

RENTON TECHNICAL COLLEGE FOUNDATION

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2016

BRANTLEY JANSON YOST & ELLISON
Certified Public Accountants
A Professional Service Corporation
1617 South 325th Street
Federal Way, Washington 98003-6009

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Renton Technical College Foundation
Renton, Washington

We have audited the accompanying financial statements of Renton Technical College Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, 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.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 an 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 financial statement presentation.

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 Renton Technical College Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Brantley Janson Yost & Ellison

January 19, 2017

RENTON TECHNICAL COLLEGE FOUNDATION

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

ASSETS

CURRENT ASSETS	
Cash	\$ 142,546
Pledges receivable	31,000
Total current assets	<u>173,546</u>
INVESTMENTS	<u>1,375,884</u>
TOTAL ASSETS	<u>\$ 1,549,430</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE	\$ 7,002
NET ASSETS	
Unrestricted	189,834
Temporarily restricted	569,753
Permanently restricted	782,841
	<u>1,542,428</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,549,430</u>

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

RENTON TECHNICAL COLLEGE FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating activities				
Support and revenue				
Contributions	\$ 31,174	\$ 257,027	\$ 17,459	\$ 305,660
Special event revenue	-	88,499	-	88,499
Loss on investments, net	(7,080)	(20,546)	-	(27,626)
Interest income	26	15	-	41
In-kind college support (Note 7)	145,278	-	-	145,278
Net assets released from restriction	<u>215,879</u>	<u>(215,879)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	385,277	109,116	17,459	511,852
Expenses				
Program services	189,685	-	-	189,685
Supporting activities				
General and administrative	101,884	-	-	101,884
Fundraising	<u>125,666</u>	<u>-</u>	<u>-</u>	<u>125,666</u>
Total expenses	<u>417,235</u>	<u>-</u>	<u>-</u>	<u>417,235</u>
CHANGE IN NET ASSETS	(31,958)	109,116	17,459	94,617
NET ASSETS, beginning of year	<u>221,792</u>	<u>460,637</u>	<u>765,382</u>	<u>1,447,811</u>
NET ASSETS, end of year	<u>\$ 189,834</u>	<u>\$ 569,753</u>	<u>\$ 782,841</u>	<u>\$ 1,542,428</u>

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

RENTON TECHNICAL COLLEGE FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Supporting Activities</u>				<u>Total</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Supporting Activities</u>	
Admin fees	\$ -	\$ 7,581	\$ -	\$ 7,581	\$ 7,581
Bank charges	-	1,477	-	1,477	1,477
Contract services	27,109	59,750	67,399	127,149	154,258
Equipment funding expenditures	69,642	-	-	-	69,642
Fundraising	-	-	2,674	2,674	2,674
Insurance	-	2,142	-	2,142	2,142
Meeting and conferences	5,356	1,531	765	2,296	7,652
Occupancy	3,519	1,760	1,760	3,520	7,039
Office expenses	5,959	11,917	1,986	13,903	19,862
Professional fees	-	15,726	-	15,726	15,726
Program & student support	15,427	-	-	-	15,427
Scholarship expense	62,673	-	-	-	62,673
Special events	-	-	51,082	51,082	51,082
	<u>\$ 189,685</u>	<u>\$ 101,884</u>	<u>\$ 125,666</u>	<u>\$ 227,550</u>	<u>\$ 417,235</u>

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

RENTON TECHNICAL COLLEGE FOUNDATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 94,617
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Loss on investments, net	35,208
Changes in assets and liabilities:	
Accounts receivable	(31,000)
Accounts payable	<u>7,004</u>
Net cash provided by operating activities	105,829
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases from investments, net	<u>(100,000)</u>
Net change in cash	5,829
CASH, beginning of year	<u>136,717</u>
CASH, end of year	<u><u>\$ 142,546</u></u>

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

RENTON TECHNICAL COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 1 - NATURE OF ACTIVITIES

Renton Technical College Foundation (the Foundation) was established in 1993 to provide support for the private fundraising efforts of Renton Technical College (the College). The Foundation aids and promotes excellence at the College by providing scholarships, equipment for teaching and training, special academic opportunities for students, and support for outstanding faculty.

The goals of the Foundation are to:

- Increase private funding to support students' scholarships and special needs of the College;
- Increase the public's awareness of the College's and students' financial needs;
- Communicate the strong relationships between the College and the business community;
- Increase the self-sufficiency of the Foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Accounting

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958) and Health care entities (Topic 954): Part (1) Presentation of the net investment return within the statement of activities, Part (11) Inclusion of investment expenses that have been netted against investment return in the analysis of expense by nature and function, Part (111) Disclosure of unrealized gains and losses on equity securities. All Parts are effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

Management has elected to adopt Parts (1), (11), and (111) early.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence 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.

RENTON TECHNICAL COLLEGE FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that are 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 restriction.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are maintained permanently by the Foundation. Generally, 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation maintains cash balances at two financial institutions in Washington State. The total cash balances held in interest bearing accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016, there were no uninsured cash balances

For purpose of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents included in investments are considered investments.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Functional Allocation of Expenses

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

Income Tax

The Foundation is exempt from federal income tax under Section 509(a)(3) of the Internal Revenue Code, and therefore, no provision for income tax is included. The Foundation operates as a Type III functionally integrated supporting organization (FISO) to the College.

RENTON TECHNICAL COLLEGE FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax (Continued)

The Foundation follows accounting principles generally accepted in the United States of America (GAAP), which prescribe a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

For the years ended June 30, 2016, the Foundation has no material uncertain tax positions to be accounted for in the financial statements. Typically, the U.S. federal tax returns are open to examination for a period of three years after the filing date.

Date of Management Review

Management has evaluated subsequent events through January 19, 2017, the date the financial statements were available to be issued.

NOTE 3 - FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under GAAP are described as follows:

- *Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- *Level 2* – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- *Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

RENTON TECHNICAL COLLEGE FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate & treasury bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Market exchange traded funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded for fair value purposes.

In accordance with GAAP, the following table represents the Foundation's hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 316,912	\$ 159,500	\$ 157,412
Common stocks	775,196	775,196	-
Corporate bonds	177,012	-	177,012
Treasury bonds	79,984	-	79,984
Market exchange traded funds	21,631	-	21,631
Other	<u>5,149</u>	<u>-</u>	<u>5,149</u>
	<u>\$ 1,375,884</u>	<u>\$ 934,696</u>	<u>\$ 441,188</u>

NOTE 4 - INVESTMENTS

Investment income is comprised of the following for the year ended June 30, 2016:

Unrealized loss	\$ (55,062)
Interest and dividends, including reinvested	38,075
Investment fees	<u>(10,639)</u>
	<u>\$ (27,626)</u>

RENTON TECHNICAL COLLEGE FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - ENDOWMENT

Washington State has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides uniform and fundamental rules for the prudent investment of funds held by charitable institutions and the expenditure of funds donated as endowments to those institutions. The Foundation's investment policy requires compliance with UPMIFA. Management believes they are managing their endowment funds in compliance with UPMIFA.

The Board of Directors of the Foundation has interpreted the law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (that is, its net unspent appreciation and income) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the entity.

The Foundation's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. In accordance with GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment is primarily invested in common stock and bonds that are included in the investments at June 30, 2016. Interest earned on the investments is considered appropriated as received.

A summary of the endowment investment account is as follows:

	<u>Total</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Balance, June 30, 2015	\$ 867,763	\$ 102,408	\$ 765,355
Contributions	34,634	17,175	17,459
Investment earnings	(9,559)	(9,559)	-
Release from restrictions	<u>(25,248)</u>	<u>(25,248)</u>	<u>-</u>
Balance, June 30, 2016	<u>\$ 867,590</u>	<u>\$ 84,776</u>	<u>\$ 782,814</u>

RENTON TECHNICAL COLLEGE FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - ENDOWMENT (Continued)

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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed a blended benchmark.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, the Foundation relies on an investment strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year approximately 4 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. If a fund has a deficiency due to unfavorable market conditions, no distributions are granted. In establishing this policy, the Foundation considered the historical return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 totaled \$569,753, which were restricted primarily for the following purposes: student support and scholarships, program equipment and supplies, and faculty and staff development.

Permanently restricted net assets at June 30, 2016 consisted of endowment funds totaling \$782,841. The principal portion of the endowment is permanently restricted and income on the principal is either unrestricted or temporarily restricted to scholarships or programs.

RENTON TECHNICAL COLLEGE FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RELATED PARTY

The Foundation was established to provide support for the private fundraising efforts of the College. The Board of the Foundation is separate from the Board of the College. As part of the agreement with the College, the College pays for certain salaries, benefits, facility charges and supplies. These costs totaled \$145,278 during the year ended June 30, 2016, and are included in the statement of changes in net assets as in-kind support. Because a large portion of the management and fundraising costs are paid by the College, a more significant percentage of each gift received is available to pay for scholarships or other programs for students of the College.