

LAKE WASHINGTON COLLEGE FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2018

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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, 2018 and 2017, and the related statements of revenue, expenses, and changes in net assets – modified cash basis, functional expenses – 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, 2018 and 2017, 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.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the financial statements, in 2018, Lake Washington College Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Peterson Sullivan LLP

July 3, 2019

LAKE WASHINGTON COLLEGE FOUNDATION

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

December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash	\$ 210,730	\$ 254,644
Cash held for endowment	20,197	
Investments	2,985,871	2,809,056
Total assets	<u>\$ 3,216,798</u>	<u>\$ 3,063,700</u>
NET ASSETS		
Net Assets		
Without donor restrictions		
Undesignated	\$ 114,971	\$ 264,697
Board-designated programs and scholarships	178,751	165,374
Total without donor restrictions	293,722	430,071
With donor restrictions	2,923,076	2,633,629
Total net assets	<u>\$ 3,216,798</u>	<u>\$ 3,063,700</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, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contributions	\$ 15,286	\$ 746,716	\$ 762,002	\$ 583	\$ 446,493	\$ 447,076
Investment income (loss), net of fees	(92,907)	(75,285)	(168,192)	122,445	144,141	266,586
Special events	168,757	34,979	203,736	163,334	29,265	192,599
Other revenue	18,371		18,371	18,745		18,745
Total revenue	109,507	706,410	815,917	305,107	619,899	925,006
Net assets released due to satisfaction of restrictions	416,963	(416,963)		303,574	(303,574)	
Return by donor request					(10,000)	(10,000)
	526,470	289,447	815,917	608,681	306,325	915,006
Expenses						
Awards and program support	544,758		544,758	354,668		354,668
Management and general	88,478		88,478	82,375		82,375
Fundraising	29,583		29,583	24,587		24,587
Total expenses	662,819		662,819	461,630		461,630
Change in net assets	(136,349)	289,447	153,098	147,051	306,325	453,376
Net Assets, beginning of year	430,071	2,633,629	3,063,700	283,020	2,327,304	2,610,324
Net Assets, end of year	<u>\$ 293,722</u>	<u>\$ 2,923,076</u>	<u>\$ 3,216,798</u>	<u>\$ 430,071</u>	<u>\$ 2,633,629</u>	<u>\$ 3,063,700</u>

See Notes to Financial Statements

LAKE WASHINGTON COLLEGE FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS

For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Awards and Program Support	Management and General	Fundraising	Total	Awards and Program Support	Management and General	Fundraising	Total
Scholarship expense	\$ 308,264	\$ -	\$ -	\$ 308,264	\$ 231,329	\$ -	\$ -	\$ 231,329
Contract services	98,018	38,277	2,830	139,125	53,697	43,777	3,840	101,314
Office expense	92,547	7,935	2,805	103,287	36,040	2,990	4,329	43,359
Food	6,324	15,214	2,374	23,912	5,318	16,045	852	22,215
Scholarship fundraising			17,264	17,264			11,760	11,760
Travel	12,205	793		12,998	16,985	199	37	17,221
Rental expense	3,831	2,871	3,461	10,163		2,775	3,305	6,080
Professional services		8,825		8,825		8,900		8,900
Registration and memberships	6,609	1,965		8,574	3,185	1,029		4,214
Other expenses	16,960	12,598	849	30,407	8,114	6,660	464	15,238
Total expenses	<u>\$ 544,758</u>	<u>\$ 88,478</u>	<u>\$ 29,583</u>	<u>\$ 662,819</u>	<u>\$ 354,668</u>	<u>\$ 82,375</u>	<u>\$ 24,587</u>	<u>\$ 461,630</u>

See Notes to Financial Statements

LAKE WASHINGTON COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 153,098	\$ 453,376
Contributions restricted to endowment	(256,204)	(140,724)
Return of endowment funds		10,000
Net realized/unrealized (gains) losses on investments	308,188	(190,994)
Net cash flows from operating activities	205,082	131,658
Cash Flows from Investing Activity		
Net purchase of investments	(485,003)	(178,615)
Cash Flows from Financing Activities		
Proceeds from contributions restricted to endowment	236,007	140,724
Return of endowment funds		(10,000)
Net cash flows from financing activities	236,007	130,724
Net change in cash	(43,914)	83,767
Cash, beginning of year	254,644	170,877
Cash, end of year	\$ 210,730	\$ 254,644

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 are recognized 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 two classes of net assets: without donor restrictions and with donor restrictions. These classes of net assets are further described as follows:

- Net Assets without Donor Restrictions – Support received without donor restriction.
- Net Assets with Donor Restrictions – One of two types of support: (1) Support received subject to a donor-imposed time restriction or stipulation for a particular purpose. When donor's time restrictions expire or when the donor's program restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions. (2) Support received in the form of endowment or sustaining funds. The principal of endowment or sustaining funds 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 college departments based on need and are used for items such as professional development, equipment, and supplies.

Net assets with donor restrictions consist of the following at December 31:

	2018	2017
Net assets with purpose or time restrictions		
Scholarships	\$ 609,963	\$ 547,727
Programs and events	484,309	401,702
Unappropriated endowment earnings	197,918	309,518
	<u>1,292,190</u>	<u>1,258,947</u>

	2018	2017
Net assets with endowment restrictions		
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	24,240	10,590
Bottenberg	26,074	15,000
David B. Fleagle Memorial Fund	13,046	12,546
Dick and Diane Haelsing Fund	52,152	52,152
Dr. Metke President Fund	24,800	24,800
David Woodall	49,078	36,939
Foundation Endowment	15,000	15,000
Gerald and Sandra Hughes	25,000	25,000
Halvorson Endowment	100,000	
HelpSource Endowment	17,229	17,229
International Program	15,000	15,000
Jim Colman Endowment	129,533	122,033
Kirkland Kiwanis Endowment	10,000	10,000
Laurie Clayton Memorial	27,000	26,000
Louis and Patricia Marsh	11,000	11,000
Maxine Stone Emery	12,000	12,000
Mike Clifton	7,500	
Norah N. and Gerald F. Link	39,100	39,100
ProStart Endowment	10,000	10,000
Ralph L. Jones	130,000	130,000
Scott Fordham Endowment	24,340	22,500
Tjossem Family	351,021	250,020
Walter Seabloom Endowment	10,000	10,000
	1,210,886	954,682
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
	420,000	420,000
	\$ 2,923,076	\$ 2,633,629

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.

Cash Held for Endowment

Cash held for endowment includes contributions to the endowment funds during 2018 that have not been transferred to the endowment investment accounts. These funds will be transferred in 2019.

Concentrations

Contributions from two donors represent 37% of total revenue for 2018. Contributions from one donor represent 11% of total revenue for 2017.

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 and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Functional expenses include all direct expenditures of each program or supporting service. Costs are based on actual expenditures and are directly allocated to the identified cost objective. Expenditures that benefit more than one activity are also allocated based on direct expenditures. All fundraising activities relate to the Bachelor of Science in Nursing (BSN) campaign and the Jim Coleman plant sale.

Income Tax

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

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, the Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

Subsequent Events

The Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was July 3, 2019.

Note 2. Liquidity and Availability of Resources

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 35% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, and contributions with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative, general, and fundraising expenses and amounts approved by the Scholarship Committee for scholarship awards. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation's Scholarship Committee meets semi-annually to review and approve scholarship awards. Due to this timing, the Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for semi-annual scholarship commitments approved by the Committee, which represents 100% of the cash needs.

The table below presents financial assets available for general expenditures within one year at December 31, 2018:

Cash	\$	210,730
Cash held for endowment		20,197
Investments		<u>2,985,871</u>
Total financial assets		3,216,798
Endowment investments		(1,808,607)
Cash held for endowment		(20,197)
Board designated net assets		<u>(178,751)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>1,209,243</u></u>

Note 3. 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. Investment income (loss) is reported in the statements of revenue, expenses, and changes in net assets and consists of interest and dividend income, and realized and unrealized gains and losses, less investment expenses.

The Foundation's investments consist of the following at December 31:

	2018	2017
Cash and money market	\$ 221,721	\$ 83,523
Certificates of deposit	343,797	458,852
Mutual funds		
Large blend	345,806	298,519
Intermediate-term bond	146,395	217,954
Diversified emerging markets	128,388	70,326
Small blend	95,527	70,830
Foreign large blend	87,700	81,797
Multi-sector bond	77,541	67,820
Short-term bond	52,346	45,675
Commodities broad basket	48,473	
Global real estate	25,059	120,057
Exchange-traded funds		
Emerging markets bond	248,657	103,097
Large growth	173,873	147,423
Large value	167,994	148,740
Corporate bond	144,260	216,017
Mid-cap growth	130,801	130,361
Mid-cap value	128,241	131,130
Diversified emerging markets	126,008	69,455
Small value	92,728	71,053
Short-term bond	52,260	45,370
Foreign large growth	43,652	40,693
Foreign large value	42,733	40,576
High-yield bond	37,630	33,944
Real estate	24,281	115,844
	<u>\$ 2,985,871</u>	<u>\$ 2,809,056</u>
	2018	2017
General operating fund	\$ 1,177,264	\$ 1,124,854
Individual endowment fund	1,336,539	1,220,283
Faculty endowment fund	472,068	463,919
	<u>\$ 2,985,871</u>	<u>\$ 2,809,056</u>

Note 4. Endowment

The Foundation's endowment consists of 34 individual and faculty 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 net assets with donor restrictions due to endowment funds (a) the original value of gifts donated to the endowment, plus (b) the original value of subsequent gifts to the endowment and accumulations to the 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 time- or purpose-restricted is classified as net assets with donor restrictions 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 net assets with donor restrictions at December 31:

	2018		
	<u>Spendable</u>	<u>Corpus</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 218,115	\$ 1,610,689	\$ 1,828,804
Total funds	<u>\$ 218,115</u>	<u>\$ 1,610,689</u>	<u>\$ 1,828,804</u>
	2017		
	<u>Spendable</u>	<u>Corpus</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 309,520	\$ 1,374,682	\$ 1,684,202
Total funds	<u>\$ 309,520</u>	<u>\$ 1,374,682</u>	<u>\$ 1,684,202</u>

Changes in endowment net assets are as follows for the years ended December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 1,684,202	\$ 1,684,202
Investment return			
Investment income		86,701	86,701
Net depreciation (realized and unrealized)		(161,986)	(161,986)
Total investment return		(75,285)	(75,285)
Contributions		256,204	256,204
Appropriation of endowment assets for expenditure		(27,428)	(27,428)
Fees		(8,889)	(8,889)
Endowment net assets, end of year	\$ -	\$ 1,828,804	\$ 1,828,804
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 1,443,919	\$ 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		(7,082)	(7,082)
Return by donor request		(10,000)	(10,000)
Endowment net assets, end of year	\$ -	\$ 1,684,202	\$ 1,684,202

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 the 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, 2018 or 2017.

Note 5. 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 noncancelable operating lease expiring in 2020. Future minimum rentals to be received are as follows for years ending December 31:

2019	\$	21,313
2020		1,785
		<hr/>
	\$	<u>23,098</u>

Rental income totaled \$18,371 and \$18,745 for the years ended December 31, 2018 and 2017, respectively.

Note 6. 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 \$235,820 and \$244,229 for 2018 and 2017, respectively, but are not recorded in the financial statements on the modified cash basis of accounting as defined in Note 1.