

LOWER COLUMBIA COLLEGE FOUNDATION

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

June 30, 2019

LOWER COLUMBIA COLLEGE FOUNDATION

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Independent Auditors' Report

To the Board of Directors of
LOWER COLUMBIA COLLEGE FOUNDATION

We have audited the accompanying financial statements of Lower Columbia College Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 misstatement, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

GL Booth · JG Davis & Associates, PLLC

GL Booth · JG Davis & Associates, PLLC

Longview, Washington

January 14, 2020

LOWER COLUMBIA COLLEGE FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2019

(With Comparative Totals For June 30, 2018)

Assets

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Combined Total</u>	
			<u>2019</u>	<u>2018</u>
ASSETS				
Cash and cash equivalents	\$ 607,233	\$ 222,674	\$ 829,907	\$ 539,987
Marketable securities	2,052,622	13,936,222	15,988,844	14,977,464
Promises to give, net	4,270	1,500,247	1,504,517	111,775
Prepaid expenses	785	-	785	771
Fixtures and equipment	26,222	-	26,222	30,890
Land held for sale	-	-	-	50,000
	\$ 2,691,132	\$ 15,659,143	\$ 18,350,275	\$ 15,710,887

Liabilities and Net Assets

LIABILITIES				
Accrued expenses	\$ 63,098	\$ -	\$ 63,098	\$ 86,948
Charitable gift annuity	2,354	-	2,354	2,501
	65,452	-	65,452	89,449
 NET ASSETS				
Without donor restrictions				
Undesignated	2,186,456	-	2,186,456	2,284,420
Board designated for endowments	439,224	-	439,224	439,224
With donor restrictions				
Purposes restricted for the college	-	3,286,330	3,286,330	1,579,246
Endowments	-	12,372,813	12,372,813	11,318,548
	2,625,680	15,659,143	18,284,823	15,621,438
	\$ 2,691,132	\$ 15,659,143	\$ 18,350,275	\$ 15,710,887

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

LOWER COLUMBIA COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Combined Total</u>	
			<u>2019</u>	<u>2018</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 119,388	\$ 2,836,426	\$ 2,955,814	\$ 624,766
In-kind contributions	174,810	-	174,810	195,733
Investment earnings	27,809	822,903	850,712	694,271
Vending machine revenue	34,635	-	34,635	31,128
Other gains (losses)	(774)	4,919	4,145	919
Loss from sale of land	(3,712)	-	(3,712)	(118,866)
Impairment of land value	-	-	-	(40,000)
Disposal of fixed assets	(4,344)	-	(4,344)	-
Special event revenue, gross	76,011	36,780	112,791	121,778
Net assets released from restrictions	939,679	(939,679)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains and other support	1,363,502	2,761,349	4,124,851	1,509,729
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENSES				
Program services	1,157,440	-	1,157,440	1,237,259
General and administrative	180,746	-	180,746	169,652
Fundraising	123,280	-	123,280	121,986
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	1,461,466	-	1,461,466	1,528,897
	<hr/>	<hr/>	<hr/>	<hr/>
CHANGE IN NET ASSETS	(97,964)	2,761,349	2,663,385	(19,168)
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, beginning of year	2,723,644	12,897,794	15,621,438	15,640,606
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, end of year	<u>\$ 2,625,680</u>	<u>\$ 15,659,143</u>	<u>\$ 18,284,823</u>	<u>\$ 15,621,438</u>

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

LOWER COLUMBIA COLLEGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended June 30, 2019
(With Comparative Totals For the Year Ended June 30, 2018)**

	Program Services	General and Administrative	Fund- raising	Combined Total	
				<u>2019</u>	<u>2018</u>
Scholarships	\$ 438,017	\$ -	\$ -	\$ 438,017	\$ 317,061
Grants	112,370	-	-	112,370	82,956
Program support	401,779	-	-	401,779	610,655
Art contributed to LCC	4,995	-	-	4,995	-
Equipment contributed to LCC	15,759	-	-	15,759	52,235
Salaries	124,368	115,461	69,090	308,919	292,421
Administrative expenses	55,562	13,891	475	69,928	70,945
Special event direct costs	-	-	33,902	33,902	34,809
Donor recognition	-	-	16,692	16,692	12,999
In-kind rent expense	4,590	10,649	3,121	18,360	18,000
Professional services	-	17,628	-	17,628	18,069
Software	-	17,141	-	17,141	10,942
Insurance	-	2,836	-	2,836	3,770
Depreciation	-	3,140	-	3,140	4,035
	<u>\$ 1,157,440</u>	<u>\$180,746</u>	<u>\$123,280</u>	<u>\$ 1,461,466</u>	<u>\$ 1,528,897</u>

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

LOWER COLUMBIA COLLEGE FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,663,385	\$ (19,168)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	3,140	4,035
Investment gain	(480,157)	(357,171)
Loss on sale of assets	8,056	118,866
In-kind contributions received	(6,816)	(5,725)
In-kind donation to college	-	7,560
Restricted contributions to endowment	(1,714,762)	(151,656)
Impairment of land value	-	40,000
Donated securities received	(28,761)	(20,267)
(Increase) decrease in assets:		
Promises to give	(604,742)	17,354
Prepaid expenses	(14)	975
Increase (decrease) in liabilities:		
Accrued expenses	(23,850)	44,046
Charitable gift annuity	(147)	(154)
Net cash used by operating activities	<u>(184,668)</u>	<u>(321,305)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land	46,650	57,000
Cost of land sale	(362)	(4,966)
Proceeds from sale of fixed assets	4,000	-
Purchases of marketable securities/additions to investments	(9,351,808)	(1,625,844)
Proceeds from sale of marketable securities/withdrawals from investments	<u>8,506,950</u>	<u>507,903</u>
Net cash used by investing activities	<u>(794,570)</u>	<u>(1,065,907)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	926,762	138,406
Restricted interest and dividends	<u>342,396</u>	<u>317,163</u>
Net cash provided by financing activities	<u>1,269,158</u>	<u>455,569</u>
NET INCREASE (DECREASE) IN CASH	289,920	(931,643)
CASH AND CASH EQUIVALENTS, beginning of year	<u>539,987</u>	<u>1,471,630</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 829,907</u>	<u>\$ 539,987</u>

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

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Lower Columbia College Foundation (“the 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 in accordance with generally accepted accounting principles generally accepted in the United State of America.

Net assets and revenues, and 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 as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Foundation. The Foundation’s board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. 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.

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, 2018, from which the summarized information was derived.

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash, Cash Equivalents and Restricted Cash

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 bank and investment accounts. The Foundation has one certificate of deposit held with a bank that is due to mature on May 20, 2020 and it is included with cash equivalents.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position:

Cash and cash equivalents	\$ 545,508
Certificate of deposit	61,725
Cash with donor restrictions	<u>222,674</u>
	<u>\$ 829,907</u>

Marketable Securities

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. Net investment earnings are reported in the statement of activities in accordance with the existence or absence of donor restrictions and consists of interest and dividend income, realized and unrealized capital gains and losses, and investment expenses.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. The allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fixtures and Equipment

The Foundation accepts contributions of non-cash items in the form of 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 fixtures and equipment consisted of various equipment and vehicles. The Foundation has granted Lower Columbia College the right to use the 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 which is usually five years. 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.

Contributions

Unconditional promises to give are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. 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. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support.

Contributions of non-cash assets are recorded at their fair values in the period received. The Foundation receives a wide array of gifts for the different College programs including vehicles, consumable materials and supplies, and artwork. Non-cash donations with estimated values of \$500 or less are passed on to the College. Donations with estimated values greater than \$500 follow IRS guidelines for valuation and disposal.

Functional Allocation of Expenses

The accompanying financial statements report expenses by both natural and functional classifications. Certain categories of expenses are attributed to more than one function, and therefore, require allocation on a reasonable basis that is consistently applied. Costs are directly applied to a program or supporting service category when identifiable and possible. General operating costs across nearly all other natural classifications, are allocated by management across functions primarily based upon costs drivers such as square-footage, time and efforts spent.

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require 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.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year’s presentation.

Adoption of New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *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.

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. As of June 30, 2019, the Foundation held \$325,801 with Heritage Bank which exceeds the banking institutions insured amount. The Foundation’s investment accounts also contain a cash component. These investment accounts are insured up to \$500,000 which includes a \$250,000 limit for cash by the Securities Investor Protection Corporation (SIPC). The Foundation has total investments of \$16,418,142 with an investment company which includes \$429,298 of cash or cash equivalents. The investment accounts exceed both the overall and cash amounts insured by the SPIC as of June 30, 2019.

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are comprised of the following as of June 30, 2019:

Cash and cash equivalents	\$ 607,233
Marketable securities	2,052,622
Promises to give	<u>4,270</u>
	<u>\$ 2,664,125</u>

Promises to give are subject to implied time restrictions with 2% uncollectable allowance and are expected to be collected within one year.

The Foundation's investment funds consist of donor-restricted and board designated endowment funds. Although the Foundation does not intend to spend from its board-designated endowment (other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation), these amounts could be made available if necessary.

4. FAIR VALUE MEASUREMENT

The Foundation applies the authoritative guidance for Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

4. FAIR VALUE MEASUREMENT, Continued

The following table presents the assets that are measured at fair value on a recurring basis as of June 30, 2019 and are categorized using the three levels of the fair value hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 15,988,844	\$ 15,988,844	\$ —	\$ —

The following methods and assumptions were used to estimate the value of each class of financial instrument for which it is practicable to estimate that value.

<u>Financial Instrument</u>	<u>Valuation Methods and Assumptions</u>
Investments	Valued at the net asset value of shares held at year end

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. 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 values are recognized in the period that they occur. The following are the major classes of available-for-sale securities held by the Foundation as of June 30, 2019:

Mutual funds:

Domestic equities	\$ 4,881,660
Domestic fixed income	6,026,239
Emerging market equities	1,007,959
International equities	2,815,718
International fixed income	1,220,921
Alternative investments	<u>36,347</u>
	<u>\$ 15,988,844</u>

Marketable securities appear as the following in the statement of financial position:

Marketable securities without donor restrictions	\$ 2,052,622
Marketable securities with donor restrictions	<u>13,936,222</u>
	<u>\$ 15,988,844</u>

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

6. PROMISES TO GIVE

Promises to give are estimated to be collected as follows at June 30, 2019:

Within one year	\$ 251,270
In one to five years	416,667
Over five years	<u>1,210,958</u>
	1,878,895
Less discount to net present value at 5.25%	(336,800)
Less allowance for uncollectable promises to give 2%	<u>(37,578)</u>
Net promises to give	<u>\$ 1,504,517</u>

7. FIXTURES AND EQUIPMENT

The following is a summary of equipment used as teaching aids as of June 30, 2019:

Vehicles held for resale	\$ 14,697
Equipment used in teaching (net of accumulated depreciation of \$50,405)	<u>11,525</u>
	<u>\$ 26,222</u>

8. LAND HELD FOR SALE

During the year ended June 30, 2016, land was donated to Lower Columbia College Foundation without restrictions. The property consisted of five parcels and was recorded at the fair market value at the time of donation, \$510,000, based on the valuation performed by an independent certified appraiser. One of the parcels was sold during the year ended June 30, 2016. Additionally, during land clearing undertaken by the Foundation to better market the property, it was discovered that much of the land was less suitable for building than expected. As a result, the Foundation recorded an impairment loss during the year ended June 30, 2016. The fair market value of land held for sale as of June 30, 2017 was \$260,900. During the year ended June 30, 2018, three parcels were sold at a loss of \$118,866. This left one remaining parcel which was in the process of closing at the June 30, 2018 year end and subsequently was sold at a loss of \$43,712, which includes closing costs of \$3,712, on July 13, 2018. During the prior year, an impairment of \$40,000 was recorded and a loss of \$3,712 remains for the current year.

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

9. 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 (\$4,560 at June 30, 2019) 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 \$2,354 at June 30, 2019.

10. ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 77 individual funds established by donors to provide annual funding for specific activities and general operations. The endowment also includes certain net assets without donor restrictions that have been designated for the endowment by the Board of Directors.

The Foundation has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (UMPIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered when making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

LOWER COLUMBIA COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. ENDOWMENT FUNDS, Continued

Endowment funds were composed of the following net asset types at June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Restricted in perpetuity	\$ —	\$ 9,409,845	\$ 9,409,845
Accumulated investment gains	—	2,712,143	2,712,143
Donor-designated funds	—	250,825	250,825
Board-designated funds	<u>439,224</u>	<u>—</u>	<u>439,224</u>
	<u>\$ 439,224</u>	<u>\$ 12,372,813</u>	<u>\$ 12,812,037</u>

In accordance with relevant state law as interpreted by the Foundation's board of directors, net assets associated with endowment funds are classified without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions include board-designated funds, and any accumulated income and appreciation thereon. Net assets with donor restrictions also includes 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 year 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

June 30, 2019

10. ENDOWMENT FUNDS, Continued

Changes in endowment funds for the year ended June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 439,224	\$ 11,318,548	\$ 11,757,772
Investment return, net	–	671,973	671,973
Contributions	–	1,717,262	1,717,262
Distributions per spending policy	–	(194,253)	(194,253)
Board approved distributions	<u>–</u>	<u>(1,140,717)</u>	<u>(1,140,717)</u>
Endowment net assets, end of year	<u>\$ 439,224</u>	<u>\$ 12,372,813</u>	<u>\$ 12,812,037</u>

11. NET ASSETS

Net assets with donor restrictions as of June 30, 2019, consisted of the following:

Student services	\$ 7,199,113
Exceptional faculty award	1,498,325
Instruction	4,839,262
Facilities	302,019
Resource development	598,535
Campaign	<u>1,221,889</u>
 Total net assets	 <u>\$ 15,659,143</u>

For the year ended June 30, 2019, net assets were released from donor restriction for the following purposes:

Exceptional faculty awards	\$ 63,461
Board appropriation	199,364
Program services	238,837
Scholarships	<u>438,017</u>
	<u>\$ 939,679</u>

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12. 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 \$650,049 of net assets with and without donor restrictions to be used to match the state grants. The total funds designated for exceptional faculty awards are shown below:

Designated funds:	
Without donor restrictions	\$ 399,224
Donor restriction by the State of Washington	650,000
Donor restrictions by other donors	<u>250,825</u>
	<u>\$ 1,300,049</u>

13. 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 certain employee services required for its operations. These items are recorded as in-kind contributions, in-kind rent expense and payroll expenses in the Foundation's financial statements. In-kind rent and services received from the College totaled \$153,856 for the year ended June 30, 2019.

14. FUTURE INTERESTS

The Foundation has been named as a beneficiary in the wills of thirty-five 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.

15. SUBSEQUENT EVENTS

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