

LAKE WASHINGTON COLLEGE FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2015

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1 and 2
FINANCIAL STATEMENTS	
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS.....	3
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS – MODIFIED CASH BASIS.....	4
STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS	5
NOTES TO FINANCIAL STATEMENTS	6 - 13

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lake Washington College Foundation
Kirkland, Washington

We have audited the accompanying financial statements of Lake Washington College Foundation ("the Foundation"), which comprise the statement of assets, liabilities and net assets – modified cash basis as of December 31, 2015 and 2014, and the related statements of revenue, expenses and changes in net assets – modified cash basis and cash flows – modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for 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. 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 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 Lake Washington College Foundation as of December 31, 2015 and 2014, and its activities and its cash flows for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our opinion is not modified with respect to that matter.

Peterson Sullivan LLP

June 3, 2016

LAKE WASHINGTON COLLEGE FOUNDATION

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS

December 31, 2015 and 2014

ASSETS	2015	2014
Current Assets		
Cash	\$ 175,654	\$ 172,777
Investments	2,135,820	2,097,829
Total assets	<u>\$ 2,311,474</u>	<u>\$ 2,270,606</u>
NET ASSETS		
Net Assets		
Unrestricted net assets		
Undesignated	\$ 142,193	\$ 227,979
Board-designated, programs and scholarships	105,882	40,610
Total unrestricted net assets	248,075	268,589
Temporarily restricted net assets	973,062	1,076,168
Permanently restricted net assets	1,090,337	925,849
Total net assets	<u>\$ 2,311,474</u>	<u>\$ 2,270,606</u>

See Notes to Financial Statements

LAKE WASHINGTON COLLEGE FOUNDATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS – MODIFIED CASH BASIS

For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Contributions	\$ 14,401	\$ 173,780	\$ 114,794	\$ 302,975	\$ 10,632	\$ 177,977	\$ 25,000	\$ 213,609
Interest and dividends	37,105	29,752		66,857	36,203	24,778		60,981
Net realized/unrealized gains (losses) on investments	(63,066)	(54,171)		(117,237)	13,104	8,613		21,717
Special events	115,315	25,608		140,923	96,966	26,243		123,209
Other revenue	16,135			16,135	15,600			15,600
Total revenue	119,890	174,969	114,794	409,653	172,505	237,611	25,000	435,116
Net assets released due to satisfaction of restrictions	228,381	(228,381)			129,331	(129,331)		
Transfer by donor request		(49,694)	49,694					
	348,271	(103,106)	164,488	409,653	301,836	108,280	25,000	435,116
Expenses								
Program services	303,862			303,862	173,266			173,266
Management and general	46,580			46,580	30,116			30,116
Fundraising	18,343			18,343	15,716			15,716
Total expenses	368,785			368,785	219,098			219,098
Change in net assets	(20,514)	(103,106)	164,488	40,868	82,738	108,280	25,000	216,018
Net assets, beginning of year	268,589	1,076,168	925,849	2,270,606	185,851	967,888	900,849	2,054,588
Net assets, end of year	<u>\$ 248,075</u>	<u>\$ 973,062</u>	<u>\$ 1,090,337</u>	<u>\$ 2,311,474</u>	<u>\$ 268,589</u>	<u>\$ 1,076,168</u>	<u>\$ 925,849</u>	<u>\$ 2,270,606</u>

See Notes to Financial Statements

LAKE WASHINGTON COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 40,868	\$ 216,018
Net realized/unrealized (gains) losses on investments	<u>117,237</u>	<u>(21,717)</u>
Net cash flows from operating activities	158,105	194,301
Cash Flows from Investing Activity		
Net purchase of investments	<u>(155,228)</u>	<u>(137,082)</u>
Net change in cash	2,877	57,219
Cash balance, beginning of year	<u>172,777</u>	<u>115,558</u>
Cash balance, end of year	<u><u>\$ 175,654</u></u>	<u><u>\$ 172,777</u></u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Activities and Accounting Policies

Organization

The Lake Washington College Foundation ("the Foundation") provides Lake Washington Institute of Technology ("the College") the margin of support necessary to achieve educational excellence and to expand the financial basis for quality that lies beyond the scope of legislative funding through individual, corporate, and community partnerships.

Basis of Accounting

The Foundation's policy is to prepare its financial statements on the cash receipts and disbursements basis of accounting except for the recognition of investments at fair value. Therefore, all revenue and the related assets are recognized when received, and expenses when paid rather than when the obligation is incurred.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classes of net assets are further described as follows:

- **Unrestricted Net Assets** – Support received without donor restriction.
- **Temporarily Restricted Net Assets** – Support received subject to a donor-imposed time restriction or stipulation for a particular purpose. When donor time restrictions expire or when donor program restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets consist of the following at December 31:

	2015	2014
Scholarships	\$ 539,293	\$ 576,737
Programs and events	289,048	315,857
Unappropriated endowment earnings	144,721	183,574
	<u>\$ 973,062</u>	<u>\$ 1,076,168</u>

- **Permanently Restricted Net Assets** – Support received in the form of endowment or sustaining funds. The principal of permanently restricted contributions is restricted in perpetuity and the income is utilized for the purposes specified by the donor. Permanently restricted net assets consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Individual Endowments:		
Altrusa Endowment	\$ 16,340	\$ 11,400
Autobody Craftsman	25,000	25,000
Bernice E. Tutt Endowment	40,000	40,000
Blair's Promise	3,400	
David B. Fleagle Memorial Fund	11,671	11,671
Dick and Diane Haelsig Fund	27,048	
Dr. Metke President Fund	24,800	24,800
David Woodall	23,195	
Foundation Endowment	15,000	15,000
Gerald and Sandra Hughes	25,000	25,000
Hazel and Ernest Sims	10,000	10,000
HelpSource Endowment	17,229	17,229
International Program	15,000	15,000
Jim Colman Endowment	112,033	56,149
Kirkland Kiwanis Endowment	10,000	10,000
Laurie Clayton Memorial	23,000	23,000
Louis and Patricia Marsh	11,000	11,000
Maxine Stone Emery	12,000	12,000
Norah N. and Gerald F. Link	38,600	38,600
ProStart Endowment	10,000	10,000
Ralph L. Jones	130,000	130,000
Scott Fordham Endowment	10,000	10,000
Tjossem Family	50,021	
Walter Seabloom Endowment	10,000	10,000
Faculty Endowments:		
Culinary Arts Faculty Endowment	60,000	60,000
Dental Faculty Endowment	10,000	10,000
Dr. Donald Fowler Faculty Endowment	30,000	30,000
ESL Faculty Endowment	10,000	10,000
Fitness Faculty Endowment	10,000	10,000
General Exceptional Faculty Endowment	170,000	170,000
Library Faculty Endowment	100,000	100,000
Lighthouse Faculty Endowment	30,000	30,000
	<u>\$ 1,090,337</u>	<u>\$ 925,849</u>

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets (such as national exchanges) for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the Foundation to develop its own assumptions.

Cash

Cash includes cash held at banks. On occasion, the Foundation has amounts deposited with a financial institution in excess of federally insured limits. With the exception of cash and investments held in investment accounts, the Foundation considers all short-term securities with an original maturity of three months or less to be cash.

Concentration

Contributions from two donors represent 38% of contribution revenue in 2015. Contributions from three donors represent 51% of contribution revenue in 2014.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain items from the 2014 financial statements have been reclassified to conform to the current presentation. These reclassifications had no impact on net assets or change in net assets as previously reported.

Subsequent Events

The Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was June 3, 2016.

Note 2. Investments

Investments in mutual funds and exchange trade funds are stated at fair value, based on Level 1 inputs consisting of quoted prices in active markets such as national exchanges. Certificates of deposits are recorded at cost plus accrued interest. The Foundation's investments consist of the following at December 31:

	2015	2014
Cash and money market	\$ 131,657	\$ 130,726
Certificates of deposit	459,085	399,700
Mutual funds		
Large blend	179,496	232,526
Intermediate-term bond	152,089	73,592
Multi-sector bond	97,682	94,553
Small blend	65,629	83,596
Foreign large blend	54,967	71,297
Global Real estate	49,076	24,516
Diversified emerging markets	47,442	53,378
Commodities broad basket	15,258	14,375
Exchange trade funds		
Large value	159,818	132,685
Large growth	138,960	115,171
Mid-cap growth	97,381	98,836
Corporate bond	82,927	73,032
Mid-cap value	79,813	99,068
Real estate	49,478	24,819
Emerging markets bond	48,870	46,846
High-yield bond	47,542	78,669
Diversified emerging markets	45,839	53,473
Small growth	32,569	41,123
Small value	32,340	41,397
Foreign large growth	27,192	35,406
Foreign large value	26,609	34,700
Commodities broad basket	14,101	12,646
Foreign bond		31,699
	<u>\$ 2,135,820</u>	<u>\$ 2,097,829</u>

Note 3. Endowment

The Foundation's endowment consists of 32 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the State of Washington 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment and 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 donor-restricted endowment fund that is not classified in 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 donor-restricted funds:

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

Endowment net assets consisted of the following at:

		December 31, 2015			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	-	\$ 144,721	\$ 1,090,337	\$ 1,235,058
Total Funds	\$	-	\$ 144,721	\$ 1,090,337	\$ 1,235,058
		December 31, 2014			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	-	\$ 183,574	\$ 925,849	\$ 1,109,423
Total Funds	\$	-	\$ 183,574	\$ 925,849	\$ 1,109,423

Changes in endowment net assets are as follows for the years ended:

	December 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 183,574	\$ 925,849	\$ 1,109,423
Investment return:				
Investment income		29,752		29,752
Net depreciation (realized and unrealized)		(54,171)		(54,171)
Total investment return		(24,419)		(24,419)
Contributions			114,794	114,794
Appropriation of endowment assets for expenditure		(9,991)		(9,991)
Transfer			49,694	49,694
Fees		(4,443)		(4,443)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 144,721</u>	<u>\$ 1,090,337</u>	<u>\$ 1,235,058</u>
	December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 158,763	\$ 900,849	\$ 1,059,612
Investment return:				
Investment income		24,778		24,778
Net appreciation (realized and unrealized)		8,613		8,613
Total investment return		33,391		33,391
Contributions			25,000	25,000
Appropriation of endowment assets for expenditure		(4,618)		(4,618)
Fees		(3,962)		(3,962)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 183,574</u>	<u>\$ 925,849</u>	<u>\$ 1,109,423</u>

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 endowment assets. Avoidance of asset depreciation is a paramount goal. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as quasi-endowment funds. Under this policy, as approved by the Board of Trustees/Directors, the endowment assets are invested to reach a total return performance goal. The total return performance goal (including dividends, interest, and appreciation) of the endowment portfolio over a market cycle will, on average, exceed the inflation rate as measured by the Consumer Price Index. Performance of the portfolio segments will be compared to the appropriate comparable indices. The Foundation has established strategic asset allocation targets and ranges for equities, fixed income instruments, real estate investments, and cash or cash equivalents in order to diversify investments to minimize risk of large losses. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving 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) 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 How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year the amount deemed appropriate taking into consideration market performance in the preceding fiscal years in which the distribution is planned. In establishing this policy, the Foundation considers the long-term expected return on its endowment in an uncertain market. Accordingly, over the long-term, the Foundation's spending policy is to protect the endowment corpus and its growth which 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.

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 or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2015 or 2014.

Note 4. Lease Agreement

The Foundation leases space from the College for a nominal amount. In 2015 the Foundation entered an agreement to lease this space to a coffee cart under a non-cancelable operating lease expiring in 2020.

Future minimum rentals to be received for years ending December 31 are:

2016	\$	17,461
2017		18,745
2018		20,029
2019		21,313
2020		1,785
		<hr/>
	\$	79,333
		<hr/> <hr/>

Rental income totaled \$15,535 and \$15,000 for the years ended December 31, 2015 and 2014, respectively. Rental income prior to February 1, 2015 was month-to-month.

Note 5. Related Party Transactions

The Foundation received in-kind services related to administration of its operations (primarily administrative development and fiscal personnel, as well as rent, supplies, etc.) from the College. These services amounted to \$244,114 and \$230,587 for 2015 and 2014, respectively, but are not recorded in the financial statements on the modified cash basis of accounting as defined in Note 1.