

Lower Columbia College Foundation

FINANCIAL STATEMENTS

June 30, 2011 and 2010

Lower Columbia College Foundation

TABLE OF CONTENTS

June 30, 2011 and 2010

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lower Columbia College Foundation
Longview, Washington

We have audited the statement of financial position of the Lower Columbia College Foundation as of June 30, 2011, and the related statements of activities, of functional expenses and of cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Lower Columbia College Foundation's 2010 financial statements and, in our report dated October 12, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lower Columbia College Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Futcher-Henry Group

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CPA
Date: 2011.11.17 11:02:22 -08'00'

November 10, 2011

FUTCHER-HENRY GROUP, P.S.

Lower Columbia College Foundation
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Cash and cash equivalents (Note 2)	\$ 948,286	\$ 432,631
Marketable securities (Note 3)	11,022,399	7,000,365
Prepaid expenses	667	667
Pledges receivable (Note 4)		3,521,222
Fixtures and equipment (Note 5)	<u>48,795</u>	<u>51,915</u>
 Total Assets	 <u><u>\$ 12,020,147</u></u>	 <u><u>\$ 11,006,800</u></u>
LIABILITIES AND NET ASSETS		
Accrued expenses	\$ 66,077	\$ 15,247
Amounts held in trust for Lower Columbia College	67,679	53,458
Annuity payment liability (Note 6)	<u>3,797</u>	<u>3,936</u>
 Total liabilities	 <u>137,553</u>	 <u>72,641</u>
 Net assets (Note 8)	 <u>11,882,594</u>	 <u>10,934,159</u>
 Total Liabilities and Net Assets	 <u><u>\$ 12,020,147</u></u>	 <u><u>\$ 11,006,800</u></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, 2011
(with comparative totals for 2010)

	Expense Function			Combined Total	
	Program Services	General and Admin.	Fund-raising	2011	2010
Scholarships	\$ 166,344	\$	\$	\$ 166,344	\$ 126,634
Grants	1,800			1,800	334
Program support	140,287			140,287	165,857
Equipment contributed to LCC	550			550	500
Salaries	47,900	143,696	23,949	215,545	211,795
Other administrative expenses	7,137	2,273		9,410	13,736
Annual fund drive			2,920	2,920	2,417
Depreciation		2,120		2,120	3,246
Fund-raising events				0	8,283
Insurance		2,220		2,220	4,062
Miscellaneous				0	283
Planned giving expense			315	315	555
Professional services		10,370		10,370	10,625
In-kind rent expense	4,000	12,000	2,000	18,000	18,000
Software		7,522		7,522	11,536
Total expenses	<u>\$ 368,018</u>	<u>\$ 180,201</u>	<u>\$ 29,184</u>	<u>\$ 577,403</u>	<u>\$ 577,863</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 948,435	\$ 4,096,979
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,120	3,246
Investment gains	(1,134,848)	(892,341)
Gain on sale of assets	(9,637)	(5,850)
Contributed equipment	(4,000)	(4,500)
Donated securities		(25,103)
Decrease (increase) in assets:		
Prepaid expenses		(303)
Pledges receivable	3,521,222	(3,323,870)
Increase (decrease) in liabilities		
Accrued expenses	50,830	(2,321)
Amounts held in trust for Lower Columbia College	14,221	(6,580)
Charitable gift annuity payable	(139)	(270)
Net cash provided (used) by operating activities	<u>3,388,204</u>	<u>(160,913)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of equipment	14,637	9,850
Additions to investment accounts	(3,090,126)	(175,075)
Withdrawals from investment accounts	202,940	232,919
Net cash provided (used) by investing activities	<u>(2,872,549)</u>	<u>67,694</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	515,655	(93,219)
Cash and cash equivalents at beginning of year	<u>432,631</u>	<u>525,850</u>
Cash and cash equivalents at end of year	<u>\$ 948,286</u>	<u>\$ 432,631</u>

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

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, keyboard instruments, rugs, and shop machinery. 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.

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2011 and 2010

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. Tax years prior to 2008 are no longer open to examination.

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, 2010, from which the summarized information was derived.

Subsequent Events

Management has evaluated events through the audit report date and determined that no events have occurred that require disclosure.

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2011 and 2010

2. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at several financial institutions. The Foundations' non-interest-bearing cash accounts held at banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC). 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:

	2011	2010
Mutual funds:		
Domestic equities	\$ 1,882,409	\$ 2,679,599
Fixed income	6,490,851	3,472,021
International equities	1,682,296	848,745
Alternative investments	966,843	
	<u>\$ 11,022,399</u>	<u>\$ 7,000,365</u>

4. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2010 consisted of unconditional promises to give to the Foundation which were temporarily restricted for various programs.

	2011	2010
Golf Marathon pledges	\$	\$ 3,455
Other contributions receivable		3,517,767
Net pledges receivable	<u>\$ -</u>	<u>\$ 3,521,222</u>

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2011 and 2010

5. FIXTURES AND EQUIPMENT

The following is a summary of equipment less accumulated depreciation on equipment used as teaching aids:

	2011	2010
Historical items	\$ 27,695	\$ 28,695
Vehicles held for resale	5,500	5,500
Equipment used in teaching (net of accumulated depreciation of \$59,180 and \$57,060)	15,600	17,720
	\$ 48,795	\$ 51,915

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%. An amount equal to the estimated actuarial liability is required to be held in reserve and has been invested in cash funds and government securities. An amount of \$3,797 is currently being held to cover the liability associated with the gift annuities.

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 which are recorded as in-kind contributions and in-kind rent expense in the Foundation's financial statements.

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2011 and 2010

8. NET ASSETS

	2011	2010
Temporarily restricted net assets are available for the following purposes:		
Student services	\$ 464,312	\$ 340,764
Exceptional faculty award	391,945	225,392
Instruction	883,461	639,258
Facilities	911,332	925,404
Resource development	55,597	156,567
Total temporarily restricted net assets	2,706,647	2,287,385

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

Student services	2,245,110	2,436,776
Exceptional faculty award	650,800	650,800
Instruction	3,598,377	3,398,314
Resource development	200,000	200,000
Total permanently restricted net assets	6,694,287	6,685,890
Total unrestricted net assets	2,481,660	1,960,884
Total net assets	<u>\$ 11,882,594</u>	<u>\$ 10,934,159</u>

9. INVESTMENT EARNINGS

The details of investment earnings are as follows:

Interest and dividends	\$ 300,929	\$ 177,767
Investment gains (losses)	835,227	716,290
Investment management expenses	(42,941)	(32,972)
	<u>\$ 1,093,215</u>	<u>\$ 861,085</u>

10. FUTURE INTERESTS

The Foundation has been named as a beneficiary in the wills of 18 known donors. These bequests 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, 2011 and 2010

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:

	2011	2010
Designated funds:		
Unrestricted	\$ 399,224	\$ 399,224
Temporarily restricted	250,000	250,000
Permanently restricted by the state of Washington	650,000	650,000
Permanently restricted by other donors	800	800
	<u>\$ 1,300,024</u>	<u>\$ 1,300,024</u>

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. Five 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 1% 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 long-term performance objective is to preserve and enhance the purchasing and earning value of the funds by seeking a real rate of return on assets that is approximately 4% greater than the rate of inflation as measured by the Consumer Price Index within acceptable levels of risk, measured over a 10-15 year time frame. 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, and other pooled asset portfolios.

Lower Columbia College Foundation
NOTES TO FINANCIAL STATEMENTS
CONTINUED

June 30, 2011 and 2010

12. ENDOWMENT FUNDS (continued)

Endowment funds were comprised of the following net asset types at June 30, 2011:

	Unrestricted	Temp Restricted	Perm Restricted	Total
Donor-restricted funds	\$	\$ 694,802	\$ 6,694,287	\$ 7,389,089
Board-designated funds	439,224	250,000		689,224
	\$ 439,224	\$ 944,802	\$ 6,694,287	\$ 8,078,313

Changes in endowment funds for the year ended June 30, 2011 are as follows:

	Unrestricted	Temp Restricted	Perm Restricted	Total
Endowment net assets, beginning of year	\$ 267,119	\$ 348,891	\$ 6,685,890	\$ 7,301,900
Investment return	172,105	609,951		782,056
Contributions		19,264	8,397	27,661
Appropriated for expenditure		(33,304)		(33,304)
	\$ 439,224	\$ 944,802	\$ 6,694,287	\$ 8,078,313