

# **Skagit Valley College Foundation**

Financial Statements with  
Independent Auditor's Report

Years Ended June 30, 2020 and 2019

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, Washington

### 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, 2020 and 2019, 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.

**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, 2020 and 2019, 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.

**Change in Accounting Principle**

As discussed in Note 14 to the financial statements, management changed its method of accounting for revenue recognition on contracts with members due to the adoption of ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

*Larson Gross PLLC*

Burlington, Washington  
October 13, 2020

Skagit Valley College Foundation

**Statements of Financial Position**

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 1,678,860	\$ 1,107,578
Pledges receivable	33,672	105,029
Advances due from Skagit Valley College	35,777	76,907
Investments	16,004,154	14,888,424
Property and equipment, net	1,497,075	1,555,464
Other assets	<u>20,958</u>	<u>27,582</u>
<b>Total assets</b>	<u><u>\$ 19,270,496</u></u>	<u><u>\$ 17,760,984</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 45,235	\$ 28,907
Advances due to Skagit Valley College	312,642	119,826
Tenant security deposits and prepaid rent	29,001	35,891
Passthrough funds held as agent	40,389	19,291
Long-term debt, net	<u>666,395</u>	<u>819,244</u>
<b>Total liabilities</b>	1,093,662	1,023,159
<b>Net assets</b>		
Without donor restrictions		
Board designated – Endowment	2,328,987	1,680,145
Board designated – Endowment for operating reserve	99,473	99,352
Board designated – Campus View Village	1,272,209	1,159,082
Board designated – Booster Club	266,233	238,554
Board designated – SVC Cardinal Complete Program	5,000	5,000
Board designated – President's Development Fund	2,896	2,475
Undesignated	<u>(39,198)</u>	<u>98,695</u>
<b>Total net assets without donor restrictions</b>	3,935,600	3,283,303
With donor restrictions	<u>14,241,234</u>	<u>13,454,522</u>
<b>Total net assets</b>	<u><u>18,176,834</u></u>	<u><u>16,737,825</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 19,270,496</u></u>	<u><u>\$ 17,760,984</u></u>

Skagit Valley College Foundation

**Statements of Activities**

Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenue</b>						
Contributions	\$ 621,456	\$ 1,083,477	\$ 1,704,933	\$ 91,465	\$ 847,294	\$ 938,759
In-kind salaries	118,000	-	118,000	118,000	-	118,000
Investment return	169,207	432,371	601,578	185,811	473,857	659,668
Campus housing and related income	622,625	-	622,625	696,268	-	696,268
Fundraising activities, net of direct expenses of \$39,198 and \$41,746 for 2020 and 2019, respectively	174,979	-	174,979	150,230	-	150,230
Other income	109,974	-	109,974	161,532	-	161,532
Satisfaction of restrictions	729,136	(729,136)	-	906,029	(906,029)	-
<b>Total support and revenue</b>	<b>2,545,377</b>	<b>786,712</b>	<b>3,332,089</b>	<b>2,309,335</b>	<b>415,122</b>	<b>2,724,457</b>
<b>Expenses</b>						
Program services	1,567,480	-	1,567,480	1,681,557	-	1,681,557
Management and general	208,890	-	208,890	188,156	-	188,156
Fundraising activities	116,710	-	116,710	121,407	-	121,407
<b>Total expenses</b>	<b>1,893,080</b>	<b>-</b>	<b>1,893,080</b>	<b>1,991,120</b>	<b>-</b>	<b>1,991,120</b>
<b>Change in net assets</b>	<b>652,297</b>	<b>786,712</b>	<b>1,439,009</b>	<b>318,215</b>	<b>415,122</b>	<b>733,337</b>
Net assets – beginning of year	3,283,303	13,454,522	16,737,825	2,965,088	13,039,400	16,004,488
<b>Net assets – end of year</b>	<b>\$ 3,935,600</b>	<b>\$ 14,241,234</b>	<b>\$ 18,176,834</b>	<b>\$ 3,283,303</b>	<b>\$ 13,454,522</b>	<b>\$ 16,737,825</b>

Skagit Valley College Foundation

**Statement of Functional Expenses**

Year Ended June 30, 2020

	<b>Program Services</b>			<b>Supporting Services</b>		
	<b>Foundation</b>	<b>Campus View Village</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Wages and benefits	\$ 122,414	\$ 154,493	\$ 276,907	\$ 139,021	\$ 103,121	\$ 519,049
Scholarships	393,841	-	393,841	-	-	393,841
Program assistance	275,684	-	275,684	-	-	275,684
Booster Club	165,031	-	165,031	-	-	165,031
Utilities and telephone	-	120,462	120,462	8,000	-	128,462
Depreciation and amortization	-	87,584	87,584	2,397	-	89,981
Other	37,549	9,016	46,565	38,450	-	85,015
Repairs and maintenance	-	62,339	62,339	-	-	62,339
Awards and recognition	37,790	-	37,790	-	-	37,790
Insurance	-	28,631	28,631	1,950	-	30,581
Interest	-	29,793	29,793	-	-	29,793
Professional services	6,931	170	7,101	15,837	-	22,938
Supplies	-	17,011	17,011	3,235	1,525	21,771
Program assistance in-kind	18,741	-	18,741	-	-	18,741
Other fundraising	-	-	-	-	12,064	12,064
<b>Total expenses</b>	<b>\$ 1,057,981</b>	<b>\$ 509,499</b>	<b>\$ 1,567,480</b>	<b>\$ 208,890</b>	<b>\$ 116,710</b>	<b>\$ 1,893,080</b>

Skagit Valley College Foundation

**Statement of Functional Expenses**

Year Ended June 30, 2019

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



Skagit Valley College Foundation

**Statements of Cash Flows**

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 1,439,009	\$ 733,337
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation expense	85,962	85,566
Amortization of bond discount and issuance cost	4,019	4,019
Gain on life income annuity	-	(55,500)
Nonoperating items:		
Contributions restricted for long-term endowments	(428,555)	(372,839)
Net realized and unrealized gain on investments	(214,769)	(261,605)
Change in assets and liabilities:		
Pledges receivable	71,357	62,392
Other assets	4,756	10,623
Accounts payable and accrued liabilities	16,328	10,859
Tenant security deposits and prepaid rent	(6,890)	7,234
Passthrough funds held as agent	<u>21,098</u>	<u>19,291</u>
<b>Net cash provided by operating activities</b>	992,315	243,377
<b>Cash flows from investing activities</b>		
Property and equipment additions and improvements	(27,573)	(3,511)
Purchases of investments, net of proceeds from sales	<u>(900,961)</u>	<u>(21,002)</u>
<b>Net cash used by investing activities</b>	(928,534)	(24,513)
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for investment in endowments	428,555	372,839
Principal paid on long-term debt	(155,000)	(145,000)
Change in advances to/from Skagit Valley College	<u>233,946</u>	<u>(253,862)</u>
<b>Net cash provided (used) by financing activities</b>	<u>507,501</u>	<u>(26,023)</u>
Net increase in cash and cash equivalents	571,282	192,841
Cash and cash equivalents – beginning of year	<u>1,107,578</u>	<u>914,737</u>
<b>Cash and cash equivalents – end of year</b>	<u><u>\$ 1,678,860</u></u>	<u><u>\$ 1,107,578</u></u>
<b>Supplemental cash flow information</b>		
Cash paid during the year for interest	<u><u>\$ 30,853</u></u>	<u><u>\$ 37,001</u></u>

**Notes to Financial Statements**

June 30, 2020 and 2019

**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, 2020 and 2019; thus, no allowance has been established for uncollectible pledges.

Pledges receivable from two donors made up 45% and 65% of total pledges receivable at June 30, 2020 and 2019, respectively.

**Notes to Financial Statements**

June 30, 2020 and 2019

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

**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 made up 41% and 23% of total contribution revenue for the years ended June 30, 2020 and 2019, 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 rental income for campus housing along with additional services such as laundry, forfeited deposits, fees, parking, and cleaning. Performance obligations are created when a student signs a contractual agreement. The transaction price is the amount of consideration expected to be received in exchange for transferring goods or providing services identified in the contract. Revenue is recognized as performance obligations under the terms of the contract with the customer are satisfied. Generally, rental income is recognized in the month earned.

Revenue from campus housing and related income as a percentage of total support and revenue was 19% and 26% for the years ended June 30, 2020 and 2019, respectively.

When consideration is received and revenue has not yet been recognized, tenant security deposit and prepaid rent represents a contract liability until the deposit or rent is either earned by the Foundation or returned to the tenant.

**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, 2020 and 2019

**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, insurance, 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.

**Reclassification** – 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 13, 2020, the date that the financial statements were available to be issued.

**Note 2 – Liquidity and Availability**

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

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 1,678,860	\$ 1,107,578
Pledges receivable	33,672	105,029
Advances due from Skagit Valley College	35,777	76,907
Investments	16,004,154	14,888,424
Less amounts not available for general expenditure		
Pledges receivable collectible in greater than one year	(5,451)	(12,065)
Donor-restricted	(14,241,234)	(13,454,522)
Board designated	(3,974,798)	(3,184,608)
Add-back: Board approved reserve spending in 2020 and 2019, respectively	525,000	389,500
	<u>\$ 55,980</u>	<u>\$ (83,757)</u>

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2020 and 2019

**Note 2 – Liquidity and Availability – (Continued)**

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 \$828,126 and \$895,817 at June 30, 2020 and 2019, respectively, respectively. 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, 2020.

The endowments are subject to an annual spending rate, as described in Note 9. During the year ended June 30, 2020 and 2019, the board approved a spending rate of 2.75% and 3.5%, which equals \$525,000 and \$389,500, to be used for the years-ending June 30, 2021 and 2020, respectively.

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 \$1,546,338 and \$1,405,111 at June 30, 2020 and 2019, respectively. 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.

**Note 3 – Pledges Receivable**

Pledges receivable are due according to the following schedule at June 30:

	<b>2020</b>	<b>2019</b>
Receivable in less than one year	\$ 28,221	\$ 92,964
Receivable in one to five years	5,451	12,065
Total pledges receivable	<u>\$ 33,672</u>	<u>\$ 105,029</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.

**Notes to Financial Statements**

June 30, 2020 and 2019

**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 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.

The Endowment 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.

Investments are held for the following purposes at June 30:

	<b>2020</b>	<b>2019</b>
Endowment	\$ 15,513,851	\$ 14,437,803
Student housing:		
Debt service reserve	176,109	172,492
Debt service	114,511	111,780
Replacement reserve	74,354	50,181
Other	125,329	116,168
	<u>\$ 16,004,154</u>	<u>\$ 14,888,424</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.

## Notes to Financial Statements

June 30, 2020 and 2019

**Note 5 – Fair Value Measurements – (Continued)**

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, 2020 and 2019.

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

<b>2020</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutal funds	\$ 5,819,615	\$ -	\$ -	\$ 5,819,615
Bonds & fixed income	7,003,352	-	-	7,003,352
Money market	325,641	-	-	325,641
Certificates of deposit	-	727,522	-	727,522
Stock				
Common stock	1,925,094	-	-	1,925,094
Preferred stock	202,930	-	-	202,930
Total	<u>\$ 15,276,632</u>	<u>\$ 727,522</u>	<u>\$ -</u>	<u>\$ 16,004,154</u>
<b>2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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>\$ 14,184,853</u>	<u>\$ 703,571</u>	<u>\$ -</u>	<u>\$ 14,888,424</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.

**Notes to Financial Statements**

June 30, 2020 and 2019

**Note 5 – Fair Value Measurements – (Continued)**

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, 2020 and 2019, 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.

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Campus View Village:		
Buildings	\$ 1,984,120	\$ 1,984,120
Improvements	641,369	622,515
Furnishings and equipment	254,207	245,488
Total Campus View Village	<u>2,879,696</u>	<u>2,852,123</u>
Operating furnishings and equipment	32,003	32,003
Total property and equipment, at cost	<u>2,911,699</u>	<u>2,884,126</u>
Less accumulated depreciation	<u>(2,022,890)</u>	<u>(1,936,928)</u>
Net book value of depreciable assets	888,809	947,198
Land	608,266	608,266
	<u>\$ 1,497,075</u>	<u>\$ 1,555,464</u>

Depreciation expense totaled \$85,962 and \$85,566 for the years ended June 30, 2020 and 2019, respectively.

**Note 7 – 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>2020</u>	<u>2019</u>
1998 Student Housing Revenue and Refunding Bonds	\$ 675,000	\$ 830,000
Less amortized bond discount	(8,605)	(10,756)
	<u>\$ 666,395</u>	<u>\$ 819,244</u>



**Notes to Financial Statements**

June 30, 2020 and 2019

**Note 7 – Long-Term Debt – (Continued)**

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

2021	\$	160,000
2022		165,000
2023		170,000
2024		180,000
	\$	<u>675,000</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 \$2,151 and \$2,152 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

**Note 8 – Net Assets with Donor Restrictions**

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

	<b>2020</b>	<b>2019</b>
Gifts restricted for scholarships	\$ 376,107	\$ 343,364
Gifts restricted for program assistance and other student support	779,736	452,852
Unappropriated endowment earnings for scholarships and program assistance	2,136,876	2,138,346
Donor-restricted endowments corpus to be held in perpetuity	10,948,515	10,519,960
	<u>\$ 14,241,234</u>	<u>\$ 13,454,522</u>

## Notes to Financial Statements

June 30, 2020 and 2019

**Note 9 – Endowments**

The Foundation's endowments consist of 133 individual funds at June 30, 2020, established for a variety of purposes. Of these total individual funds, 122 are donor restricted and 11 are board-designated with corpus totaling \$10,945,404 and \$1,535,058, respectively.

**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:

<b>2020</b>			
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted	\$ -	\$ 13,085,391	\$ 13,085,391
Board-designated	2,428,460	-	2,428,460
Total endowment net assets	<u>\$ 2,428,460</u>	<u>\$ 13,085,391</u>	<u>\$ 15,513,851</u>

  

<b>2019</b>			
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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>

**Notes to Financial Statements**

June 30, 2020 and 2019

**Note 9 – Endowments – (Continued)**

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

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,779,497	\$ 12,658,306	\$ 14,437,803
Endowment investment return	160,636	431,332	591,968
Contributions	-	407,289	407,289
Transfers	550,250	21,266	571,516
Appropriation for expenditure – program assistance and scholarships	(42,233)	(231,577)	(273,810)
Appropriation for expenditure – admin fee	(19,690)	(201,225)	(220,915)
Endowment net assets, end of year	<u>\$ 2,428,460</u>	<u>\$ 13,085,391</u>	<u>\$ 15,513,851</u>
	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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)
Endowment net assets, end of year	<u>\$ 1,779,497</u>	<u>\$ 12,658,306</u>	<u>\$ 14,437,803</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.

**Notes to Financial Statements**

June 30, 2020 and 2019

**Note 9 – 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 3.5% and 4.5% for the 2019-2020 and 2018-2019 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 (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies of this nature for the year ended June 30, 2020.

**Note 10 – 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, 2020 and 2019 are billed to the Foundation by the College business office. All payments from Skagit Valley College Foundation to Skagit Valley College totaled \$887,459 and \$1,098,480 for the years ended June 30, 2020 and 2019, respectively. Advances to/from the College are separately broken-out in the statement of financial position.

In addition, the Foundation received contributions from employees totaling \$24,812 and \$11,100 during the years ended June 30, 2020 and 2019, respectively.

**Note 11 – 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, 2020 and 2019

**Note 12 – Commitment**

During the year ended June 30, 2020, the Foundation's Board of Governors approved \$525,000 in scholarships from its endowments and other restricted funds to be used by recipients for the upcoming year ending June 30, 2021.

**Note 13 – 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 14 – Impact of Accounting Method Change**

FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in ASC. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Foundation adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified retrospective method of transition. The Foundation did not recognize any adjustments in revenue, net assets, or any other financial statement line item as a result of adopting ASC 606 using the modified retrospective method.

**Note 15 – Risks and Uncertainties**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, it is reasonably possible that the Foundation is vulnerable to the risk of a near-term severe impact.