

LAKE WASHINGTON COLLEGE FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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

August 16, 2018

LAKE WASHINGTON COLLEGE FOUNDATION

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

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 254,644	\$ 170,877
Investments	<u>2,809,056</u>	<u>2,439,447</u>
Total assets	<u>\$ 3,063,700</u>	<u>\$ 2,610,324</u>
NET ASSETS		
Net Assets		
Unrestricted		
Undesignated	\$ 264,697	\$ 193,551
Board-designated programs and scholarships	<u>165,374</u>	<u>89,469</u>
Total unrestricted	430,071	283,020
Temporarily restricted	1,258,947	1,083,346
Permanently restricted	<u>1,374,682</u>	<u>1,243,958</u>
Total net assets	<u>\$ 3,063,700</u>	<u>\$ 2,610,324</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, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Contributions	\$ 583	\$ 305,769	\$ 140,724	\$ 447,076	\$ 12,237	\$ 201,900	\$ 153,621	\$ 367,758
Interest and dividends	41,768	47,666		89,434	32,134	35,199		67,333
Net realized/unrealized gains on investments	94,519	96,475		190,994	57,484	48,192		105,676
Special events	163,334	29,265		192,599	111,508	48,157		159,665
Other revenue	18,745			18,745	17,761			17,761
Total revenue	318,949	479,175	140,724	938,848	231,124	333,448	153,621	718,193
Net assets released due to satisfaction of restrictions	303,574	(303,574)			223,164	(223,164)		
Return by donor request			(10,000)	(10,000)				
	622,523	175,601	130,724	928,848	454,288	110,284	153,621	718,193
Expenses								
Program services	354,647			354,647	316,303			316,303
Management and general	96,168			96,168	80,099			80,099
Fundraising	24,657			24,657	22,941			22,941
Total expenses	475,472			475,472	419,343			419,343
Change in net assets	147,051	175,601	130,724	453,376	34,945	110,284	153,621	298,850
Net Assets, beginning of year	283,020	1,083,346	1,243,958	2,610,324	248,075	973,062	1,090,337	2,311,474
Net Assets, end of year	<u>\$ 430,071</u>	<u>\$ 1,258,947</u>	<u>\$ 1,374,682</u>	<u>\$ 3,063,700</u>	<u>\$ 283,020</u>	<u>\$ 1,083,346</u>	<u>\$ 1,243,958</u>	<u>\$ 2,610,324</u>

See Notes to Financial Statements

LAKE WASHINGTON COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 453,376	\$ 298,850
Contributions restricted to endowment	(140,724)	(153,621)
Return of endowment funds	10,000	
Net realized/unrealized gains on investments	(190,994)	(105,676)
Net cash flows from operating activities	131,658	39,553
Cash Flows from Investing Activity		
Net purchase of investments	(178,615)	(197,951)
Cash Flows from Financing Activity		
Proceeds from contributions restricted to endowment	140,724	153,621
Return of endowment funds	(10,000)	
Net cash flows from financing activities	130,724	153,621
Net change in cash	83,767	(4,777)
Cash Balance, beginning of year	170,877	175,654
Cash Balance, end of year	\$ 254,644	\$ 170,877

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:

	2017	2016
Scholarships	\$ 547,727	\$ 544,004
Programs and events	401,702	339,381
Unappropriated endowment earnings	309,518	199,961
	<u>\$ 1,258,947</u>	<u>\$ 1,083,346</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.

Earnings on the individual endowments are used exclusively for scholarships. Earnings on the faculty endowments are used for the college departments based on need and are used for items such as professional development, equipment, supplies, etc.

Permanently restricted net assets consist of the following at December 31:

	2017	2016
Individual Endowments		
Altrusa Endowment	\$ 22,773	\$ 22,773
Autobody Craftsman	25,000	25,000
Bernice E. Tutt Endowment	40,000	40,000
Blair's Promise	10,590	7,350
Bottenberg	15,000	
David B. Fleagle Memorial Fund	12,546	11,671
Dick and Diane Haelsig Fund	52,152	52,152
Dr. Metke President Fund	24,800	24,800
David Woodall	36,939	29,330
Foundation Endowment	15,000	15,000
Gerald and Sandra Hughes	25,000	25,000
Hazel and Ernest Sims		10,000
HelpSource Endowment	17,229	17,229
International Program	15,000	15,000
Jim Colman Endowment	122,033	122,033
Kirkland Kiwanis Endowment	10,000	10,000
Laurie Clayton Memorial	26,000	25,000
Louis and Patricia Marsh	11,000	11,000
Maxine Stone Emery	12,000	12,000
Norah N. and Gerald F. Link	39,100	38,600
ProStart Endowment	10,000	10,000
Ralph L. Jones	130,000	130,000
Scott Fordham Endowment	22,500	10,000
Tjossem Family	250,020	150,020
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
	\$ 1,374,682	\$ 1,243,958

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 one donor represent 11% of total revenue for 2017. 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.

Subsequent Events

The Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was August 16, 2018.

Note 2. Investments

Investments in mutual funds and exchange-traded 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:

	2017	2016
Cash and money market	\$ 83,523	\$ 327,047
Certificates of deposit	458,852	229,834
Mutual funds		
Large blend	298,519	265,794
Intermediate-term bond	217,954	171,863
Global real estate	120,057	50,136
Foreign large blend	81,797	69,263
Small blend	70,830	60,546
Diversified emerging markets	70,326	39,087
Multi-sector bond	67,820	116,212
Short-term bond	45,675	28,781
Commodities broad basket		40,586
Exchange-traded funds		
Corporate bond	216,017	171,806
Large value	148,740	133,923
Large growth	147,423	130,681
Mid-cap value	131,130	109,053
Mid-cap growth	130,361	108,409
Real estate	115,844	55,275
Emerging markets bond	103,097	57,535
Small value	71,053	60,102
Diversified emerging markets	69,455	38,651
Short-term bond	45,370	28,649
Foreign large growth	40,693	33,819
Foreign large value	40,576	34,067
High-yield bond	33,944	78,328
	<u>\$ 2,809,056</u>	<u>\$ 2,439,447</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 consist of the following at:

	December 31, 2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 309,518</u>	<u>\$ 1,374,682</u>	<u>\$ 1,684,200</u>
Total funds	<u><u>\$ -</u></u>	<u><u>\$ 309,518</u></u>	<u><u>\$ 1,374,682</u></u>	<u><u>\$ 1,684,200</u></u>

	December 31, 2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 199,961</u>	<u>\$ 1,243,958</u>	<u>\$ 1,443,919</u>
Total funds	<u><u>\$ -</u></u>	<u><u>\$ 199,961</u></u>	<u><u>\$ 1,243,958</u></u>	<u><u>\$ 1,443,919</u></u>

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

	December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 199,961	\$ 1,243,958	\$ 1,443,919
Investment return				
Investment income		47,666		47,666
Net appreciation (realized and unrealized)		96,475		96,475
Total investment return	-	144,141		144,141
Contributions			140,724	140,724
Appropriation of endowment assets for expenditure		(27,500)		(27,500)
Fees		(7,084)		(7,084)
Return by donor request			(10,000)	(10,000)
Endowment net assets, end of year	\$ -	\$ 309,518	\$ 1,374,682	\$ 1,684,200

	December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	\$ -	\$ 199,961	\$ 1,243,958	\$ 1,443,919

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. 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, 2017 or 2016.

Note 4. Lease Agreement

The Foundation leases space from the College for a nominal amount. In 2015, the Foundation entered an agreement to sublease 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:

2018	\$	20,029
2019		21,313
2020		1,785
		<hr/>
	\$	43,127
		<hr/> <hr/>

Rental income totaled \$18,745 and \$17,461 for the years ended December 31, 2017 and 2016, respectively.

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 \$244,229 and \$243,087 for 2017 and 2016, respectively, but are not recorded in the financial statements on the modified cash basis of accounting as defined in Note 1.