ 337,412	\$ 11,761	\$ 404,763
Scholarship fees	28,985	-	-	28,985
Net investment return	78,448	365,275	1,829	445,552
Net assets released from restrictions	122,854	(122,854)	-	-
Total revenue and support	<u>285,877</u>	<u>579,833</u>	<u>13,590</u>	<u>879,300</u>
Expenses				
Program services expense				
Scholarships	138,600	-	-	138,600
Other	132,801	-	-	132,801
Total program expenses	<u>271,401</u>	<u>-</u>	<u>-</u>	<u>271,401</u>
Supporting services expense				
Management and general	19,639	-	-	19,639
Fundraising and development	7,496	-	-	7,496
Total supporting services expenses	<u>27,135</u>	<u>-</u>	<u>-</u>	<u>27,135</u>
Total expenses	<u>298,536</u>	<u>-</u>	<u>-</u>	<u>298,536</u>
Change in Net Assets	(12,659)	579,833	13,590	580,764
Net Assets, Beginning of Year	628,193	2,527,941	1,038,940	4,195,074
Net Assets, End of Year	<u>\$ 615,534</u>	<u>\$ 3,107,774</u>	<u>\$ 1,052,530</u>	<u>\$ 4,775,838</u>

E.S.A. Foundation
Statement of Activities
Year Ended May 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	\$ 54,631	\$ 103,778	\$ 20,550	\$ 178,959
Scholarship fees	35,788	-	-	35,788
Net investment (loss)	(6,572)	(57,412)	(370)	(64,354)
Net assets released from restrictions	214,300	(214,300)	-	-
Total revenue and support	<u>298,147</u>	<u>(167,934)</u>	<u>20,180</u>	<u>150,393</u>
Expenses				
Program services expense				
Scholarships	230,300	-	-	230,300
Other	130,267	-	-	130,267
Total program expenses	<u>360,567</u>	<u>-</u>	<u>-</u>	<u>360,567</u>
Supporting services expense				
Management and general	21,623	-	-	21,623
Fundraising and development	7,577	-	-	7,577
Total supporting services expenses	<u>29,200</u>	<u>-</u>	<u>-</u>	<u>29,200</u>
Total expenses	<u>389,767</u>	<u>-</u>	<u>-</u>	<u>389,767</u>
Change in Net Assets	(91,620)	(167,934)	20,180	(239,374)
Net Assets, Beginning of Year	719,813	2,695,875	1,018,760	4,434,448
Net Assets, End of Year	<u>\$ 628,193</u>	<u>\$ 2,527,941</u>	<u>\$ 1,038,940</u>	<u>\$ 4,195,074</u>

E.S.A. Foundation
Statements of Cash Flows
Years Ended May 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 580,764	\$ (239,374)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	12,120	12,120
Realized and unrealized (gain) loss on operating investments	(60,440)	3,767
Endowment net investment (return) loss	(385,112)	60,587
Contributions restricted to endowment	(11,761)	(20,550)
Donated securities	(250,000)	-
Changes in operating assets and liabilities		
Scholarships payable	(91,700)	(18,550)
Deferred revenue	(1,500)	1,500
Net Cash (used for) Operating Activities	(207,629)	(200,500)
 Cash Flows from Investing Activities		
Improvements to website	(31,723)	-
Proceeds from sales of operating investments	254,367	198,575
(Addition to) endowment	(11,761)	(20,550)
Net Cash from Investing Activities	210,883	178,025
 Cash Flows from Financing Activities		
Collections of contributions restricted to endowment	11,761	20,550
Net Cash from Financing Activities	11,761	20,550
 Net Change in Cash and Cash Equivalents	15,015	(1,925)
Cash and Cash Equivalents, Beginning of Year	129,666	131,591
Cash and Cash Equivalents, End of Year	\$ 144,681	\$ 129,666

Note 1 - Principal Activity and Significant Accounting Policies

Organization

E.S.A. Foundation (the Foundation) is a nonprofit organization established to promote continuing education and activities that make a positive difference in the world community. Voluntary contributions of time and money from E.S.A members, E.S.A Foundation members, and friends of the Foundation are the major sources of support. In addition, the Foundation receives funds from individuals applying for scholarships. The Foundation supports the service and leadership programs and the philanthropic projects of Epsilon Sigma Alpha International.

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 permanent endowment or other long-term purposes of the Foundation are excluded from this definition.

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 statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Website

Website development expenditures are recorded at cost or, if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over an estimated useful life of five years.

The Foundation reviews the carrying value of its capitalized website expenditures for impairment whenever events or circumstances indicate that the carrying value of the 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 May 31, 2017 and 2016.

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 endowment.

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 Foundation's 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 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 action 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 and 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.

Funds collected on behalf of other 501(c)(3) organizations are not reflected in revenue. Instead, funds collected but not yet forwarded to the organizations are reflected on the statement of financial position as both cash funds and liabilities.

The Foundation collects monies from its members and supporters that are then forwarded to the donor-designated 501(c)(3) organizations. These funds are not reflected in revenue and, because the funds are immediately forwarded to the respective donor-designated organizations, there are no balances to report on the statement of financial position.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 6 presents total expenses by function.

Income Taxes

The Foundation is organized as a 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 to receive charitable contributions as a public charity under 509(a)(1) Section 170(b)(1)(A)(vi), and has not been determined to be a private foundation under Section 509(a). The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The entity has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The entity believes that it 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 financial statements. The entity 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 entity'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 2010.

Estimates

The preparation of 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 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, money market accounts, and certificates of deposit 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. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Directors believe 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 July 12, 2017, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the 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.

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

The following table presents assets measured at fair value on a recurring basis at May 31, 2017:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Bond mutual funds	\$ 87,603	\$ 87,603	\$ -	\$ -
Equity mutual funds	202,931	202,931	-	-
	<u>\$ 290,534</u>	<u>\$ 290,534</u>	<u>\$ -</u>	<u>\$ -</u>
Endowment investments				
Bond mutual funds	\$ 1,341,053	\$ 1,341,053	\$ -	\$ -
Equity mutual funds	3,102,408	3,102,408	-	-
	<u>\$ 4,443,461</u>	<u>\$ 4,443,461</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents assets measured at fair value on a recurring basis at May 31, 2016:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Bond mutual funds	\$ 135,568	\$ 135,568	\$ -	\$ -
Equity mutual funds	316,056	316,056	-	-
	<u>\$ 451,624</u>	<u>\$ 451,624</u>	<u>\$ -</u>	<u>\$ -</u>
Endowment investments				
Bond mutual funds	\$ 1,149,506	\$ 1,149,506	\$ -	\$ -
Equity mutual funds	2,679,918	2,679,918	-	-
	<u>\$ 3,829,424</u>	<u>\$ 3,829,424</u>	<u>\$ -</u>	<u>\$ -</u>

Note 3 - Net Investment Return (Loss)

Net investment return (loss) consists of the following for the years ended May 31, 2017 and 2016:

	2017	2016
Operating investments		
Interest and dividends	\$ 20,418	\$ 12,194
Net realized and unrealized gain (loss)	42,724	(14,855)
Less investment management and custodial fees	(2,702)	(1,106)
	60,440	(3,767)
Endowment investments		
Interest and dividends	130,099	196,128
Net realized and unrealized gain (loss)	272,233	(238,921)
Less investment management and custodial fees	(17,220)	(17,794)
	385,112	(60,587)
	\$ 445,552	\$ (64,354)

Note 4 - Endowments

The Foundation's endowment (the Endowment) consists of approximately 200 individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain unrestricted net assets designated for endowment by the Board of Directors. 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 value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At May 31, 2017 and 2016, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts), and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment 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. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization 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 organization
- The investment policies of the organization

As of May 31, 2017 and 2016, the Foundation had the following endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>May 31, 2017</u>				
Board-designated endowment	\$ 283,157	\$ -	\$ -	\$ 283,157
Donor-restricted for endowment	-	3,107,774	1,052,530	4,160,304
	<u>\$ 283,157</u>	<u>\$ 3,107,774</u>	<u>\$ 1,052,530</u>	<u>\$ 4,443,461</u>
<u>May 31, 2016</u>				
Board-designated endowment	\$ 262,543	\$ -	\$ -	\$ 262,543
Donor-restricted for endowment	-	2,527,941	1,038,940	3,566,881
	<u>\$ 262,543</u>	<u>\$ 2,527,941</u>	<u>\$ 1,038,940</u>	<u>\$ 3,829,424</u>

Investment and Spending Policies

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The target minimum rate of return is the Consumer Price Index plus 5% on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

The Foundation accumulates net assets contributed with purpose restrictions, aggregate investment return, less donor directed spending by fund, as temporarily restricted net assets. Adequate fund net assets must be available prior to any spending.

Changes in Endowment net assets for the year ending May 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 262,543	\$ 2,527,941	\$ 1,038,940	\$ 3,829,424
Investment return	18,008	365,275	1,829	385,112
Contributions	11,286	337,412	11,761	360,459
Distributions				
Appropriation of endowment assets pursuant to spending-rate policy	-	(122,854)	-	(122,854)
Appropriation of board-designated endowment assets	(8,680)	-	-	(8,680)
Endowment net assets, end of year	<u>\$ 283,157</u>	<u>\$ 3,107,774</u>	<u>\$ 1,052,530</u>	<u>\$ 4,443,461</u>

Changes in Endowment net assets for the year ending May 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 264,432	\$ 2,695,875	\$ 1,018,760	\$ 3,979,067
Investment (loss)	(2,805)	(57,412)	(370)	(60,587)
Contributions	14,366	103,778	20,550	138,694
Distributions				
Appropriation of endowment assets pursuant to spending policy	-	(214,300)	-	(214,300)
Appropriation of board-designated endowment assets	(13,450)	-	-	(13,450)
Endowment net assets, end of year	<u>\$ 262,543</u>	<u>\$ 2,527,941</u>	<u>\$ 1,038,940</u>	<u>\$ 3,829,424</u>

Note 5 - Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets at May 31, 2017 and 2016, consist of:

	2017	2016
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use Restricted by donors for scholarships	\$ 3,107,774	\$ 2,527,941

Net assets were released from restrictions as follows during the years ended May 31, 2017 and 2016:

	2017	2016
Restricted-purpose spending rate distributions and appropriations Scholarships	\$ 122,854	\$ 214,300

Permanently Restricted

Permanently restricted net assets consist of Endowment funds restricted by donors for investment in perpetuity. Earnings on Endowment funds are available for the purposes specified by the donors, or in certain cases, for the unrestricted use of the Foundation. The permanently restricted net assets balances, classified by restriction on the use of earnings, are as follows at May 31, 2017 and 2016:

	2017	2016
Scholarships Endowment	\$ 1,052,530	\$ 1,038,940

Note 6 - Functionalized Expenses

Total expenses by function were as follows for the years ended May 31, 2017 and 2016:

	2017	2016
Program services	\$ 271,401	\$ 360,567
Management and general (includes investment management fees of \$2,702 and \$1,106)	22,341	22,729
Fundraising and development	7,496	7,577
Total functionalized expenses	\$ 301,238	\$ 390,873

Note 7 - Related Party Transactions

During the years ended May 31, 2017 and 2016, the Foundation purchased administrative services totaling \$91,200, respectively, from E.S.A Membership Corporation. This entity has common board members with the Foundation but is not controlled by the Foundation.