

Skagit Valley College Foundation

Financial Statements with
Independent Auditor's Report

Years Ended June 30, 2019 and 2018

Larson Gross 

Skagit Valley College Foundation

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Independent Auditor's Report

To the Finance Committee and Board of Governors
Skagit Valley College Foundation
Mount Vernon, WA

Report on the Financial Statements

We have audited the accompanying financial statements of Skagit Valley College Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Auditor's 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, Skagit Valley College Foundation adopted Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *"Not-for-Profits Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities."* The update addresses the complexity and understandability of net assets restrictions, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skagit Valley College Foundation as of June 30, 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.

Larson Gross PLLC

Burlington, Washington
October 15, 2019

Skagit Valley College Foundation

Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Assets		
Cash and cash equivalents	\$ 1,107,578	\$ 914,737
Pledges receivable	105,029	167,421
Advances due from Skagit Valley College	76,907	51,547
Investments	14,888,424	14,605,817
Property and equipment, net	1,555,464	1,637,519
Other assets	<u>27,582</u>	<u>40,072</u>
Total assets	<u>\$ 17,760,984</u>	<u>\$ 17,417,113</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 28,907	\$ 18,048
Advances due to Skagit Valley College	119,826	348,328
Life income annuities payable	-	55,500
Tenant security deposits and prepaid rent	35,891	28,657
Passthrough funds held as agent	19,291	-
Long-term debt, net	<u>819,244</u>	<u>962,092</u>
Total liabilities	1,023,159	1,412,625
Net assets		
Without donor restrictions		
Board designated – endowment	1,779,497	1,661,105
Board designated – Campus View Village	1,159,082	994,330
Board designated – Booster Club	238,554	225,387
Board designated – SVC Cardinal Complete Program	5,000	-
Board designated – President's Development Fund	2,475	-
Undesignated	<u>98,695</u>	<u>84,266</u>
Total net assets without donor restrictions	3,283,303	2,965,088
With donor restrictions	<u>13,454,522</u>	<u>13,039,400</u>
Total net assets	<u>16,737,825</u>	<u>16,004,488</u>
Total liabilities and net assets	<u>\$ 17,760,984</u>	<u>\$ 17,417,113</u>

Skagit Valley College Foundation

Statements of Activities

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions	\$ 91,465	\$ 847,294	\$ 938,759	\$ 175,337	\$ 2,728,340	\$ 2,903,677
In-kind salaries	118,000	-	118,000	118,000	-	118,000
Investment return	185,811	473,857	659,668	269,938	595,981	865,919
Campus housing and related income	696,268	-	696,268	665,632	-	665,632
Fundraising activities, net of direct expenses of \$41,746 and \$34,255 for 2019 and 2018, respectively	150,230	-	150,230	124,150	-	124,150
Other income	161,532	-	161,532	169,113	-	169,113
Satisfaction of restrictions	<u>906,029</u>	<u>(906,029)</u>	<u>-</u>	<u>1,113,761</u>	<u>(1,113,761)</u>	<u>-</u>
Total support and revenue	2,309,335	415,122	2,724,457	2,635,931	2,210,560	4,846,491
Expenses						
Program services	1,681,557	-	1,681,557	2,101,175	-	2,101,175
Management and general	188,156	-	188,156	171,112	-	171,112
Fundraising activities	<u>121,407</u>	<u>-</u>	<u>121,407</u>	<u>141,334</u>	<u>-</u>	<u>141,334</u>
Total expenses	<u>1,991,120</u>	<u>-</u>	<u>1,991,120</u>	<u>2,413,621</u>	<u>-</u>	<u>2,413,621</u>
Change in net assets	318,215	415,122	733,337	222,310	2,210,560	2,432,870
Net assets – beginning of year	<u>2,965,088</u>	<u>13,039,400</u>	<u>16,004,488</u>	<u>2,742,778</u>	<u>10,828,840</u>	<u>13,571,618</u>
Net assets – end of year	<u>\$ 3,283,303</u>	<u>\$ 13,454,522</u>	<u>\$ 16,737,825</u>	<u>\$ 2,965,088</u>	<u>\$ 13,039,400</u>	<u>\$ 16,004,488</u>

Skagit Valley College Foundation

Statements of Functional Expenses

Years Ended June 30, 2019 and 2018

	2019					
	Program Services			Supporting Services		
	Foundation	Campus View Village	Total Program Services	Management and General	Fundraising	Total
Scholarships	\$ 535,571	\$ -	\$ 535,571	\$ -	\$ -	\$ 535,571
Wages and benefits	80,647	148,790	229,437	80,661	111,807	421,905
Program assistance	221,579	-	221,579	-	-	221,579
Booster Club	146,711	-	146,711	-	-	146,711
Utilities and telephone	18,000	122,126	140,126	-	-	140,126
Other	38,660	14,473	53,133	72,953	-	126,086
Depreciation and amortization	-	86,722	86,722	2,863	-	89,585
Repairs and maintenance	-	81,941	81,941	-	-	81,941
Program assistance in-kind	69,833	-	69,833	-	-	69,833
Awards and recognition	39,002	-	39,002	-	-	39,002
Interest	-	36,011	36,011	-	-	36,011
Supplies	-	21,902	21,902	5,676	151	27,729
Professional services	317	144	461	25,170	-	25,631
Insurance	-	19,128	19,128	833	-	19,961
Other fundraising	-	-	-	-	9,449	9,449
Facility rent	-	-	-	-	-	-
Total expenses	\$ 1,150,320	\$ 531,237	\$ 1,681,557	\$ 188,156	\$ 121,407	\$ 1,991,120

	2018					
	Program Services			Supporting Services		
	Foundation	Campus View Village	Total Program Services	Management and General	Fundraising	Total
Scholarships	\$ 438,257	\$ -	\$ 438,257	\$ -	\$ -	\$ 438,257
Wages and benefits	111,667	158,106	269,773	111,664	108,818	490,255
Program assistance	538,356	-	538,356	-	-	538,356
Booster Club	112,741	-	112,741	-	-	112,741
Utilities and telephone	18,000	132,846	150,846	-	-	150,846
Other	83,651	3,830	87,481	20,620	1,665	109,766
Depreciation and amortization	-	84,817	84,817	3,135	-	87,952
Repairs and maintenance	-	84,584	84,584	-	-	84,584
Program assistance in-kind	112,040	-	112,040	-	7,872	119,912
Awards and recognition	101,349	-	101,349	-	-	101,349
Interest	-	44,040	44,040	-	-	44,040
Supplies	(4,474)	22,224	17,750	6,012	5,006	28,768
Professional services	19,462	6,008	25,470	26,873	-	52,343
Insurance	-	25,888	25,888	2,808	-	28,696
Other fundraising	5,008	-	5,008	-	17,973	22,981
Facility rent	2,775	-	2,775	-	-	2,775
Total expenses	\$ 1,538,832	\$ 562,343	\$ 2,101,175	\$ 171,112	\$ 141,334	\$ 2,413,621

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

Skagit Valley College Foundation

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Changes in net assets	\$ 733,337	\$ 2,432,870
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation expense	85,566	85,801
Amortization of bond discount and issuance cost	4,019	2,151
Gain on life income annuity	(55,500)	-
Actuarial adjustment of annuity obligation	-	13,083
Nonoperating items:		
Contributions restricted for long-term endowments	(372,839)	(2,132,394)
Net realized and unrealized gain on endowment investments	(261,605)	(556,373)
Change in assets and liabilities:		
Pledges receivable	62,392	129,370
Other assets	10,623	(1,641)
Accounts payable and accrued liabilities	10,859	(17,448)
Tenant security deposits and prepaid rent	7,234	(14,843)
Passthrough funds held as agent	19,291	-
	<u>243,377</u>	<u>(59,424)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Property and equipment additions and improvements	(3,511)	(62,352)
Proceeds from sales (purchases) of other investments, net	(13,636)	55,400
Purchases of endowment investments, net	(7,366)	(2,089,044)
	<u>(24,513)</u>	<u>(2,095,996)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowments	372,839	2,132,394
Principal paid on long-term debt	(145,000)	(140,000)
Payments of annuity obligations	-	(35,283)
Change in advances to/from Skagit Valley College	(253,862)	278,917
	<u>(26,023)</u>	<u>2,236,028</u>
Net cash provided (used) by financing activities		
Net increase in cash and cash equivalents	192,841	80,608
Cash and cash equivalents – beginning of year	<u>914,737</u>	<u>834,129</u>
Cash and cash equivalents – end of year	<u>\$ 1,107,578</u>	<u>\$ 914,737</u>
Supplemental cash flow information		
Cash paid during the year for interest	<u>\$ 37,001</u>	<u>\$ 102,306</u>

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Skagit Valley College Foundation (the Foundation) located in Mount Vernon, WA, is a non-profit organization formed to solicit and receive contributions to provide enhancements at Skagit Valley College and support for its students. Activities include support of academic programs, scholarship assistance to students, booster club, and operation of student housing.

Basis of accounting – The Foundation prepares its financial statements on the accrual basis of accounting and accordingly reflect all significant assets, payables, and other liabilities.

Basis of presentation – The Foundation presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Under this standard, the Foundation is required to present its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restrictions.

Net assets without donor restrictions – Support received that is not subject to donor-imposed restrictions and over which the Board of Governors has discretionary control.

Net assets with donor restrictions – Support received subject to donor-imposed restrictions or time restrictions that will be met either through actions of the Foundation or by passage of time, including contributions restricted by the donor to be invested in perpetuity. In accordance with purposes stipulated by donors, earnings from such assets may be classified as net assets without donor restrictions or net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. 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. In the period donor restrictions are met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as satisfaction of restrictions. In addition, if a restriction is fulfilled in the same year in which the contribution is received, the Foundation reports the support as without donor restrictions.

Cash and cash equivalents – Cash and cash equivalents consist of cash in banks and all highly liquid investments available for current use with an initial maturity of three months or less for statement of cash flow purposes. The Foundation maintains its cash in bank accounts that may exceed federally insured limits at times during the year. The Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Pledges receivable – Unconditional promises to give are recognized as contributions in the year the unconditional promise is made. Promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate commensurate with the risks involved. An estimated allowance for uncollectible promises to give is recorded based upon historical payment trends. The Foundation considers all pledges receivable collectible as of June 30, 2019 and 2018; thus, no allowance has been established for uncollectible pledges.

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies – (Continued)

Pledges receivable (cont.) – Pledges receivable from two and one donor made up 65% and 60% of total pledges receivable at June 30, 2019 and 2018, respectively.

Investments – The Foundation records investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Investment securities, in general, are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with the investment securities that changes in the near term could materially affect the Foundation's account balances and the amounts reported in the financial statements.

Property and equipment – The Foundation capitalizes all property and equipment acquisitions in excess of \$1,000. Property and equipment acquisitions are recorded at cost. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which is 3 to 40 years.

Contributions – Contribution revenue consists of general contributions, grants, legacies, and bequests, and is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions from two donors and one estate made up 23% and 60% of total contribution revenue for the years ended June 30, 2019 and 2018, respectively.

Donated property, goods, and services – Donations of property, goods, and services are recorded at their estimated fair values at the date of donation. Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased. In addition, many volunteers have donated significant amounts of time to the Foundation's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition.

Campus housing and related income – Revenues are derived primarily from student rentals and are recognized as income in the month earned.

Federal income taxes – The Foundation is a non-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation files IRS Form 990 which is open for IRS examination for three years after the filing due date.

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies – (Continued)

Functional allocation of expenses – The costs of providing various programs and other activities has been summarized on the functional basis in the accompanying statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. FASB ASC 958 identifies certain criteria related to the purpose, audience, and content of a Foundation’s activities. If the criteria are met, costs of an activity should be allocated between program, fundraising, and management and general functions. If the criteria are not met, all costs of an activity should be reported as fundraising costs, including costs that might otherwise be considered program costs or management and general costs had they been incurred in a different activity. The method of allocation applied to expenses is as follows:

Square-footage: depreciation, and utilities and telephone

Time and effort: wages and benefits, professional services

Estimates of usage: supplies, program assistance in-kind, other

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. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting pronouncement – In August of 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *“Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.”* The amendments provided by this update address 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 ASU is effective for fiscal years beginning after December 15, 2017 and was applied retrospectively to all periods presented.

Reclassifications – Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s financial statement presentation.

Subsequent events – In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 15, 2019, the date that the financial statements were available to be issued.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year at June 30, 2019, consist of the following:

Cash and cash equivalents	\$ 1,107,578
Pledges receivable	105,029
Advances due from Skagit Valley College	76,907
Investments	14,888,424
Less amounts not available for general expenditure	
Pledges receivable collectible in greater than one year	(12,065)
Donor-restricted	(13,454,522)
Board designated	(3,184,608)
Add-back: Board approved reserve spending in 2019	<u>389,500</u>
	<u>\$ (83,757)</u>

The Foundation maintains endowments that are both donor-restricted and board-designated. Income derived from donor-restricted endowments are not available for general expenditure until appropriated by the Board.

The Foundation maintains board-designated endowments for purposes of student scholarships and faculty excellence/teacher scholar awards with corpus totaling \$895,817 at June 30, 2019. The corpus of these endowments may not be drawn upon without the advice of the College President and consent of the Foundation's Board. In addition, other board-designated endowments, with corpus totaling \$88,991, may be held as an operating reserve. These operating reserve endowments may be drawn upon, if necessary, to meet unexpected liquidity needs. The remaining balance of the board-designated endowments represents accumulated earnings, which have not been appropriated by the Board as of June 30, 2019.

The endowments are subject to an annual spending rate, as described in Note 10. The Board approved a spending rate of 3.5%, which equals \$389,500, for the year-ending June 30, 2020.

The Foundation designates a portion of net assets without donor restrictions to reserves to be used for Campus View Village, Booster Club and various programs. The balance of these four reserves totals \$1,405,111 at June 30, 2019. However, the board-designated amounts could be made available for general expenditure if necessary.

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 3 – Pledges Receivable

Pledges receivable are due according to the following schedule:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 92,964	\$ 93,459
Receivable in one to five years	<u>12,065</u>	<u>73,962</u>
Total pledges receivable	<u>\$ 105,029</u>	<u>\$ 167,421</u>

The Foundation has elected not to record a discount on the long-term pledges receivable as the amount has been determined to be immaterial to these financial statements. In addition, any pledges that are conditional upon a future event occurring have not been recognized in these financial statements.

Note 4 – Investments

Investments are accounted for based on program and activity and include the following:

- **Endowment** – Certain investments are pooled in the Foundation’s endowment investment pool. Externally managed funds are invested primarily with TIAA-CREF and Baird. Pooled investments include a mix of fixed income securities and domestic and international equity securities and may at times also include alternative investments, which may be used to diversify the pool and manage investment risk. The Foundation’s spending allocation is designed to provide a stream of earnings to meet annual cash requirements in an environment of inflation and market fluctuation.
- **Student housing and other** – Investments in these programs are maintained in certificates of deposit and money market accounts at various banks.
- **Life income annuity** – All annuity and life income funds are invested with Putnam Investments. As the Foundation’s agent, Putnam Investments is responsible for the investment and administration of these funds. Assets are invested in individual and grouped accounts as needed to match the investment objective to annuitant requirements. This account consists of equity securities and various fixed income securities. In November 2018, all assets were transferred to the Foundation as described in Note 7.

The Endowment and Life Income Annuity funds include various investments which may be pooled for portfolio management purposes. Ownership interests in pooled investments are allocated equitably based on units assigned to the participant. Individual endowments included in pooled investments receive allocated revenue and gains and losses based on their fractional share of the Foundation’s total pooled investments.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 4 – Investments – (Continued)

Investments are held for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Endowment	\$ 14,437,803	\$ 13,960,467
Student housing:		
Debt service reserve	172,492	171,646
Debt service	111,780	105,818
Replacement reserve	50,181	32,982
Life income annuity	-	60,086
Other	<u>116,168</u>	<u>274,818</u>
	<u>\$ 14,888,424</u>	<u>\$ 14,605,817</u>

Note 5 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in methodologies used during the years ended June 30, 2019 and 2018.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 5 – Fair Value Measurements – (Continued)

Investments at fair value consist of the following as of June 30:

	2019			
	Level 1	Level 2	Level 3	Total
Mutal funds	\$ 6,513,131	\$ -	\$ -	\$ 6,513,131
Bonds & fixed income	5,204,513	-	-	5,204,513
Money market	1,147,078	-	-	1,147,078
Certificates of Deposit	703,571	-	-	703,571
Stock				
Common stock	1,088,811	-	-	1,088,811
Preferred stock	231,320	-	-	231,320
Total	<u>\$ 14,888,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,888,424</u>
	2018			
	Level 1	Level 2	Level 3	Total
Mutal funds	\$ 9,765,706	\$ -	\$ -	\$ 9,765,706
Bonds & fixed income	2,388,611	-	-	2,388,611
Money market	557,345	-	-	557,345
Certificates of Deposit	627,358	-	-	627,358
Stock				
Common stock	1,039,693	-	-	1,039,693
Preferred stock	227,104	-	-	227,104
Total	<u>\$ 14,605,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,605,817</u>

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Foundation evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended June 30, 2019 and 2018, there were no significant transfers in or out of Levels 3.

Note 6 – Property and Equipment

Property and equipment consists primarily of Campus View Village, a student housing complex providing housing for students enrolled at Skagit Valley College.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 6 – Property and Equipment – (Continued)

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Campus View Village:		
Buildings	\$ 1,984,120	\$ 1,984,120
Improvements	622,515	633,606
Furnishings and equipment	245,488	253,795
Total Campus View Village	<u>2,852,123</u>	<u>2,871,521</u>
Operating furnishings and equipment	32,003	24,603
Total property and equipment, at cost	<u>2,884,126</u>	<u>2,896,124</u>
Less accumulated depreciation	<u>(1,936,928)</u>	<u>(1,866,871)</u>
Net book value of depreciable assets	947,198	1,029,253
Land	608,266	608,266
	<u>\$ 1,555,464</u>	<u>\$ 1,637,519</u>

Depreciation expense totaled \$85,566 and \$85,801 for the years ended June 30, 2019 and 2018, respectively.

Note 7 – Life Income Annuities

One individual established a charitable remainder unitrust with the Foundation in 1993. Under the terms of the trust document, the trust shall terminate upon the death of the donor and the spouse of the donor and the trust assets shall be irrevocably transferred to the Foundation. Provisions of the trust document include annuity payments at seven percent of principal at January 1, payable in quarterly installments. Trust assets related to this unitrust are included in investments. Based on national life expectancy tables and the age of the donor and the spouse of the donor, the estimated present value of future payments totaled approximately \$55,500 at June 30, 2018. The donor passed away in December 2016. The trust was transferred to the Foundation upon the death of the spouse of the donor in November 2018.

Note 8 – Long-Term Debt

Long-term debt consists of Student Housing Revenue and Refunding Bonds originally issued in 1998 and refinanced in December 2012. The refinanced amount totaled \$1,640,000 with annual principal payments due each November 1st. Payments increase by \$5,000 annually beginning in 2016. Coupon rates start at 1.25% and increase to 4.10%.

Long-term debt for bonds payable consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
1998 Student Housing Revenue and Refunding Bonds	\$ 830,000	\$ 975,000
Less amortized bond discount	<u>(10,756)</u>	<u>(12,908)</u>
	<u>\$ 819,244</u>	<u>\$ 962,092</u>

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 8 – Long-Term Debt – (Continued)

Aggregate future annual principal payments on long-term debt for bonds payable for the years ending June 30 are as follows:

2020	\$ 155,000
2021	160,000
2022	165,000
2023	170,000
2024	180,000
	<u>\$ 830,000</u>

The bond discount amortized each year is equal to the difference between the interest expense based on market interest rates and the carrying amount of the bond and the interest payable based on the stated coupon rate and face value. The bond discount is amortized into interest expense. Straight-line amortization approximates the effective interest method of amortization of bond discount. The bond discount amortization totaled \$2,152 and \$2,151 for the years ended June 30, 2019 and 2018, respectively. Future amortization of the bond discount is expected to total \$2,152 annually until the bond discount is fully amortized in 2024.

The bonds are collateralized by a deed of trust on student housing real property, and by net revenues and unrestricted donations of the Foundation. Housing rents, revenues, profits, and any proceeds are also pledged for the repayment of the bonds. The Foundation is required to maintain student housing rental rates at levels sufficient to generate net revenue equal to at least 125% of annual debt service on all bonds. Failure of the Foundation to maintain the rate covenant shall not constitute an event of default unless the Foundation has failed to meet the rate covenant for two consecutive fiscal years. According to the terms of a Trust Indenture, the bond Trustee maintains required accounts according to terms of the issue. The Foundation also maintains required accounts for reserves. No rebate account was required at June 30, 2019 and 2018.

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Gifts restricted for scholarships	\$ 343,364	\$ 244,285
Gifts restricted for program assistance and other student support	452,852	495,753
Unappropriated endowment earnings for scholarships and program assistance	2,138,346	2,152,241
Donor-restricted endowments corpus to be held in perpetuity	<u>10,519,960</u>	<u>10,147,121</u>
	<u>\$ 13,454,522</u>	<u>\$ 13,039,400</u>

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 10 – Endowments

The Foundation’s endowments consist of 129 individual funds at June 30, 2019, established for a variety of purposes. Of these total individual funds, 119 are donor restricted and 10 are board-designated.

Interpretation of relevant law – The State of Washington has passed a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Governors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift at the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions a) the original value of the gifts donated to the donor-restricted endowment plus b) the original value of subsequent gifts to the donor-restricted endowment. The remaining portion of the donor-restricted endowment fund that is time- or purpose-restricted is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Foundation and the donor restricted endowment fund
- General economic conditions
- Possible effects of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Foundation
- Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30 is as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ 12,658,306	\$ 12,658,306
Board-designated	1,779,497	-	1,779,497
Total endowment net assets	<u>\$ 1,779,497</u>	<u>\$ 12,658,306</u>	<u>\$ 14,437,803</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ 12,299,362	\$ 12,299,362
Board-designated	1,661,105	-	1,661,105
Total endowment net assets	<u>\$ 1,661,105</u>	<u>\$ 12,299,362</u>	<u>\$ 13,960,467</u>

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 10 – Endowments – (Continued)

Changes in endowment net assets for the years ended June 30 consist of:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,661,105	\$ 12,299,362	\$ 13,960,467
Endowment investment return	177,261	473,857	651,118
Contributions	-	345,719	345,719
Transfers	200	27,121	27,321
Appropriation for expenditure – program assistance and scholarships	(41,488)	(341,515)	(383,003)
Appropriation for expenditure – admin fee	(17,581)	(146,238)	(163,819)
Recovery of funds with deficiencies	-	-	-
Endowment net assets, end of year	<u>\$ 1,779,497</u>	<u>\$ 12,658,306</u>	<u>\$ 14,437,803</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,479,194	\$ 10,054,716	\$ 11,533,910
Endowment investment return	257,747	595,981	853,728
Contributions	-	2,132,394	2,132,394
Transfers	-	-	-
Appropriation for expenditure – program assistance and scholarships	(55,106)	(320,449)	(375,555)
Appropriation for expenditure – admin fee	(21,302)	(162,708)	(184,010)
Recovery of funds with deficiencies	572	(572)	-
Endowment net assets, end of year	<u>\$ 1,661,105</u>	<u>\$ 12,299,362</u>	<u>\$ 13,960,467</u>

Return Objectives and Risk Parameters – It is the policy of the Foundation to invest its endowments in order to support Skagit Valley College in perpetuity and to achieve inter-generational equity in the spending of endowment earnings. The Foundation has developed investment guidelines which have been designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program.

The endowment investment objective is to ensure that the future growth of the fund is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the fund. This will be accomplished through carefully planned and executed long-term investment strategy. The objective of the investment strategy is to enhance the fund’s long-term viability by maximizing the value of the fund within a prudent risk level.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Note 10 – Endowments – (Continued)

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Foundation seeks an investment return, over a full market cycle, which exceeds the amount distributed for use plus the average rate of inflation over that market cycle. The target asset allocation for endowment investments is 45-65% equity, 25-45% fixed income investments, with the balance in cash equivalents and other investments. Within these broad categories, the Foundation seeks investments that provide diversification and enhance fund returns.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Board of Governors has approved an endowment spending policy that allows for continuing support of Skagit Valley College scholarships and program assistance. The policy includes a spending rule providing for a distribution from endowed accounts. The payout rate approved was 4.5% and 4.14% for the 2018-2019 and 2017-2018 academic years, respectively. Distributions are calculated annually based on endowment principal on December 31 of each calendar year.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature for the years ended June 30, 2019 and 2018.

Note 11 – Skagit Valley College Support

Skagit Valley College (a related party) provides support to Skagit Valley College Foundation according to a cooperative agreement. Support includes salaries, wages, employee benefits, office space, telephone, and office supplies. Additionally, payroll accounting, scholarship screening, and recordkeeping are provided by College personnel. Support is recorded in the financial statements. Services and support exceeding the agreement's stated amount totaling \$118,000 for the years ended June 30, 2019 and 2018 are billed to the Foundation by the College business office. All payments from Skagit Valley College Foundation to Skagit Valley College totaled \$1,098,480 and \$1,239,589 for the years ended June 30, 2019 and 2018, respectively. Advances to/from the College are separately broken-out in the statement of financial position.

In addition to the non-cash support contributed by the College to the Foundation, the College also occasionally makes contributions to the Foundation. Contributions from the College recognized in the statement of activities totaled \$118 for the year ended June 30, 2018. No contributions were made during the year ended June 30, 2019.

Note 12 – Leases

The Foundation leases Campus View Village student housing to Skagit Valley College under terms of a written lease agreement through November 2023. Lease payments are variable and are computed based on student rents. Skagit Valley College provides housing for enrolled students through the leased facilities.

Notes to Financial Statements

June 30, 2019 and 2018

Note 13 – Commitment

During the year ended June 30, 2019, the Foundation's Board of Governors approved \$389,500 in scholarships from its endowments and other restricted funds to be used by recipients for the upcoming year ending June 30, 2020.

Note 14 – Sidney S. McIntyre, Jr. Memorial Scholarships

A special bequest of \$2,900,000 by Sidney S. McIntyre, Jr. provides additional financial resources for student scholarships. Terms of the bequest specifically designate Skagit Valley College students as one of several recipients for memorial scholarships. The Seattle Foundation, acting as the original recipient organization, manages and administers the invested funds, which are in addition to those reported in Skagit Valley College Foundation's endowment fund. The memorial scholarships benefit students at Skagit Valley College and include in-state tuition, room and board, books, and supplies for junior and senior year students at a Washington state college or university. Skagit Valley College Foundation acts in an advisory role with other named representatives to determine scholarship recipients.

Note 15 – Prospective Accounting Change

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be adopted using either a full retrospective or modified retrospective approach. Application is required for annual periods beginning after December 15, 2018.

The Foundation plans to adopt ASU 2014-09 effective July 1, 2019 using the modified retrospective method. Under this method, the new standard will be applied only to the most current period presented in the financial statements with the cumulative effect recognized as of the date of initial application. The Foundation continues to evaluate the impact of the new accounting guidance on its financial statements and disclosures. The Foundation's adoption of ASU 2014-09 is not anticipated to have a material impact on the results of operations or financial position; however, the Foundation's assessment is not complete.