

Lower Columbia College Foundation

# FINANCIAL STATEMENTS

June 30, 2014 and 2013

Lower Columbia College Foundation

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June 30, 2014 and 2013

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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, 2014, 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, 2014, 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 2013 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated December 9, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

December 16, 2014

Digitally signed by David  
Futcher  
*Futcher-Henry Group*  
Date: 2014.12.16 15:16:03  
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FUTCHER-HENRY GROUP, P.S.

Lower Columbia College Foundation  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents (Note 2)	\$ 518,332	\$ 283,395
Marketable securities (Note 3)	14,357,270	13,302,720
Pledges receivable (Note 4)	85,910	101,355
Prepaid expenses	746	681
Fixtures and equipment (Note 5)	<u>15,950</u>	<u>13,550</u>
 Total assets	 <u><u>\$ 14,978,208</u></u>	 <u><u>\$ 13,701,701</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accrued expenses	\$ 62,975	\$ 45,530
Amounts held in trust for Lower Columbia College	61,370	66,205
Annuity payment liability (Note 6)	<u>3,666</u>	<u>3,846</u>
 Total liabilities	 <u>128,011</u>	 <u>115,581</u>
 Net assets (Note 10)	 <u>14,850,197</u>	 <u>13,586,120</u>
 Total Liabilities and Net Assets	 <u><u>\$ 14,978,208</u></u>	 <u><u>\$ 13,701,701</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, 2014  
(with comparative totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Total	
				2014	2013
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions	\$ 211,925	\$ 352,911	\$ 214,698	\$ 779,534	\$ 683,010
Investment earnings (Note 8)	454,404	1,376,585	-	1,830,989	1,019,445
Fund-raising events (net of \$34,112 expenses)	-	-	-	-	8,344
Other revenues and gains	1,060	3,638	-	4,698	12,681
In-kind contributions	18,000	-	-	18,000	18,000
Reclassifications of net assets					
Satisfaction of program restrictions	657,431	(657,431)	-	-	-
Total revenues, gains and other support	<u>1,342,820</u>	<u>1,075,703</u>	<u>214,698</u>	<u>2,633,221</u>	<u>1,741,480</u>
<b>EXPENSES</b>					
Program services	969,626	-	-	969,626	746,573
General and administrative expenses	182,484	-	-	182,484	180,951
Fund raising expenses	217,034	-	-	217,034	166,678
Total expenses	<u>1,369,144</u>	<u>-</u>	<u>-</u>	<u>1,369,144</u>	<u>1,094,202</u>
<b>CHANGE IN NET ASSETS</b>	(26,324)	1,075,703	214,698	1,264,077	647,278
Net assets at beginning of year	<u>3,255,954</u>	<u>3,286,877</u>	<u>7,043,289</u>	<u>13,586,120</u>	<u>12,938,842</u>
Net assets at end 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>

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, 2014  
(with comparative totals for 2013)

	Expense Function			Combined Total	
	Program Services	General and Admin.	Fund-raising	2014	2013
Scholarships	\$ 270,975	\$ -	\$ -	\$ 270,975	\$ 237,815
Grants	141,111	-	-	141,111	102,964
Program support	443,517	-	-	443,517	319,723
Equipment contributed to LCC	23,630	-	-	23,630	-
Salaries	61,547	142,790	41,852	246,189	241,041
Other administrative expenses	24,346	6,086	350	30,782	29,404
Major gift campaign	-	-	135,697	135,697	105,754
Donor recognition	-	-	36,075	36,075	-
In-kind rent expense	4,500	10,440	3,060	18,000	18,000
Annual fund drive	-	-	-	-	16,562
Professional services	-	11,700	-	11,700	11,200
Software	-	7,814	-	7,814	8,056
Insurance	-	3,554	-	3,554	3,333
Depreciation	-	100	-	100	350
Total expenses	<u>\$ 969,626</u>	<u>\$ 182,484</u>	<u>\$ 217,034</u>	<u>\$ 1,369,144</u>	<u>\$1,094,202</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,264,077	\$ 647,278
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	100	350
Investment gains	(1,888,835)	(1,076,143)
Gain on sale of assets	(1,800)	(7,450)
In-kind contributions received	(3,000)	(3,500)
Donated securities received	(21,316)	(20,444)
Increase (decrease) in assets:		
Pledges receivable	15,445	(101,355)
Prepaid expenses	(65)	(15)
(Increase) decrease in liabilities:		
Accrued expenses	17,445	25,119
Amounts held in trust for Lower Columbia College	(4,835)	(7,003)
Charitable gift annuity payable	(180)	(177)
Net cash used by operating activities	<u>(622,964)</u>	<u>(543,340)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of equipment	2,300	11,450
Additions to investment accounts	(1,163,161)	(6,315,611)
Withdrawals from investment accounts	<u>2,018,762</u>	<u>6,454,263</u>
Net cash provided by investing activities	<u>857,901</u>	<u>150,102</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	234,937	(393,238)
Cash and cash equivalents at beginning of year	<u>283,395</u>	<u>676,633</u>
Cash and cash equivalents at end of year	<u>\$ 518,332</u>	<u>\$ 283,395</u>

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

Lower Columbia College Foundation  
NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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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, 2014 and 2013

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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, 2013, 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, 2014 and 2013

2. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at several financial institutions. The Foundations' 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>2014</u>	<u>2013</u>
Mutual funds:		
Domestic equities	\$ 4,649,462	\$ 4,457,250
Fixed income	4,413,774	3,707,811
International equities	2,459,291	2,493,488
International fixed income	1,786,951	1,598,126
Alternative investments	<u>1,047,792</u>	<u>1,046,045</u>
	<u>\$ 14,357,270</u>	<u>\$ 13,302,720</u>

4. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2014, 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 \$668 allowance for uncollectible pledges	\$ 32,717
Receivable in one to five years, net of \$1,241 allowance for uncollectible pledges	<u>60,804</u>
Total	93,521
Less amortized discount at 4%	<u>7,611</u>
Net pledges receivable	<u>\$ 85,910</u>

Lower Columbia College Foundation

NOTES TO FINANCIAL STATEMENTS  
CONTINUED

June 30, 2014 and 2013

5. FIXTURES AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Vehicles held for resale	\$ 5,500	\$ 4,000
Equipment used in teaching (net of accumulated depreciation of \$53,330 and \$53,230)	<u>10,450</u>	<u>9,550</u>
	<u>\$ 15,950</u>	<u>\$ 13,550</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 (\$5,907 at June 30, 2014) 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 \$3,666 at June 30, 2014.

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	\$ 155,082	\$ 225,358
Investment gains	1,732,830	851,019
Investment management expenses	<u>(56,923)</u>	<u>(56,932)</u>
	<u>\$ 1,830,989</u>	<u>\$ 1,019,445</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, 2014 and 2013

10. NET ASSETS

	<u>2014</u>	<u>2013</u>
Temporarily restricted net assets are available for the following purposes:		
Student services	\$ 1,278,189	\$ 966,948
Exceptional faculty award	737,974	553,458
Instruction	1,189,363	750,034
Facilities	4,425	5,422
Resource development	72,675	47,514
Campaign	<u>1,079,954</u>	<u>963,501</u>
Total temporarily restricted net assets	<u>4,362,580</u>	<u>3,286,877</u>

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

Student services	2,508,856	2,304,488
Exceptional faculty award	650,800	650,800
Instruction	3,888,331	3,888,001
Resource development	<u>210,000</u>	<u>200,000</u>
Total permanently restricted net assets	<u>7,257,987</u>	<u>7,043,289</u>
Total unrestricted net assets	<u>3,229,630</u>	<u>3,255,954</u>
Total net assets	<u><u>\$ 14,850,197</u></u>	<u><u>\$ 13,586,120</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, 2014 and 2013

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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, 2014 and 2013

12. ENDOWMENT FUNDS (continued)

Endowment funds were comprised of the following net asset types at June 30, 2014:

	<u>Unrestricted</u>	<u>Temp Restricted</u>	<u>Perm Restricted</u>	<u>Total</u>
Donor-restricted funds	-	\$ 2,674,446	\$ 7,257,987	\$ 9,932,433
Board-designated funds	439,224	250,000	-	689,224
	<u>\$ 439,224</u>	<u>\$ 2,924,446</u>	<u>\$ 7,257,987</u>	<u>\$ 10,621,657</u>

Changes in endowment funds for the year ended June 30, 2014 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	\$ 1,985,064	\$ 7,043,289	\$ 9,467,577
Investment return	-	1,376,584	-	1,376,584
Contributions	-	12,521	214,698	227,219
Appropriated for expenditure	-	(204,866)	-	(204,866)
Management fees	-	(161,475)	-	(161,475)
Donor funds transferred to endowments	-	(83,382)	-	(83,382)
	<u>\$ 439,224</u>	<u>\$ 2,924,446</u>	<u>\$ 7,257,987</u>	<u>\$ 10,621,657</u>