

ISSAQUAH SCHOOLS FOUNDATION

2018 AND 2017
FINANCIAL STATEMENTS





Independent Auditors' Report

Board of Trustees
Issaquah Schools Foundation
Seattle, Washington

We have audited the accompanying financial statements of Issaquah Schools Foundation, which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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Board of Trustees
Issaquah Schools Foundation
Seattle, Washington

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Issaquah Schools Foundation as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BADER MARTIN, P.S.

February 5, 2019

ISSAQUAH SCHOOLS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 374,535	\$ 715,409
Current portion of pledges receivable, net	78,005	160,692
Prepaid expenses	14,106	1,468
Total current assets	466,646	877,569
Noncurrent pledges receivable, net	93,542	43,549
Equipment, net	4,829	7,057
Board-designated endowment investments	1,145,826	874,198
Total assets	\$ 1,710,843	\$ 1,802,373
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,028	\$ 52,378
Grants payable	186,891	375,072
Total liabilities	205,919	427,450
Net assets:		
Unrestricted:		
Undesignated	245,416	304,446
Board-designated	1,145,826	874,198
Total unrestricted	1,391,242	1,178,644
Temporarily restricted	113,682	196,279
Total net assets	1,504,924	1,374,923
Total liabilities and net assets	\$ 1,710,843	\$ 1,802,373

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2018

	Unrestricted	Temporarily restricted	Total
Support and revenue:			
Individual contributions	\$ 787,555	\$ 63,906	\$ 851,461
Corporate and foundation contributions	30,998	59,046	90,044
In-kind contributions	221,110		221,110
Government and business grants	5,053	8,212	13,265
Special events, net of expenses of \$92,731	516,702		516,702
Other income	440		440
Investment income	121,592		121,592
Net assets released from restriction	213,761	(213,761)	
Total support and revenue	1,897,211	(82,597)	1,814,614
Expenses:			
Program services	1,050,547		1,050,547
Management and general	334,263		334,263
Fundraising	299,803		299,803
Total expenses	1,684,613		1,684,613
Change in net assets	212,598	(82,597)	130,001
Net assets, beginning of year	1,178,644	196,279	1,374,923
Net assets, end of year	\$ 1,391,242	\$ 113,682	\$ 1,504,924

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2017

	Unrestricted	Temporarily restricted	Total
Support and revenue:			
Individual contributions	\$ 927,792	\$ 93,263	\$ 1,021,055
Corporate and foundation contributions	3,140	191,750	194,890
In-kind contributions	229,225		229,225
Government and business grants	32,672	32,735	65,407
Special events, net of expenses of \$63,333	569,693		569,693
Other income	649		649
Investment income	97,519		97,519
Net assets released from restriction	248,045	(248,045)	
Total support and revenue	2,108,735	69,703	2,178,438
Expenses:			
Program services	1,291,566		1,291,566
Management and general	386,098		386,098
Fundraising	299,106		299,106
Total expenses	1,976,770		1,976,770
Change in net assets	131,965	69,703	201,668
Net assets, beginning of year	1,046,679	126,576	1,173,255
Net assets, end of year	\$ 1,178,644	\$ 196,279	\$ 1,374,923

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2018

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Grants to school district	\$ 511,032			\$ 511,032
Salaries and wages	241,056	\$ 129,610	\$ 178,553	549,219
Employee benefits	11,583	14,295	16,922	42,800
Payroll taxes	18,184	14,937	13,023	46,144
Other program costs	240,131			240,131
In-kind donations	28,561	53,758	9,519	91,838
Contract services		32,490	9,000	41,490
Office expenses		13,546	22,592	36,138
Miscellaneous expenses		29,205	8,867	38,072
Uncollectible pledges			25,396	25,396
Facilities and equipment		5,446		5,446
Advertising and promotion		19,175	14,931	34,106
Information technology		12,501	1,000	13,501
Insurance		3,101		3,101
Conference and meetings		3,135		3,135
Depreciation		2,228		2,228
Travel		836		836
Total expenses	<u>\$ 1,050,547</u>	<u>\$ 334,263</u>	<u>\$ 299,803</u>	<u>\$ 1,684,613</u>

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2017

	Program services	Management and general	Fundraising	Total
Grants to school district	\$ 743,089			\$ 743,089
Salaries and wages	202,673	\$ 154,706	\$ 156,353	513,732
Employee benefits	3,834	9,815	17,754	31,403
Payroll taxes	16,004	10,121	11,961	38,086
Other program costs	255,751			255,751
In-kind donations	69,929	17,217	63,238	150,384
Contract services		75,206		75,206
Office expenses	286	15,117	23,957	39,360
Miscellaneous expenses		30,305	19,759	50,064
Uncollectible pledges		39,093		39,093
Facilities and equipment		4,866		4,866
Advertising and promotion		15,070	6,084	21,154
Information technology		6,808		6,808
Insurance		2,924		2,924
Conference and meetings		2,295		2,295
Depreciation		2,228		2,228
Travel		327		327
 Total expenses	\$ 1,291,566	\$ 386,098	\$ 299,106	\$ 1,976,770

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENTS OF CASH FLOWS

	Year ended August 31,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 130,001	\$ 201,668
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments	(102,058)	(81,654)
Donated securities	(4,184)	(7,182)
Depreciation	2,228	2,228
Uncollectible pledges	25,396	39,093
Changes in assets and liabilities:		
Pledges receivable	7,298	(174,394)
Prepaid expenses	(12,638)	(40)
Accounts payable	(33,350)	(12,966)
Grants payable	(188,181)	(113,645)
Net cash used in operating activities	<u>(175,488)</u>	<u>(146,892)</u>
Cash flows from investing activities:		
Purchases of investments	(169,533)	(65,510)
Proceeds from sale of investments	4,147	7,189
Net cash used in investing activities	<u>(165,386)</u>	<u>(58,321)</u>
Net change in cash and cash equivalents	(340,874)	(205,213)
Cash and cash equivalents, beginning of year	<u>715,409</u>	<u>920,622</u>
Cash and cash equivalents, end of year	<u>\$ 374,535</u>	<u>\$ 715,409</u>

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization and summary of significant accounting policies:

Organization:

The Issaquah Schools Foundation (the Foundation) is a Washington nonprofit corporation organized in 1987 to drive resources to help all students achieve the promise of their academic potential.

The Foundation strives to be the unifying organization that enables the Issaquah School District (the District) to provide access to exceptional opportunities district-wide that ignite learning, improve educational outcomes, and prepare all students to be confident, competent, and engaged citizens. The Foundation is funded through individuals, parents, and other organizations in the Issaquah community.

The Foundation's primary program services include:

The VOICE Mentor Program pairs caring community volunteers with students in need of academic and/or personal support.

Cultural Bridges is a family engagement program that serves as a bridge of communication between the Issaquah School District and parents who are culturally and/or linguistically diverse.

The Artistic Support program funds art education programs throughout the Issaquah School District. Each year, the program works with PTSA's to provide instruction for volunteer art docents in each elementary school.

The Dedicated Fine Arts Fund supports vocal, drama, band, orchestra, and visual arts programs at the secondary level that plays an essential role in a well-rounded education.

Classroom Enrichment and Kateri Brow grants provide teachers with funding for projects that enrich education, fill unmet needs and serve as incubators for innovation.

After-School Homework help provides one-to-one assistance from teachers at After-School Homework Labs.

Food Aid offers free breakfasts, snacks, and lunches to elementary and middle school students to help them be ready to learn.

Basic Student Needs gives families that need financial support free backpacks filled with school supplies to help kids go back to school with confidence.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Organization (continued):

STEM provides high school students the opportunity to purchase equipment and attend competitions as part of their math, biology, rocketry, and engineering clubs.

Academic Enrichment inspires ninth grade students by three-day residencies with Seattle Shakespeare Company.

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Foundation and changes in net assets are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Foundation has two categories of unrestricted net assets:

Undesignated – Consists of assets, liabilities, revenues, and expenses available for current programs and administration.

Board Designated – Net assets set aside by the Board of Trustees (the Board) for specific purposes.

Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time.

The Foundation had no permanently restricted net assets at August 31, 2018 or 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Revenue is recognized when the grant requirements are met and collectability is reasonably assured. Contributions are recorded at fair value as cash or receivables and as revenues in the period received, in accordance with donor-imposed restrictions.

Donated goods and services:

Donated materials are reported as contributions in the accompanying financial statements at their estimated fair value at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Members of the Foundation's Board and numerous other individuals provide substantial amount of volunteer time and some materials of indeterminable value in support of the Foundation's events and programs. These donations do not meet the accounting rules for recognition in the financial statements.

Cash and cash equivalents:

Cash and cash equivalents consist principally of cash held in checking accounts and the Foundation's money market accounts. Cash included with investment accounts are grouped with investments. Cash balances may exceed federally insured limits.

Receivables:

Pledges receivable that are expected to be collected within one year are recorded as current assets at net realizable value. Pledges receivable that are expected to be collected over a period longer than one year are recorded as non-current assets at fair value, and fair value is measured as the present value of their future cash flows. No present value discount on long-term pledges receivable has been recorded as management believes the discount is immaterial to the financial statements as a whole. Conditional promises to give are not included as support until the conditions are substantially met.

Management reviews the collectability of receivables on a periodic basis, determines the amount estimated to be uncollectible, and establishes an allowance. The Foundation charges off receivables against the allowance when management determines that a receivable is not collectible.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Investments and fair value measurements:

Investments consist of various mutual funds. Investments are reported at their fair value using Level 1 inputs (based on quoted prices in active markets for identical assets) in the statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There have been no changes in valuation techniques used during the years ended August 31, 2018 and 2017.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses are recorded as the difference between historical cost and fair value when an investment is sold. Unrealized gains and losses are recorded as the change in the fair value of investments. Investment income, which includes interest, dividends, and realized and unrealized gains and losses is recognized in the statements of activities.

Equipment:

Equipment is stated at cost for purchased assets or estimated fair value at the date of receipt for donated assets. Depreciation is provided using the straight-line method over the estimated useful lives of the assets of 5 years. The Foundation capitalizes purchases of equipment that cost over \$5,000.

Grants to the District:

Grants made to the District are reported as expenses in the year the grant commitments are made. Amounts awarded but not yet paid are reported as grants payable on the statements of financial position.

Functional expenses:

The accompanying statements of functional expenses include all direct costs of each program or supporting service. Costs that benefit more than one activity are allocated based on an analysis of personnel time and space utilized for the related activities.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Income taxes:

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). 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 IRC. The Foundation evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred by the Foundation and the amount can be reasonably estimated.

Advertising and promotion:

The Foundation expenses the costs of advertising and promotion as incurred. Advertising and promotion expense was \$34,106 and \$21,154 for the years ended August 31, 2018 and 2017, respectively.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Reclassifications:

Certain balances from the prior period have been reclassified to conform to the current period presentation.

Subsequent events:

The Foundation has evaluated subsequent events through February 5, 2019, the date which the financial statements were available to be issued.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Pledges receivable:

Pledges receivable are summarized in the statements of financial position as follows as of August 31:

	2018	2017
Receivable in less than one year	\$ 82,679	\$ 168,489
Receivable in one to five years	93,542	43,549
	176,221	212,038
Less allowance for doubtful accounts	(4,674)	(7,797)
	\$ 171,547	\$ 204,241

These amounts are recorded in the statements of financial position as follows as of August 31:

	2018	2017
Current portion of pledges receivable	\$ 78,005	\$ 160,692
Long-term portion of pledges receivable	93,542	43,549
	\$ 171,547	\$ 204,241

At August 31, 2018, 65% of pledges receivable were due from three donors. At August 31, 2017, 29% of pledges receivable were due from two donors.

3. In-kind contributions:

The District, a related party, provides certain goods and services to the Foundation for continued support of educational programs under an agreement that may be terminated by either party upon a 60-day written notice. For August 31, 2018 and 2017, such items included rent-free office space and meeting rooms, and the salary of the Business Manager. The Foundation estimated that the value of this support was \$136,048 and \$131,795 for the years ended August 31, 2018 and 2017, respectively. The rent and salary are included in in-kind contributions on the statements of activities. Donated salaries and wages are included with salaries on the statements of functional expenses, while other in-kinds are included with in-kind donations. For the years ended August 31, 2018 and 2017, other in-kind donations totaled \$85,062 and \$97,430, respectively.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Temporarily restricted net assets:

Temporarily restricted net assets consist of the following at August 31:

	2018	2017
Feeding Student Success	\$ 34,466	
Capacity Building	22,365	\$ 24,964
Nguyen Legacy Gift	19,299	22,056
Dedicated Fine Arts	18,000	20,000
Teacher Recruitment	7,271	5,000
TEALS	6,716	32,979
Community Programs	3,133	20,585
Testing Scholarships	2,000	2,000
Forefront	400	
PSE - First Responder Backpacks	32	5,000
VOICE		59,371
National Board Certification		3,000
Boeing Teaching Channel Science		828
Port Blakely		496
	\$ 113,682	\$ 196,279

5. Endowment investments:

The Foundation's endowment consists of one fund designated by the Board to function as an endowment (quasi-endowment) established for the purpose of providing funding support in perpetuity for the operational costs of the Foundation or as determined by the Board. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Endowment investments:

Interpretation of relevant law:

The Foundation operates in accordance with the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation's Board has reviewed UPMIFA and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve the quasi-endowment funds on a long term basis. The endowment is managed by the Foundation's Finance Committee. The Finance Committee's primary responsibility with regard to the endowment is to monitor the allocation and execute the rebalancing of the investment funds in accordance with the Foundation's investment policy.

Changes to board-designated net assets for the years ended August 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Board-designated net assets, beginning of year	\$ 874,198	\$ 727,041
Contributions	150,000	49,650
Interest and dividends	19,534	15,860
Realized and unrealized gains	<u>102,094</u>	<u>81,647</u>
Board-designated net assets, end of year	<u>\$ 1,145,826</u>	<u>\$ 874,198</u>

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the first priority is to preserve the endowment's asset size to provide, at a minimum, the same level of support in real dollars to future generations. The secondary long-term goal is to modestly grow the asset size of the investment portfolio by realizing a real rate of return after any administrative and management expenses.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Endowment investments (continued):

Strategies employed for achieving objectives:

The Foundation's investment philosophy is based on a total return concept, which includes the sum of dividend and interest income, along with any realized or unrealized capital appreciation or loss after all transaction costs. The Finance Committee will periodically review the appropriate investment goal for the annual total return of assets.

The endowment generally will have sufficient marketability to be readily liquidated in the open market. The endowment will hold well-diversified mutual funds or exchange traded funds. Individual securities will not be purchased and any individual securities donated will be liquidated and invested according to the investment policy. The funds shall be invested at the discretion of the Finance Committee subject to the following:

- The Foundation's investment objective is to realize capital appreciation consistent with safety of principal. Philosophically, the Board believes long-term results will be determined largely by asset mix.
- Investments in fixed income may consist of investment grade securities and may include preferred stock funds. A minimum of 80% of the fixed income portfolio will be rated "A" or better by Moody's and/or Standard and Poor's. A maximum of 5% of endowment fund assets may include less than investment grade bond funds.

Spending policy and how the investment objectives relate to spending policy:

The Foundation has a policy of appropriating for distribution each year market value based on the average of the last three fiscal year-end market values of the endowment fund assets preceding each year's distributions. It is recommended that at such time distributions are made, no more than 5% of this three-year average value is ever distributed in any given year as to help ensure the long-term viability of the entire fund.

The investment policy will apply and accommodate short-term market volatility and market cycles that are inherent in long-term investing. The long-term time horizon will enable the Finance Committee to focus on long-term historical total returns of various asset categories and place nominal value on cash and other short-term investments.