

**LAKE WASHINGTON COLLEGE FOUNDATION**

FINANCIAL REPORT

DECEMBER 31, 2016

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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 statements of assets, liabilities and net assets – modified cash basis as of December 31, 2016 and 2015, 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, 2016 and 2015, and its activities and its cash flows for the years 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 2, 2017

**LAKE WASHINGTON COLLEGE FOUNDATION**

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

December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash	\$ 170,877	\$ 175,654
Investments	<u>2,439,447</u>	<u>2,135,820</u>
Total assets	<u>\$ 2,610,324</u>	<u>\$ 2,311,474</u>
NET ASSETS		
Net Assets		
Unrestricted net assets		
Undesignated	\$ 193,551	\$ 142,193
Board-designated, programs and scholarships	<u>89,469</u>	<u>105,882</u>
Total unrestricted net assets	283,020	248,075
Temporarily restricted net assets	1,083,346	973,062
Permanently restricted net assets	<u>1,243,958</u>	<u>1,090,337</u>
Total net assets	<u>\$ 2,610,324</u>	<u>\$ 2,311,474</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, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Contributions	\$ 12,237	\$ 201,900	\$ 153,621	\$ 367,758	\$ 14,401	\$ 173,780	\$ 114,794	\$ 302,975
Interest and dividends	32,134	35,199		67,333	37,105	29,752		66,857
Net realized/unrealized gains (losses) on investments	57,484	48,192		105,676	(63,066)	(54,171)		(117,237)
Special events	111,508	48,157		159,665	115,315	25,608		140,923
Other revenue	17,761			17,761	16,135			16,135
<b>Total revenue</b>	<b>231,124</b>	<b>333,448</b>	<b>153,621</b>	<b>718,193</b>	<b>119,890</b>	<b>174,969</b>	<b>114,794</b>	<b>409,653</b>
Net assets released due to satisfaction of restrictions	223,164	(223,164)			228,381	(228,381)		
Transfer by donor request						(49,694)	49,694	
	454,288	110,284	153,621	718,193	348,271	(103,106)	164,488	409,653
Expenses								
Program services	316,303			316,303	303,862			303,862
Management and general	80,099			80,099	46,580			46,580
Fundraising	22,941			22,941	18,343			18,343
<b>Total expenses</b>	<b>419,343</b>			<b>419,343</b>	<b>368,785</b>			<b>368,785</b>
<b>Change in net assets</b>	<b>34,945</b>	<b>110,284</b>	<b>153,621</b>	<b>298,850</b>	<b>(20,514)</b>	<b>(103,106)</b>	<b>164,488</b>	<b>40,868</b>
Net Assets, beginning of year	248,075	973,062	1,090,337	2,311,474	268,589	1,076,168	925,849	2,270,606
Net Assets, end of year	<u>\$ 283,020</u>	<u>\$ 1,083,346</u>	<u>\$ 1,243,958</u>	<u>\$ 2,610,324</u>	<u>\$ 248,075</u>	<u>\$ 973,062</u>	<u>\$ 1,090,337</u>	<u>\$ 2,311,474</u>

See Notes to Financial Statements

**LAKE WASHINGTON COLLEGE FOUNDATION**

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 298,850	\$ 40,868
Contributions restricted to endowment	(153,621)	(114,794)
Net realized/unrealized (gains) losses on investments	(105,676)	117,237
Net cash flows from operating activities	39,553	43,311
Cash Flows from Investing Activity		
Net purchase of investments	(197,951)	(155,228)
Cash Flows from Financing Activity		
Proceeds from contributions restricted to endowment	153,621	114,794
<b>Net change in cash</b>	<b>(4,777)</b>	<b>2,877</b>
Cash Balance, beginning of year	175,654	172,777
Cash Balance, end of year	\$ 170,877	\$ 175,654

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:

	2016	2015
Scholarships	\$ 544,004	\$ 539,293
Programs and events	339,381	289,048
Unappropriated endowment earnings	199,961	144,721
	<u>\$ 1,083,346</u>	<u>\$ 973,062</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:

	2016	2015
Individual Endowments:		
Altrusa Endowment	\$ 22,773	\$ 16,340
Autobody Craftsman	25,000	25,000
Bernice E. Tutt Endowment	40,000	40,000
Blair's Promise	7,350	3,400
David B. Fleagle Memorial Fund	11,671	11,671
Dick and Diane Haelsig Fund	52,152	27,048
Dr. Metke President Fund	24,800	24,800
David Woodall	29,330	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	122,033	112,033
Kirkland Kiwanis Endowment	10,000	10,000
Laurie Clayton Memorial	25,000	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	150,020	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
	\$ 1,243,958	\$ 1,090,337

## **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 28% of contribution revenue in 2015. There were no such concentrations for 2016.

## **Functional Allocation of Expenses**

The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of revenue, expenses, and changes in net assets. 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 prior year balances have been reclassified to conform to the current year presentation.

## **Subsequent Events**

The Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was June 2, 2017.

## 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:

	2016	2015
Cash and money market	\$ 327,047	\$ 131,657
Certificates of deposit	229,834	459,085
Mutual funds		
Large blend	265,794	179,496
Intermediate-term bond	171,863	152,089
Multi-sector bond	116,212	97,682
Foreign large blend	69,263	54,967
Small blend	60,546	65,629
Global Real estate	50,136	49,076
Commodities broad basket	40,586	15,258
Diversified emerging markets	39,087	47,442
Short-term bond	28,781	
Exchange trade funds		
Corporate bond	171,806	82,927
Large value	133,923	159,818
Large growth	130,681	138,960
Mid-cap value	109,053	79,813
Mid-cap growth	108,409	97,381
High-yield bond	78,328	47,542
Small value	60,102	32,340
Emerging markets bond	57,535	48,870
Real estate	55,275	49,478
Diversified emerging markets	38,651	45,839
Foreign large value	34,067	26,609
Foreign large growth	33,819	27,192
Short-term bond	28,649	
Small growth		32,569
Commodities broad basket		14,101
	<u>\$ 2,439,447</u>	<u>\$ 2,135,820</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, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 199,961	\$ 1,243,958	\$ 1,443,919
Total Funds	\$ -	\$ 199,961	\$ 1,243,958	\$ 1,443,919

  

	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

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

	December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 144,721	\$ 1,090,337	\$ 1,235,058
Investment return:				
Investment income		35,199		35,199
Net appreciation (realized and unrealized)		48,192		48,192
Total investment return		83,391		83,391
Contributions			153,621	153,621
Appropriation of endowment assets for expenditure		(22,737)		(22,737)
Fees		(5,414)		(5,414)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 199,961</u>	<u>\$ 1,243,958</u>	<u>\$ 1,443,919</u>
	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

## **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, 2016 or 2015.

## **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 are as follows for years ending December 31:

2017	\$	18,745
2018		20,029
2019		21,313
2020		1,785
		<hr/>
	\$	61,872
		<hr/> <hr/>

Rental income totaled \$17,461 and \$15,535 for the years ended December 31, 2016 and 2015, 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 \$243,087 and \$244,114 for 2016 and 2015, respectively, but are not recorded in the financial statements on the modified cash basis of accounting as defined in Note 1.