

ISSAQUAH SCHOOLS FOUNDATION

2019 AND 2018
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, 2019 and 2018, 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.



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, 2019 and 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the School adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

BADER MARTIN, P.S.

June 25, 2020

ISSAQUAH SCHOOLS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 441,833	\$ 374,535
Current portion of pledges receivable, net	63,159	78,005
Prepaid expenses	1,449	14,106
Other current assets	5,106	
Total current assets	511,547	466,646
Noncurrent pledges receivable, net	69,786	93,542
Equipment, net	2,600	4,829
Board-designated endowment investments	1,157,057	1,145,826
Total assets	<u><u>\$ 1,740,990</u></u>	<u><u>\$ 1,710,843</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 31,871	\$ 19,028
Grants payable	132,118	186,891
Total liabilities	163,989	205,919
Net assets:		
Without donor restrictions	1,427,708	1,391,242
With donor restrictions	149,293	113,682
Total net assets	1,577,001	1,504,924
Total liabilities and net assets	<u><u>\$ 1,740,990</u></u>	<u><u>\$ 1,710,843</u></u>

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue:			
Individual contributions	\$ 627,895	\$ 50,855	\$ 678,750
Corporate and foundation contributions	21,032	95,805	116,837
In-kind contributions	239,559		239,559
Government and business grants		188,840	188,840
Special events, net of expenses of \$89,884	473,115		473,115
Other income	6,349		6,349
Net investment return	11,126		11,126
Net assets released from restriction	<u>299,889</u>	<u>(299,889)</u>	
Total support and revenue	<u>1,678,965</u>	<u>35,611</u>	<u>1,714,576</u>
Expenses:			
Program services	1,050,194		1,050,194
Management and general	304,063		304,063
Fundraising	<u>288,242</u>		<u>288,242</u>
Total expenses	<u>1,642,499</u>		<u>1,642,499</u>
Change in net assets	36,466	35,611	72,077
Net assets, beginning of year	<u>1,391,242</u>	<u>113,682</u>	<u>1,504,924</u>
Net assets, end of year	<u>\$ 1,427,708</u>	<u>\$ 149,293</u>	<u>\$ 1,577,001</u>

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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
Net investment return	121,592		121,592
Net assets released from restriction	<u>213,761</u>	<u>(213,761)</u>	
Total support and revenue	<u>1,897,211</u>	<u>(82,597)</u>	<u>1,814,614</u>
Expenses:			
Program services	1,050,547		1,050,547
Management and general	334,263		334,263
Fundraising	<u>299,803</u>		<u>299,803</u>
Total expenses	<u>1,684,613</u>		<u>1,684,613</u>
Change in net assets	212,598	(82,597)	130,001
Net assets, beginning of year	<u>1,178,644</u>	<u>196,279</u>	<u>1,374,923</u>
Net assets, end of year	<u>\$ 1,391,242</u>	<u>\$ 113,682</u>	<u>\$ 1,504,924</u>

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2019

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Grants to school district	\$ 534,662			\$ 534,662
Salaries and wages	296,003	\$ 129,262	\$ 145,223	570,488
Employee benefits	5,730	10,994	11,061	27,785
Payroll taxes	22,578	10,068	11,106	43,752
Other program costs	147,346			147,346
In-kind donations	39,306	56,343	58,531	154,180
Office expenses		44,826	14,415	59,241
Advertising and promotion	4,569	10,415	12,711	27,695
Contract services		30,551	3,523	34,074
Uncollectible pledges			31,672	31,672
Facilities and equipment		3,367		3,367
Insurance		3,240		3,240
Depreciation		2,229		2,229
Conference and meetings		1,675		1,675
Information technology		848		848
Travel		245		245
Total expenses	<u>\$ 1,050,194</u>	<u>\$ 304,063</u>	<u>\$ 288,242</u>	<u>\$ 1,642,499</u>

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
Office expenses		42,751	31,459	74,210
Advertising and promotion		19,175	14,931	34,106
Contract services		32,490	9,000	41,490
Uncollectible pledges			25,396	25,396
Facilities and equipment		5,446		5,446
Insurance		3,101		3,101
Depreciation		2,228		2,228
Conference and meetings		3,135		3,135
Information technology		12,501	1,000	13,501
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

STATEMENTS OF CASH FLOWS

	Year ended August 31,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 72,077	\$ 130,001
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gains) losses on investment:	16,029	(102,058)
Donated securities	(4,649)	(4,184)
Depreciation	2,229	2,228
Uncollectible pledges	35,226	25,396
Changes in assets and liabilities:		
Pledges receivable	3,376	7,298
Prepaid expenses	12,657	(12,638)
Other current assets	(5,106)	
Accounts payable	12,843	(33,350)
Grants payable	(54,773)	(188,181)
Net cash provided by (used in) operating activities	89,909	(175,488)
Cash flows from investing activities:		
Purchases of investments	(27,154)	(169,533)
Proceeds from sale of investments	4,543	4,147
Net cash used in investing activities	(22,611)	(165,386)
Net change in cash and cash equivalents	67,298	(340,874)
Cash and cash equivalents, beginning of year	374,535	715,409
Cash and cash equivalents, end of year	\$ 441,833	\$ 374,535

See notes to financial statements.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. 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 Volunteers of Issaquah Changing Education (VOICE) Mentor Program pairs caring community volunteers with students in need of academic and/or personal support. This program transferred to the Issaquah School District on September 1, 2019.

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 Parents Teacher Student Associations 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 helps provide one-to-one assistance from teachers at After-School Homework Labs.

Feeding Student Success 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.

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

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization (continued):

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

2. Summary of significant accounting policies:

Basis of presentation:

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

Net assets and revenue recognition:

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. The Foundation has two categories: undesignated and board-designated. Undesignated consists of assets, liabilities, revenues, and expenses available for current programs and administration. Board-designated consists of net assets set aside by the Board of Trustees (the Board) for specific purposes.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations, and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation had no donor restrictions that were perpetual in nature as of August 31, 2019 or 2018.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expiration of net assets with donor restrictions (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.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Net assets and revenue recognition (continued):

Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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 support and revenue 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.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Receivables (continued):

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.

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, 2019 and 2018.

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)

2. 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 \$43,640 and \$34,106 for the years ended August 31, 2019 and 2018, respectively.

Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP 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 June 25, 2020, the date which the financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States (US). The immediate impact on the US and international economies has been significant. There is significant uncertainty regarding the breadth and duration of the business disruptions related to COVID-19, as well as the impact on the US and global economies. The Foundation expects this matter to affect business, results of operations and financial position, but the related financial impact cannot be reasonably estimated at this time.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Change in accounting principle:

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – 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 implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

3. Liquidity and availability:

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Financial assets in excess of daily cash requirements are invested in money market funds. In addition, the Foundation Board of Trustees will contribute between 2-10% of total revenue annually to an endowment fund providing there is an excess of revenue over expenses. The purpose of the Issaquah Schools Foundation Endowment is to create a financial resource in perpetuity that will support the mission of the Foundation and provide the Foundation with a funding source to protect against economic fluctuations to provide funds for both ongoing and new programs.

The following table reflects the Foundation's financial assets as of August 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of statement of financial position date because of contractual restrictions. The Foundation has board-designated funds in reserve, which totaled \$1,157,057 and \$1,145,086 for the years ended August 31, 2019 and 2018, respectively. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Liquidity and availability (continued):

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 441,833	\$ 374,535
Current portion of pledges receivable, net	63,159	78,005
Total financial assets	504,992	452,540
Donor restricted funds	(149,293)	(113,682)
Financial assets available to meet cash needs for general expenditures within one year	\$ 355,699	\$ 338,858

4. Pledges receivable:

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

	2019	2018
Receivable in less than one year	\$ 65,730	\$ 82,679
Receivable in one to five years	55,028	76,028
Receivable thereafter	14,758	17,514
	135,516	176,221
Less allowance for doubtful accounts	(2,571)	(4,674)
	\$ 132,945	\$ 171,547

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Pledges receivable (continued):

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

	<u>2019</u>	<u>2018</u>
Current portion of pledges receivable	\$ 63,159	\$ 78,005
Long-term portion of pledges receivable	<u>69,786</u>	<u>93,542</u>
	<u>\$ 132,945</u>	<u>\$ 171,547</u>

At August 31, 2019, 73% of pledges receivable were due from four donors. At August 31, 2018, 65% of pledges receivable were due from two donors.

5. 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, 2019 and 2018, 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 \$138,335 and \$136,048 for the years ended August 31, 2019 and 2018, respectively. The rent and salary are included in in-kind contributions on the statements of activities. Donated salary is included with salaries and wages on the statements of functional expenses, while other in-kinds are included with in-kind donations. For the years ended August 31, 2019 and 2018, other in-kind donations totaled \$101,224 and \$85,062, respectively.

6. Net assets without donor restrictions:

Net assets without donor restrictions are available for the following purposes for the years ended August 31:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 270,651	\$ 245,416
Board-designated operating reserves	<u>1,157,057</u>	<u>1,145,826</u>
	<u>\$ 1,427,708</u>	<u>\$ 1,391,242</u>

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Net assets without donor restrictions (continued):

Board-designated funds have been set aside by the Foundation's governing body and are available for specific purposes.

7. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purposes for the years ended August 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Feeding Student Success	\$ 27,543	\$ 34,466
VOICE	20,214	
Capacity Building	19,354	22,365
Dedicated Fine Arts	18,000	18,000
Nguyen Legacy Gift	16,542	19,299
Tools 4 Schools	15,044	
Testing Scholarships	14,000	2,000
After School Assistance Program	12,500	
Teacher Recruitment	3,238	7,271
TEALS	1,050	6,716
Nurses Fund	1,000	
Community Programs	808	3,133
Forefront		400
PSE - First Responder Backpacks		32
	<u><u>\$ 149,293</u></u>	<u><u>\$ 113,682</u></u>

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. 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 U.S. GAAP, 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 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, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Board-designated net assets, beginning of year	\$ 1,145,826	\$ 874,198
Contributions		150,000
Interest and dividends	27,154	19,534
Realized and unrealized gains (losses)	<u>(15,923)</u>	<u>102,094</u>
Board-designated net assets, end of year	<u>\$ 1,157,057</u>	<u>\$ 1,145,826</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.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Endowment investments (continued):

Return objectives and risk parameters (continued):

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.

ISSAQUAH SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Endowment investments (continued):

Spending policy and how the investment objectives relate to spending policy (continued):

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.