

LAKE WASHINGTON COLLEGE FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2014

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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, 2014, and the related statements of revenue, expenses and changes in net assets – modified cash basis and cash flows – modified cash basis for the year 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 audit. We conducted our audit 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, 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

May 14, 2015

LAKE WASHINGTON COLLEGE FOUNDATION

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

December 31, 2014

| ASSETS | |
|---|---------------------|
| Current Assets | |
| Cash | \$ 172,777 |
| Investments | <u>2,097,829</u> |
| Total assets | <u>\$ 2,270,606</u> |
| | |
| NET ASSETS | |
| Net Assets | |
| Unrestricted net assets | |
| Undesignated | \$ 227,979 |
| Board-designated, programs and scholarships | <u>40,610</u> |
| | 268,589 |
| Temporarily restricted net assets | 1,076,168 |
| Permanently restricted net assets | <u>925,849</u> |
| Total net assets | <u>\$ 2,270,606</u> |

See Notes to Financial Statements

LAKE WASHINGTON COLLEGE FOUNDATION

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

For the Year Ended December 31, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenue | | | | |
| Contributions | \$ 10,632 | \$ 204,220 | \$ 25,000 | \$ 239,852 |
| Interest and dividends | 36,203 | 24,778 | | 60,981 |
| Net realized/unrealized gains on investments | 13,104 | 8,613 | | 21,717 |
| Special events | 96,966 | | | 96,966 |
| Other revenue | 15,600 | | | 15,600 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenue | 172,505 | 237,611 | 25,000 | 435,116 |
| | | | | |
| Net assets released due to satisfaction of restrictions | 129,331 | (129,331) | | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 301,836 | 108,280 | 25,000 | 435,116 |
| Expenses | | | | |
| Program services | 173,266 | | | 173,266 |
| Management and general | 30,116 | | | 30,116 |
| Fundraising | 15,716 | | | 15,716 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses | 219,098 | | | 219,098 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Change in net assets | 82,738 | 108,280 | 25,000 | 216,018 |
| | | | | |
| Net assets, beginning of year | 185,851 | 967,888 | 900,849 | 2,054,588 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net assets, end of year | <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

STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS

For the Year Ended December 31, 2014

| | |
|--|--------------------------|
| Reconciliation of change in net assets to net cash flows from operating activities | |
| Change in net assets | \$ 216,018 |
| Net realized/unrealized gains on investments | <u>(21,717)</u> |
| Net cash flows from operating activities | 194,301 |
| Cash Flows from Investing Activity | |
| Net purchase of investments | <u>(137,082)</u> |
| Net change in cash | 57,219 |
| Cash balance, beginning of year | <u>115,558</u> |
| Cash balance, end of year | <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, 2014:

| | | |
|-----------------------------------|----|-------------|
| Scholarships | \$ | 576,737 |
| Programs and events | | 315,857 |
| Unappropriated endowment earnings | | 183,574 |
| | | <hr/> |
| | \$ | 1,076,168 |
| | | <hr/> <hr/> |

- **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, 2014:

| | |
|---------------------------------------|------------|
| Individual Endowments: | |
| Altrusa Endowment | \$ 11,400 |
| Autobody Craftsman | 25,000 |
| Bernice E. Tutt Endowment | 40,000 |
| David B. Fleagle Memorial Fund | 11,671 |
| Dr. Metke President Fund | 24,800 |
| Foundation Endowment | 15,000 |
| Gerald and Sandra Hughes | 25,000 |
| Hazel and Ernest Sims | 10,000 |
| HelpSource Endowment | 17,229 |
| International Program | 15,000 |
| Jim Colman Endowment | 56,149 |
| Kirkland Kiwanis Endowment | 10,000 |
| Laurie Clayton Memorial | 23,000 |
| Louis and Patricia Marsh | 11,000 |
| Maxine Stone Emery | 12,000 |
| Norah N. and Gerald F. Link | 38,600 |
| ProStart Endowment | 10,000 |
| Ralph L. Jones | 130,000 |
| Scott Fordham Endowment | 10,000 |
| Walter Seabloom Endowment | 10,000 |
| Faculty Endowments: | |
| Culinary Arts Faculty Endowment | 60,000 |
| Dental Faculty Endowment | 10,000 |
| Dr. Donald Fowler Faculty Endowment | 30,000 |
| ESL Faculty Endowment | 10,000 |
| Fitness Faculty Endowment | 10,000 |
| General Exceptional Faculty Endowment | 170,000 |
| Library Faculty Endowment | 100,000 |
| Lighthouse Faculty Endowment | 30,000 |
| | \$ 925,849 |
| | \$ 925,849 |

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 which 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 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.

Subsequent Events

The Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

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, 2014:

| | | |
|------------------------------|----|------------------|
| Cash and money market | \$ | 130,726 |
| Certificates of deposit | | 399,700 |
| Mutual funds | | |
| Large blend | | 232,526 |
| Multi-sector bond | | 94,553 |
| Small blend | | 83,596 |
| Intermediate-term bond | | 73,592 |
| Foreign large blend | | 71,297 |
| Diversified emerging markets | | 53,378 |
| Global Real estate | | 24,516 |
| Commodities broad basket | | 14,375 |
| Exchange trade funds | | |
| Large value | | 132,685 |
| Large growth | | 115,171 |
| Mid-cap value | | 99,068 |
| Mid-cap growth | | 98,836 |
| High-yield bond | | 78,669 |
| Corporate bond | | 73,032 |
| Diversified emerging markets | | 53,473 |
| Emerging markets bond | | 46,846 |
| Small value | | 41,397 |
| Small growth | | 41,123 |
| Foreign large growth | | 35,406 |
| Foreign large value | | 34,700 |
| Foreign bond | | 31,699 |
| Real estate | | 24,819 |
| Commodities broad basket | | 12,646 |
| | | <hr/> |
| | \$ | <u>2,097,829</u> |

Note 3. Endowment

The Foundation's endowment consists of 28 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, 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 year ended:

| | December 31, 2014 | | | Total |
|--|-------------------|------------------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| 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 | \$ - | \$ 183,574 | \$ 925,849 | \$ 1,109,423 |

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, 2014.

Note 4. 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 \$230,587 for 2014, but are not recorded in the financial statements on the modified cash basis of accounting as defined in Note 1.