

Lower Columbia College Foundation

FINANCIAL STATEMENTS

June 30, 2015 and 2014

Lower Columbia College Foundation

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lower Columbia College Foundation
Longview, Washington

We have audited the accompanying financial statements of Lower Columbia College Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' 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 of America. 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 Lower Columbia College Foundation as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Lower Columbia College Foundation's June 30, 2014, financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated December 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

December 10, 2015

FUTCHER GROUP, PS

Lower Columbia College Foundation
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Cash and cash equivalents (Note 2)	\$ 660,978	\$ 518,332
Marketable securities (Note 3)	13,555,286	14,357,270
Pledges receivable (Note 4)	100,280	85,910
Prepaid expenses	1,193	746
Fixtures and equipment (Note 5)	<u>24,500</u>	<u>15,950</u>
 Total assets	 <u><u>\$ 14,342,237</u></u>	 <u><u>\$ 14,978,208</u></u>
LIABILITIES AND NET ASSETS		
Accrued expenses	\$ 42,233	\$ 62,975
Amounts held in trust for Lower Columbia College	69,109	61,370
Annuity payment liability (Note 6)	<u>3,484</u>	<u>3,666</u>
 Total liabilities	 <u>114,826</u>	 <u>128,011</u>
 Net assets (Note 10)	 <u>14,227,411</u>	 <u>14,850,197</u>
 Total Liabilities and Net Assets	 <u><u>\$ 14,342,237</u></u>	 <u><u>\$ 14,978,208</u></u>

The accompanying notes are an integral part of these financial statements.

Lower Columbia College Foundation

STATEMENTS OF ACTIVITIES

For the year ended June 30, 2015
(with comparative totals for 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Combined Total</u>	
				2015	2014
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 284,560	\$ 330,603	\$ 234,872	\$ 850,035	\$ 779,534
Investment earnings (losses) (Note 8)	6,948	(35,581)	-	(28,633)	1,830,989
Other revenues and gains (losses)	(738)	4,278	-	3,540	4,698
In-kind contributions	18,000	-	-	18,000	18,000
Reclassifications of net assets					
Satisfaction of program restrictions	681,751	(681,751)	-	-	-
Interfund transfer	167,880	(182,155)	14,275	-	-
	<u>1,158,401</u>	<u>(564,606)</u>	<u>249,147</u>	<u>842,942</u>	<u>2,633,221</u>
Total revenues, gains and other support					
EXPENSES					
Program services	1,090,864	-	-	1,090,864	969,626
General and administrative expenses	204,438	-	-	204,438	182,484
Fund raising expenses	170,426	-	-	170,426	217,034
	<u>1,465,728</u>	<u>-</u>	<u>-</u>	<u>1,465,728</u>	<u>1,369,144</u>
Total expenses					
CHANGE IN NET ASSETS	(307,327)	(564,606)	249,147	(622,786)	1,264,077
Net assets at beginning of year	<u>3,229,630</u>	<u>4,362,580</u>	<u>7,257,987</u>	<u>14,850,197</u>	<u>13,586,120</u>
Net assets at end of year	<u>\$ 2,922,303</u>	<u>\$ 3,797,974</u>	<u>\$ 7,507,134</u>	<u>\$ 14,227,411</u>	<u>\$ 14,850,197</u>

The accompanying notes are an integral part of these financial statements.

Lower Columbia College Foundation
STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015
(with comparative totals for 2014)

	Expense Function			Combined Total	
	Program Services	General and Admin.	Fund-raising	2015	2014
Scholarships	\$ 262,773	\$ -	\$ -	\$ 262,773	\$ 270,975
Grants	94,323	-	-	94,323	141,111
Program support	611,717	-	-	611,717	443,517
Equipment contributed to LCC	10,411	-	-	10,411	23,630
Salaries	74,807	156,708	86,244	317,759	246,189
Other administrative expenses	32,333	12,980	400	45,713	30,782
Major gift campaign	-	-	36,298	36,298	135,697
Donor recognition	-	-	44,424	44,424	36,075
In-kind rent expense	4,500	10,440	3,060	18,000	18,000
Professional services	-	12,000	-	12,000	11,700
Software	-	8,243	-	8,243	7,814
Insurance	-	2,917	-	2,917	3,554
Depreciation	-	1,150	-	1,150	100
Total expenses	<u>\$ 1,090,864</u>	<u>\$ 204,438</u>	<u>\$ 170,426</u>	<u>\$ 1,465,728</u>	<u>\$1,369,144</u>

The accompanying notes are an integral part of these financial statements.

Lower Columbia College Foundation
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (622,786)	\$ 1,264,077
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,150	100
Investment gains	(30,311)	(1,888,835)
(Gain) loss on sale of assets	2,800	(1,800)
In-kind contributions received	(12,500)	(3,000)
Donated securities received	(26,025)	(21,316)
(Increase) decrease in assets:		
Pledges receivable	(14,370)	15,445
Prepaid expenses	(447)	(65)
Increase (decrease) in liabilities:		
Accrued expenses	(20,742)	17,445
Amounts held in trust for Lower Columbia College	7,739	(4,835)
Charitable gift annuity payable	(182)	(180)
Net cash used by operating activities	<u>(715,674)</u>	<u>(622,964)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of equipment	-	2,300
Additions to investment accounts	(7,769,581)	(1,163,161)
Withdrawals from investment accounts	8,627,901	2,018,762
Net cash provided by investing activities	<u>858,320</u>	<u>857,901</u>
INCREASE IN CASH AND CASH EQUIVALENTS	142,646	234,937
Cash and cash equivalents at beginning of year	<u>518,332</u>	<u>283,395</u>
Cash and cash equivalents at end of year	<u><u>\$ 660,978</u></u>	<u><u>\$ 518,332</u></u>

The accompanying notes are an integral part of these financial statements.

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lower Columbia College Foundation, a not-for-profit corporation established in the state of Washington, operates in support of Lower Columbia College. The Foundation is dedicated to providing a conduit for private support of the College through scholarship endowments, program grants, and similar types of support. The following is a summary of the significant accounting principles applied by management in the preparation of these financial statements:

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. The Foundation requires a minimum contribution of \$20,000 to establish a new endowment fund. As donor contributions toward endowments are received, they are classified as temporarily restricted contributions until the donor meets the \$20,000 threshold. At that time, the fund's balance is reclassified as permanently restricted.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Fixtures and Equipment

The Foundation accepts contributions of non-cash items in the form of real and personal property. Carrying values are generally determined by the donor's estimate of fair market value at the time of the gift. If no value is provided, the Foundation estimates the fair market value using available information. At the financial statement date, donated items consisted of various vehicles. The Foundation has granted Lower Columbia College the right to use these equipment items as teaching aids as applicable. Items used as teaching aids are depreciated using the straight-line method over the estimated useful lives of the related assets. Upon disposition of the equipment, proceeds are distributed to the college for use in various programs and in accordance with the intent of the donor. Historical items and vehicles held for resale are not depreciated by the Foundation.

**NOTES TO FINANCIAL STATEMENTS
CONTINUED**

June 30, 2015 and 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and therefore has made no provision for federal income taxes. In addition, the Foundation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. Generally, the Foundation’s tax returns remain open for three years for federal tax examinations.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The majority of the Foundation’s cash is held in investment accounts.

Investments

Investments are recorded at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets’ fluctuations, and that such changes could materially affect the amounts reported in the statement of activities and investment portfolio on the balance sheet.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses reported during the period. Actual results could differ from those estimates.

Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent Events

Management has evaluated events through the audit report date, the date the financial statements were available to be issued, and determined that no events have occurred that require disclosure.

Lower Columbia College Foundation

NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2015 and 2014

2. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at several financial institutions. The Foundation's cash accounts held at banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 each. The Foundation's investment accounts also contain a cash component. These investment accounts are insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). The Foundation's investment balances exceed the SIPC limit.

3. MARKETABLE SECURITIES

Marketable securities held by brokers are carried at their fair market value as determined by the quoted prices on active markets at the financial statement date. Changes in market value are recognized in the period that they occur. The following are the major classes of available-for-sale securities held by the Foundation:

	<u>2015</u>	<u>2014</u>
Mutual funds:		
Domestic equities	\$ 5,263,297	\$ 4,649,462
Fixed income	4,427,315	4,413,774
International equities	2,472,100	2,459,291
International fixed income	712,288	1,786,951
Alternative investments	<u>680,286</u>	<u>1,047,792</u>
	<u>\$ 13,555,286</u>	<u>\$ 14,357,270</u>

4. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2015, consist of unconditional promises to give to the Foundation which will be temporarily and permanently restricted for various programs.

Receivable in less than one year, net of \$907 allowance for uncollectible pledges	\$ 44,458
Receivable in one to five years, net of \$1,280 allowance for uncollectible pledges	<u>62,720</u>
Total	107,178
Less amortized discount at 4%	<u>6,898</u>
Net pledges receivable	<u>\$ 100,280</u>

Lower Columbia College Foundation

NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2015 and 2014

5. FIXTURES AND EQUIPMENT

The following is a summary of equipment used as teaching aids:

	<u>2015</u>	<u>2014</u>
Vehicles held for resale	\$ 8,500	\$ 5,500
Equipment used in teaching (net of accumulated depreciation of \$39,480 and \$53,330)	<u>16,000</u>	<u>10,450</u>
	<u>\$ 24,500</u>	<u>\$ 15,950</u>

6. CHARITABLE GIFT ANNUITIES

The Foundation has entered into charitable gift annuity agreements whereby the donor contributes assets in exchange for distributions over a specified period of time to the donor or other beneficiaries. At the end of the specified time, the remaining assets are available for the Foundation's use. Assets received are recorded at fair value on the date the agreement is recognized, and a liability equal to the present value of the future distributions is recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. On an annual basis, the Foundation revalues the liability based on applicable mortality tables and a discount rate of 5.25%. The actuarially-estimated liability (\$5,604 at June 30, 2015) is required by the State of Washington to be held in reserve and has been invested in cash funds and government securities. The Foundation estimated the actual gift annuity liability to be \$3,484 at June 30, 2015.

7. IN-KIND CONTRIBUTIONS

The Foundation has an agreement with Lower Columbia College to seek to accrue contributions, gifts, bequests, etc. for the benefit of the college and to provide management of those resources. In exchange, the Foundation receives office space and services required for its operations. These items are recorded as in-kind contributions and in-kind rent expense in the Foundation's financial statements.

8. INVESTMENT EARNINGS

The details of investment earnings are as follows:

Interest and dividends	\$ 213,698	\$ 155,082
Investment gains (losses)	(183,545)	1,732,830
Investment management expenses	<u>(58,786)</u>	<u>(56,923)</u>
	<u>\$ (28,633)</u>	<u>\$ 1,830,989</u>

9. FUTURE INTERESTS

The Foundation has been named as a beneficiary in the wills of eighteen known donors. These bequests generally specify percentages of the donors' estates, the values of which are not known to the Foundation. Due to their uncertain nature, these amounts are not reflected in the financial statements.

Lower Columbia College Foundation

NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2015 and 2014

10. NET ASSETS

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets are available for the following purposes:		
Student services	\$ 1,120,115	\$ 1,278,189
Exceptional faculty award	705,984	737,974
Instruction	880,614	1,189,363
Facilities	1,335	4,425
Resource development	60,833	72,675
Campaign	<u>1,029,093</u>	<u>1,079,954</u>
Total temporarily restricted net assets	<u>3,797,974</u>	<u>4,362,580</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following purposes:

Student services	2,752,470	2,508,856
Exceptional faculty award	650,800	650,800
Instruction	3,888,864	3,888,331
Resource development	<u>215,000</u>	<u>210,000</u>
Total permanently restricted net assets	<u>7,507,134</u>	<u>7,257,987</u>
Total unrestricted net assets	<u>2,922,303</u>	<u>3,229,630</u>
Total net assets	<u><u>\$ 14,227,411</u></u>	<u><u>\$ 14,850,197</u></u>

11. EXCEPTIONAL FACULTY AWARDS

The State of Washington has provided funds to community colleges and their foundations that can be used to provide financial awards to deserving faculty members. These grants require that a matching amount be provided by the college or foundation. The Foundation has accepted state grants toward this purpose, and the board of directors has designated \$649,224 of unrestricted and temporarily restricted net assets to be used to match the state grants. The total funds designated or permanently restricted for exceptional faculty awards are shown below:

Designated funds:	
Unrestricted	\$ 399,224
Temporarily restricted	250,000
Permanently restricted by the state of Washington	650,000
Permanently restricted by other donors	<u>800</u>
	<u><u>\$ 1,300,024</u></u>

NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2015 and 2014

12. ENDOWMENT FUNDS

In accordance with relevant state law as interpreted by the Foundation's board of directors, net assets associated with endowment funds are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include board-designated funds, and any accumulated income and appreciation thereon. Temporarily restricted assets include contributions to endowments that do not meet the minimum \$20,000 threshold and accumulated appreciation on temporarily and permanently restricted funds. Permanently restricted net assets include contributions designated by donors to be invested in perpetuity to produce income for specific purposes.

The Foundation's endowment spending policy aims to preserve the purchasing power of the endowment. Four percent of a three-year rolling average of the value of the endowment may be used to support the fund's purpose for the following academic year. An additional 2% may be transferred to the operating fund for an administrative fee. No assets shall be appropriated for spending whenever the current value of an endowment gift is less than the historic gift amount.

The performance objective is to preserve and enhance the purchasing and earning power of the funds by seeking an annual real rate of return of 4% or total return of Consumer Price Index plus 4%. This objective shall be measured over the long term, 10-15 years time frame, with the intent to preserve over time the principal value of the assets as measured in real inflation adjusted terms. To achieve its long-term rate of return objectives, the Foundation relies on an active strategic asset allocation strategy. Total return is achieved through both capital appreciation and current yield. Investments are diversified among mutual funds comprised of U.S. and international issues, including equities, bonds, multi asset pooled portfolios and alternative investments.

Lower Columbia College Foundation

NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2015 and 2014

12. ENDOWMENT FUNDS (continued)

Endowment funds were comprised of the following net asset types at June 30, 2015:

	<u>Unrestricted</u>	<u>Temp Restricted</u>	<u>Perm Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 2,167,362	\$ 7,507,135	\$ 9,674,497
Board-designated funds	438,454	250,000	-	688,454
	<u>\$ 438,454</u>	<u>\$ 2,417,362</u>	<u>\$ 7,507,135</u>	<u>\$ 10,362,951</u>

Changes in endowment funds for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temp Restricted</u>	<u>Perm Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 439,224	\$ 2,924,446	\$ 7,257,987	\$ 10,621,657
Investment return (loss)	-	(35,145)	-	(35,145)
Contributions	-	795	234,872	235,667
Appropriated for expenditure	(770)	(413,467)	-	(414,237)
Donor funds transferred to endowments	-	(59,267)	14,276	(44,991)
	<u>\$ 438,454</u>	<u>\$ 2,417,362</u>	<u>\$ 7,507,135</u>	<u>\$ 10,362,951</u>