

ISSAQUAH SCHOOLS FOUNDATION

FINANCIAL REPORT

AUGUST 31, 2015

C O N T E N T S

| | Page |
|-------------------------------------------|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENT OF FINANCIAL POSITION..... | 2 |
| STATEMENT OF ACTIVITIES | 3 |
| STATEMENT OF FUNCTIONAL EXPENSES | 4 |
| STATEMENT OF CASH FLOWS..... | 5 |
| NOTES TO FINANCIAL STATEMENTS | 6 - 12 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Issaquah Schools Foundation
Issaquah, Washington

We have audited the accompanying financial statements of Issaquah Schools Foundation, which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

Auditor's 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. 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 Issaquah Schools Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

February 7, 2017

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 **MAIN**
(206) 382-7700 **FAX**

psepa.com

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF FINANCIAL POSITION

August 31, 2015

| ASSETS | |
|--------------------------------------------------------------------------------------------------|----------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 1,043,362 |
| Current portion of pledges receivable, net | 65,389 |
| Prepaid expenses | <u>1,431</u> |
| Total current assets | 1,110,182 |
| Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts | 36,475 |
| Equipment, net | 8,914 |
| Investments - Endowment | <u>496,645</u> |
| Total assets | <u><u>\$ 1,652,216</u></u> |
| | |
| LIABILITIES AND NET ASSETS | |
| Current Liabilities | |
| Accounts payable and accrued expenses | \$ 22,261 |
| Grants payable | <u>417,221</u> |
| Total liabilities | 439,482 |
| Net Assets | |
| Unrestricted | 1,047,100 |
| Temporarily restricted | <u>165,634</u> |
| Total net assets | <u>1,212,734</u> |
| Total liabilities and net assets | <u><u>\$ 1,652,216</u></u> |

See Notes to Financial Statements

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2015

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------------------------------------------|----------------|---------------------------|----------------|
| Support and revenue | | | |
| Special events - revenue (including in-kind of \$10,660) | \$ 818,570 | \$ - | \$ 818,570 |
| Special events - direct benefit to donors (including in-kind of \$10,660) | (89,276) | | (89,276) |
| Individual contributions | 721,903 | 17,118 | 739,021 |
| In-kind contributions | 162,849 | | 162,849 |
| Corporate and foundation contributions | 70,661 | 92,491 | 163,152 |
| Government and business grants | 27,298 | 15,000 | 42,298 |
| Other income | 234 | | 234 |
| Investment income (loss) | (4,202) | | (4,202) |
| Net assets released from restriction | 40,967 | (40,967) | |
| Total support and revenue | 1,749,004 | 83,642 | 1,832,646 |
| Expenses | | | |
| Program services | 1,043,345 | | 1,043,345 |
| Management and general | 301,334 | | 301,334 |
| Fundraising | 271,530 | | 271,530 |
| Total expenses | 1,616,209 | | 1,616,209 |
| Change in net assets | 132,795 | 83,642 | 216,437 |
| Net assets, beginning of year | 914,305 | 81,992 | 996,297 |
| Net assets, end of year | \$ 1,047,100 | \$ 165,634 | \$ 1,212,734 |

See Notes to Financial Statements

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2015

| | Program Services | Management and General | Fundraising | Total Expenses |
|---------------------------------------------------------------------------------|---------------------|---------------------------|-------------|-------------------|
| Grants to School District | \$ 778,277 | \$ - | \$ - | \$ 778,277 |
| Salaries and Wages | 92,819 | 90,137 | 142,099 | 325,055 |
| Employee Benefits | 10,756 | 9,355 | 21,475 | 41,586 |
| Payroll Taxes | 6,359 | 5,530 | 12,696 | 24,585 |
| In-kind Donations | 15,616 | 51,917 | 44,108 | 111,641 |
| Other Program Costs | 124,279 | | | 124,279 |
| Office Expenses | | 15,950 | 62,807 | 78,757 |
| Advertising and Promotion | 11,630 | 6,257 | 47,072 | 64,959 |
| Uncollectible Pledges | | 62,668 | | 62,668 |
| Miscellaneous Expenses | 3,609 | 35,819 | 13,172 | 52,600 |
| Facilities and Equipment | | 3,085 | 14,768 | 17,853 |
| Information Technology | | 8,376 | 1,149 | 9,525 |
| Conference, Convention, and Meeting | | 3,942 | 1,270 | 5,212 |
| Insurance | | 3,132 | | 3,132 |
| Contract Services | | 2,912 | | 2,912 |
| Depreciation and Amortization | | 2,228 | | 2,228 |
| Travel | | 26 | 190 | 216 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses | 1,043,345 | 301,334 | 360,806 | 1,705,485 |
| Less: special event expenses | | | 89,276 | 89,276 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses included in expense section on the statement of activities | \$ 1,043,345 | \$ 301,334 | \$ 271,530 | \$ 1,616,209 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

See Notes to Financial Statements

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF CASH FLOWS For the Year Ended August 31, 2015

| | |
|----------------------------------------------------------------------------------------------|----------------------------|
| Cash Flows from Operating Activities | |
| Change in net assets | \$ 216,437 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | |
| Losses on investments | 4,202 |
| Depreciation and amortization | 2,228 |
| Uncollectible pledges | 62,668 |
| Change in assets and liabilities | |
| Pledges receivable | (151,861) |
| Prepaid expenses | 130 |
| Accounts payable | 14,142 |
| Grants payable | 417,221 |
| | <hr/> |
| Net cash flows provided by operating activities | 565,167 |
| Cash Flows from Investing Activity | |
| Purchases of investments | (75,000) |
| | <hr/> |
| Net change in cash and cash equivalents | 490,167 |
| Cash and Cash Equivalents, beginning of year | 553,195 |
| | <hr/> |
| Cash and Cash Equivalents, end of year | <u><u>\$ 1,043,362</u></u> |

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and 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:

Cultural Bridges – Cultural Bridges is a family engagement strategy that helps build relationships between parents who were not born in the U.S., their children, the District, and the broader Issaquah Community through outreach, events, mentoring, translation services, and quarterly magazines.

Elementary Art – Issaquah Parent Teacher Student Association ("PTSA") Council and the Foundation collaborate to provide elementary art education, an essential, however unfunded, state requirement. Through a system powered by volunteer Art Docents, all elementary students in the District receive art classes in their classroom. The PTSAs in each school support the school-based costs of this program and the Foundation supports a district-level Art Docent Coordinator who provides training, curricular support, and technical assistance to the volunteer Art Docents.

Future Map – Future Map is an enhancement to Career Cruising, an innovative self-exploration and planning software that engages all high school students in the process of building their future by inspiring and informing their dreams. Future Map connects the business community to students, providing access to speakers, job shadowing, and career experts.

Healthy Youth Initiative – Healthy Youth Initiative ("HYI") aims to build the community's capacity to empower youth and families, to reduce negative social and emotional (risky) behaviors, and to network the community in support of healthy youth and strong families. There are four main focuses for these efforts: 1) prevention of youth alcohol and substance abuse; 2) prevention of youth suicide, as well as promotion of youth mental health; 3) assistance for students in need of housing, clothing, food, and school supplies; and 4) research and community assessments to ensure that HYI is addressing appropriate needs within the District and the community.

VOICE – VOICE seeks to establish connections between struggling and at-risk District students to improve academic performance, increase self-esteem, develop critical social skills, and re-engage students with their school community. VOICE pairs these students with caring community members who meet with mentees one hour a week throughout the school year.

Grants – Classroom Enrichment – The Foundation recognizes that school budgets are limited and that classroom demands are high. Each year, the Foundation awards Classroom Enrichment Grants to enhance the learning environment of individual classrooms, libraries, computer labs, resource centers, and schools. Grants in this program are funded up to \$1,000.

Grants – Kateri Brow – Named for a past superintendent of the District, Kateri Brow Grants are awarded to encourage continuous improvement in education within the District. Kateri Brow Big Idea Grants are awarded for programs that reflect vision and innovation in education, while Kateri Brow Biggest Need Grants are awarded for programs that respond to a compelling need. Kateri Brow awards range in amounts from \$1,000 to \$10,000.

Financial Statement Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). 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.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time. Temporarily restricted net assets consist of the following at August 31, 2015:

| | | |
|--------------------|----|-------------|
| Capacity Building | \$ | 74,656 |
| Start Strong | | 30,000 |
| TEALS | | 23,838 |
| Port Blakely | | 16,627 |
| Scratch Code Club | | 9,013 |
| Emergency supplies | | 6,500 |
| Voice | | 5,000 |
| | | <hr/> |
| | \$ | 165,634 |
| | | <hr/> <hr/> |

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. 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. If temporary restrictions are met in the same period as contributions and grants are received, then they are shown as unrestricted net assets.

The Foundation had no permanently restricted net assets at August 31, 2015.

Cash and Cash Equivalents

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

Pledges Receivable

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, which is measured as the present value of their future cash flows. No discount on long-term pledges receivables 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 collectibility 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. The Foundation does not generally require collateral on any of its receivables. Pledges receivable are summarized in the statements of financial position as follows as of August 31, 2015:

| | | |
|---------------------------------------|----|-----------------------|
| Receivable in less than one year | \$ | 78,729 |
| Receivable in one to five years | | 36,475 |
| Less: allowance for doubtful accounts | | <u>(13,340)</u> |
| Net pledges receivable | \$ | <u><u>101,864</u></u> |

These amounts are recorded in the statements of financial position as follows as of August 31, 2015:

| | | |
|-----------------------------------------|----|-----------------------|
| Current portion of pledges receivable | \$ | 65,389 |
| Long-term portion of pledges receivable | | <u>36,475</u> |
| | \$ | <u><u>101,864</u></u> |

At August 31, 2015, 37% of pledges receivable was due from one foundation.

Equipment

Equipment purchases greater than \$5,000 are capitalized and are recorded at cost or, in the case of donated equipment, at estimated fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives of equipment are five years. At August 31, 2015, the equipment balance represented a copier with a cost of \$11,142 and accumulated depreciation of \$2,228.

In-Kind Contributions

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 of Directors and numerous other individuals provide substantial amounts 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.

The District, a related party, in exchange for the Foundation's continued support of educational programs, provides certain goods and services to the Foundation under an agreement that may be terminated by either party upon a 60-day written notice. For 2015, 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 \$108,767 for the year ended August 31, 2015. 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 statement of functional expenses, while other in-kinds are included with in-kind donations. Other in-kind donations totaled \$112,462, which included special event support of \$58,379, plus contributed services.

Contributions/Grants

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period received. Promises to give are recorded as they are made.

Grants received from one government agency and contributions from six donors represented 17% of contribution and grant revenues during the year ended August 31, 2015.

Advertising

The Foundation expenses the costs of advertising as incurred. Advertising expense was \$18,042 for the year ended August 31, 2015.

Grants to the District

The Foundation makes periodic disbursements to the District. At times, these amounts are determined to be payable in the current fiscal year, but are paid subsequent to year end, and are included as grants payable on the statement of financial position.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 code.

Use of Estimates

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

Subsequent Events

The Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was February 7, 2017.

Note 2. Investments and Fair Value Measurements

Investments consist of various mutual funds and certain money market accounts can also be classified as investments because the accounts are held in investment accounts. Investments are reported at their fair value using Level 1 inputs (quoted prices in active markets for identical assets) in the statements of financial position. Realized gains are calculated using the specific identified method. Unrealized gains and losses are included in the change in net assets.

Investments consist of the following at August 31, 2015:

| | | |
|------------------------------|----|---------|
| Cash (money market accounts) | \$ | 8,354 |
| Large Blend | | 198,238 |
| Mid-Cap Blend | | 65,105 |
| Small Blend | | 61,650 |
| Corporate Bond | | 60,710 |
| Short-Term Bond | | 41,329 |
| Foreign Large Blend | | 25,892 |
| High Yield Bond | | 18,770 |
| Diversified Emerging Markets | | 16,597 |
| | | <hr/> |
| | \$ | 496,645 |
| | | <hr/> |

Note 3. Related Party Transactions

The Foundation regularly receives contributions from members of the Board from special events and general contributions. On occasion, these contributions are in the form of pledges, which remain unpaid at year end.

Note 4. Board-Designated Net Assets

The Foundation's endowment consists of one fund designated by the Board of Trustees 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 of Trustees. 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.

Interpretation of Relevant Law

The Foundation's Board of Trustees has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift, as of the date of the gift of the board-designated endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as board-designated net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

The Foundation's Board of Trustees can at any time decide to designate unrestricted funds as an endowment. These funds remain in the endowment until the Board decides to change the designation. 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.

Endowment net assets consisted of \$496,645 at August 31, 2015, and were all Board-designated.

Changes to endowment net assets for the year ended August 31, 2015, are as follows:

| | <u>Unrestricted</u> | <u>Temporarily</u> | <u>Permanently</u> | <u>Total</u> |
|-----------------------------------------|---------------------|--------------------|--------------------|-------------------|
| Endowment net assets, beginning of year | \$ 425,847 | \$ - | \$ - | \$ 425,847 |
| Transfer to endowment | 75,000 | | | 75,000 |
| Endowment investment return: | | | | |
| Interest and dividends | 9,942 | | | 9,942 |
| Realized and unrealized gains (losses) | (14,144) | | | (14,144) |
| Total endowment investment return | <u>(4,202)</u> | | | <u>(4,202)</u> |
| Endowment net assets, end of year | <u>\$ 496,645</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 496,645</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 of Trustees, 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.

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.