Skagit Valley College Foundation

Financial Statements with
Independent Auditor's Report

Years Ended June 30, 2022 and 2021

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Skagit Valley College Foundation

Contents

Independent Auditor's Report

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

Opinion
I have audited the accompanying financial statements of Skagit Valley College Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In my 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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Skagit Valley College Foundation and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Matter
The June 30, 2021 financial statements of Skagit Valley College Foundation were audited by other auditors, whose report dated October 25, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Skagit Valley College Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Skagit Valley College Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Skagit Valley College Foundation's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Bellingham, Washington
October 19, 2022

Skagit Valley College Foundation

Statements of Financial Position

June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 1,701,998	$ 1,590,425
Pledges receivable	4,343	11,085
Advances due from Skagit Valley College	429,252	95,875
Investments	16,311,802	19,533,910
Property and equipment, net	3,029,098	1,499,050
Other assets	33,688	34,055
Total assets	$ 21,510,181	$ 22,764,400
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 123,747	$ 18,394
Advances due to Skagit Valley College	354,763	243,782
Tenant security deposits and prepaid rent	36,560	33,076
Passthrough funds held as agent	26,992	46,444
Long-term debt, net	345,697	508,546
Total liabilities	887,759	850,242
Net assets		
Without donor restrictions		
Board designated – Endowments	2,069,545	3,237,717
Board designated – Endowments for operating reserve	93,577	119,942
Board designated – Campus View Village	1,434,586	1,398,542
Board designated – Booster Club	324,335	232,843
Board designated – SVC Cardinal Complete Program	-	5,000
Board designated – President's Development Fund	-	6,960
Undesignated	1,930,937	290,733
Total net assets without donor restrictions	5,852,980	5,291,737
With donor restrictions	14,769,442	16,622,421
Total net assets	20,622,422	21,914,158
Total liabilities and net assets	$ 21,510,181	$ 22,764,400

Skagit Valley College Foundation

Statements of Activities

Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions	$ 108,495	$ 2,749,522	$ 2,858,017	$ 799,797	$ 1,061,505	$ 1,861,302
In-kind salaries and capital improvements from College	167,000	-	167,000	187,552	-	187,552
Net investment return (loss)	(1,077,790)	(1,735,432)	(2,813,222)	970,932	2,323,643	3,294,575
Campus housing and related income	660,324	-	660,324	598,820	-	598,820
Fundraising activities, net of direct expenses of $70,485 and $7,939 for 2022 and 2021, respectively	76,519	-	76,519	121,524	-	121,524
Other income	99,390	-	99,390	42,472	-	42,472
Satisfaction of restrictions	2,867,069	(2,867,069)	-	1,003,961	(1,003,961)	-
Total support and revenue	2,901,007	(1,852,979)	1,048,028	3,725,058	2,381,187	6,106,245
Expenses						
Program services	1,993,551	-	1,993,551	2,088,810	-	2,088,810
Management and general	220,766	-	220,766	184,045	-	184,045
Fundraising activities	125,447	-	125,447	96,066	-	96,066
Total expenses	2,339,764	-	2,339,764	2,368,921	-	2,368,921
Changes in net assets	561,243	(1,852,979)	(1,291,736)	1,356,137	2,381,187	3,737,324
Net assets – beginning of year	5,291,737	16,622,421	21,914,158	3,935,600	14,241,234	18,176,834
Net assets – end of year	$ 5,852,980	$ 14,769,442	$ 20,622,422	$ 5,291,737	$ 16,622,421	$ 21,914,158

Skagit Valley College Foundation

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services			Supporting Services		
	Foundation	**Campus View Village**	**Total Program Services**	**Management and General**	**Fundraising**	**Total**
Scholarships	$ 648,604	$ -	$ 648,604	$ -	$ -	$ 648,604
Wages and benefits	121,357	151,466	272,823	140,886	99,998	513,707
Program assistance	445,803	-	445,803	-	-	445,803
Utilities and telephone	-	131,055	131,055	18,000	-	149,055
Booster Club	113,618	-	113,618	-	-	113,618
Depreciation and amortization	-	94,087	94,087	2,334	-	96,421
Program assistance in-kind	87,691	-	87,691	-	-	87,691
Other	12,261	2,821	15,082	33,358	16,302	64,742
Professional services	20,590	6,849	27,439	21,393	1,500	50,332
Awards and recognition	46,176	-	46,176	-	-	46,176
Repairs and maintenance	-	40,111	40,111	-	-	40,111
Insurance	-	33,388	33,388	1,787	-	35,175
Supplies	2,190	16,914	19,104	2,766	252	22,122
Interest	-	16,605	16,605	-	-	16,605
Other fundraising	1,965	-	1,965	242	7,395	9,602
Total expenses	$ 1,500,255	$ 493,296	$ 1,993,551	$ 220,766	$ 125,447	$ 2,339,764

Skagit Valley College Foundation

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services			Supporting Services		
	Foundation	**Campus View Village**	**Total Program Services**	**Management and General**	**Fundraising**	**Total**
Scholarships	$ 387,687	$ -	$ 387,687	$ -	$ -	$ 387,687
Wages and benefits	130,130	151,922	282,052	141,753	91,512	515,317
Program assistance	818,960	-	818,960	-	-	818,960
Utilities and telephone	-	117,368	117,368	18,000	-	135,368
Booster Club	42,817	-	42,817	-	-	42,817
Depreciation and amortization	-	91,182	91,182	2,155	-	93,337
Program assistance in-kind	30,605	-	30,605	-	-	30,605
Other	48,463	621	49,084	-	2,682	51,766
Professional services	114,869	-	114,869	17,262	-	132,131
Awards and recognition	38,956	-	38,956	-	-	38,956
Repairs and maintenance	500	42,762	43,262	-	-	43,262
Insurance	-	30,049	30,049	2,113	-	32,162
Supplies	-	15,280	15,280	2,762	-	18,042
Interest	-	23,302	23,302	-	-	23,302
Other fundraising	3,337	-	3,337	-	1,872	5,209
Total expenses	$ 1,616,324	$ 472,486	$ 2,088,810	$ 184,045	$ 96,066	$ 2,368,921

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

Skagit Valley College Foundation

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Changes in net assets	$ (1,291,736)	$ 3,737,324
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	92,403	89,319
Amortization of bond discount and issuance cost	4,018	4,018
Contributions restricted for long-term endowments	(601,090)	(823,855)
Net realized and unrealized loss (gain) on investments	3,628,448	(2,841,831)
Contributions restricted for capital projects	(1,494,984)	-
Change in assets and liabilities:		
Pledges receivable	6,742	22,587
Other assets	(1,500)	(14,964)
Accounts payable and accrued liabilities	24,555	(26,841)
Tenant security deposits and prepaid rent	3,484	4,075
Passthrough funds held as agent	(19,452)	6,055
Net cash provided by operating activities	350,888	155,887
Cash flows from investing activities		
Property and equipment additions and improvements	(1,541,653)	(91,294)
Purchases of investments, net of proceeds from sales	(406,340)	(687,925)
Net cash used by investing activities	(1,947,993)	(779,219)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowments	601,090	823,855
Proceeds from contributions restricted for capital projects	1,494,984	-
Principal paid on long-term debt	(165,000)	(160,000)
Change in advances to/from Skagit Valley College	(222,396)	(128,958)
Net cash provided by financing activities	1,708,678	534,897
Net increase (decrease) in cash and cash equivalents	111,573	(88,435)
Cash and cash equivalents – beginning of year	1,590,425	1,678,860
Cash and cash equivalents – end of year	$ 1,701,998	$ 1,590,425
Supplemental cash flow information		
Cash paid during the year for interest	$ 17,733	$ 24,395
Non-cash investing and financing activities		
Property additions included in accounts payable	$ 80,798	$ -

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Skagit Valley College Foundation (the Foundation) located in Mount Vernon, WA, is a Washington State nonprofit corporation formed in 1978. The Foundation was formed to solicit and receive contributions to provide enhancements at Skagit Valley College (the 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 in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting. Accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

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* – Net assets that are not subject to donor-imposed restrictions and over which the Board of Governors has discretionary control.
>
> *Net assets with donor restrictions* – Net assets 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.

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.

Cash and cash equivalents – The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. 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, 2022 and 2021; thus, no allowance has been established for uncollectible pledges. In addition, all pledges receivable are collectible within one year.

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 ranges from three 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 one donor made up 39% and 20% of total support and revenue, excluding net investment return (loss), for the years ended June 30, 2022 and 2021, 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, excluding net investment return (loss), was 17% and 21% for the years ended June 30, 2022 and 2021, respectively.

When consideration is received and revenue has not yet been recognized, tenant security deposits 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 nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax on income derived from activities related to its tax-exempt purposes. Accordingly, no provision for income tax is necessary.

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 statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classifications. Expenses that are not directly associated with a program are allocated 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 accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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 presentation.

Subsequent events – In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 19, 2022, 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:

	2022	2021
Cash and cash equivalents	$ 1,701,998	$ 1,590,425
Pledges receivable	4,343	11,085
Advances due from Skagit Valley College	429,252	95,875
Investments	16,311,802	19,533,910
Less amounts not available for general expenditure within one year		
Pledges receivable collectible in greater that one year	-	(2,500)
Donor-restricted	(14,769,442)	(16,622,421)
Board designated	(3,922,043)	(5,001,004)
Add-back: Board approved reserve spending for upcoming year	861,731	873,119
	$ 617,641	$ 478,489

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, program assistance, and faculty excellence/teacher scholar awards with corpus totaling $1,476,927 at both June 30, 2022 and 2021. 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 at both June 30, 2022 and 2021, 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 yet been appropriated by the Board.

The endowments are subject to an annual spending rate, as described in Note 8. During the years ended June 30, 2022 and 2021, the board approved spending rates of 4.5% and 5%, which equals $861,731 and $873,119, to be used for the upcoming years ending June 30, 2023 and 2022, respectively.

The Foundation designates a portion of net assets without donor restrictions to reserves to be used for Campus View Village, Booster Club, SVC Cardinal Complete Program, and President's Development Fund. The balance of these four reserves totals $1,758,921 and $1,643,345 at June 30, 2022 and 2021, respectively. However, the board-designated amounts could be made available for general expenditure if necessary.

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

Note 3 – 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 (see Note 4). 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.

Note 3 – Investments – (Continued)

Investments are held for the following purposes at June 30:

	2022	2021
Endowment	$ 15,896,177	$ 19,089,237
Student housing:		
Debt service reserve	176,887	176,624
Debt service	119,120	116,854
Replacement reserve	74,425	74,403
Other	45,193	76,792
	$ 16,311,802	$ 19,533,910

Note 4 – 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 that the Foundation has the ability to access.

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 and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques 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, 2022 and 2021.

Note 4 – Fair Value Measurements – (Continued)

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

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutal funds	$ 6,799,103	$ -	$ -	$ 6,799,103
Bonds & fixed income	6,483,751	-	-	6,483,751
Money market	299,325	-	-	299,325
Certificates of deposit	-	440,909	-	440,909
Stock				
Common stock	2,109,684	-	-	2,109,684
Preferred stock	179,030	-	-	179,030
Total	$ 15,870,893	$ 440,909	$ -	$ 16,311,802

	Level 1	**Level 2**	**Level 3**	**Total**
Mutal funds	$ 7,974,232	$ -	$ -	$ 7,974,232
Bonds & fixed income	6,860,455	-	-	6,860,455
Money market	862,883	-	-	862,883
Certificates of deposit	-	554,545	-	554,545
Cash equivalents	411,173	-	-	411,173
Stock				
Common stock	2,688,272	-	-	2,688,272
Preferred stock	182,350	-	-	182,350
Total	$ 18,979,365	$ 554,545	$ -	$ 19,533,910

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.

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, 2022 and 2021, there were no significant transfers in or out of Level 3.

Note 5 – Property and Equipment

Property and equipment consists of the following at June 30:

	2022	2021
Campus View Village:		
Buildings	$ 1,984,120	$ 1,984,120
Improvements	618,586	654,270
Furnishings and equipment	42,480	258,006
Total Campus View Village	2,645,186	2,896,396
Operating furnishings and equipment	14,710	32,003
Pickleball court held for benefit of the College	1,627,224	68,154
Total property and equipment, at cost	4,287,120	2,996,553
Less accumulated depreciation	(1,866,288)	(2,105,769)
Net book value of depreciable assets	2,420,832	890,784
Land	608,266	608,266
	$ 3,029,098	$ 1,499,050

Campus View Village is a student housing complex providing housing for students enrolled at the College. Depreciation expense totaled $92,403 and $89,319 for the years ended June 30, 2022 and 2021, respectively.

The Foundation constructed a Pickleball Pavilion on College grounds (see Note 10) during the year ended June 30, 2022. The Pickleball Pavilion had its grand opening on June 30, 2022, and is considered placed-in-service as of year-end, though no depreciation has been recognized to date. The Pickleball Pavilion is held for the benefit of the College with the ownership of the asset set to transfer to the College at the end of the ground lease term.

Note 6 – 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:

	2022	2021
1998 Student Housing Revenue and Refunding Bonds	$ 350,000	$ 515,000
Less amortized bond discount	(4,303)	(6,454)
	$ 345,697	$ 508,546

Note 6 – 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:

2023	$ 170,000
2024	180,000
	$ 350,000

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 for both the years ended June 30, 2022 and 2021. Future amortization of the bond discount is expected to total $2,151 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, 2022 and 2021.

Note 7 – Net Assets with Donor Restrictions

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

	2022	2021
Gifts restricted for scholarships	$ 532,118	$ 467,576
Gifts restricted for program assistance and other student support	504,269	423,267
Unappropriated endowment earnings for scholarships and program assistance	1,359,595	3,959,208
Donor-restricted endowments corpus to be held in perpetuity	12,373,460	11,772,370
	$ 14,769,442	$ 16,622,421

Note 8 – Endowments

The Foundation’s endowments consist of 141 individual funds at June 30, 2022, established for a variety of purposes. Of these total individual funds, 130 are donor restricted and 11 are board-designated with corpus totaling $12,373,460 and $1,565,918, respectively.

Note 8 – Endowments – (Continued)

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 funds 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:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	$ -	$ 13,733,055	$ 13,733,055
Board-designated	2,163,122	-	2,163,122
Total endowment net assets	$ 2,163,122	$ 13,733,055	$ 15,896,177

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	$ -	$ 15,731,578	$ 15,731,578
Board-designated	3,357,659	-	3,357,659
Total endowment net assets	$ 3,357,659	$ 15,731,578	$ 19,089,237

Note 8 – Endowments – (Continued)

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 3,357,659	$ 15,731,578	$ 19,089,237
Endowment investment return (loss)	(1,078,621)	(1,735,432)	(2,814,053)
Contributions	-	586,018	586,018
Transfers	(32,673)	(57,552)	(90,225)
Appropriation for expenditure – program assistance and scholarships	(50,630)	(538,999)	(589,629)
Appropriation for expenditure – admin fee	(32,613)	(252,558)	(285,171)
Endowment net assets, end of year	$ 2,163,122	$ 13,733,055	$ 15,896,177

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 2,428,460	$ 13,085,391	$ 15,513,851
Endowment investment return	968,918	2,323,643	3,292,561
Contributions	30,860	238,577	269,437
Transfers	(207)	585,278	585,071
Appropriation for expenditure – program assistance and scholarships	(39,349)	(272,152)	- (311,501)
Appropriation for expenditure – admin fee	(31,023)	(229,159)	(260,182)
Endowment net assets, end of year	$ 3,357,659	$ 15,731,578	$ 19,089,237

Return Objectives and Risk Parameters – It is the policy of the Foundation to invest its endowments in order to support the 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.

Note 8 – 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 the College's scholarships and program assistance. The policy includes a spending rule providing for a distribution from endowed accounts. The approved payout rate was 5% and 2.75% for the 2021-2022 and 2020-2021 academic years, respectively. Distributions are calculated annually based on endowment principal on December 31 of each immediately preceding 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 Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, 38 individual funds with original gift values totaling $2,854,800, fair values totaling $2,667,632, and deficiencies totaling $187,168 were reported in net assets with donor restrictions. There were no deficiencies of this nature for the year ended June 30, 2021.

Note 9 – 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. Other discretionary expenditures may be included on a case-by-case basis and included needed Campus View Village capital improvements during the year ended June 30, 2022. Support is recognized in these financial statements. Services and support exceeding the agreement's stated amount, totaling $167,000 and $187,552 for the years ended June 30, 2022 and 2021, respectively, are billed to the Foundation by the College business office. All payments from the Foundation to the College totaled $1,603,333 and $1,682,265 for the years ended June 30, 2022 and 2021, respectively. All payments from the College to the Foundation totaled $731,768 and $771,642 for the years ended June 30, 2022 and 2021, respectively. Advances to/from the College are separately broken-out in the statements of financial position.

Note 10 – Leases

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

Note 10 – Leases – (Continued)

In August 2021, the Foundation (lessee) entered into an unconditional five-year lease agreement with the College (lessor) for the pickleball grounds (see Note 5) with the option to extend for two successive periods of five years each. The lease agreement stipulates that the lessee shall pay the lessor $1 annually for use of the grounds. The lease agreement also stipulates that at the end of the lease term, all pickleball related assets held by the lessee will transfer ownership to the lessor for no additional consideration due. In accordance with GAAP, leases between related parties shall be classified and accounted for as though the parties are unrelated, except in cases where it is certain that the terms and conditions of the agreement have been influenced significantly by the fact that the lessor and lessee are related. When this is the case, the classification and/or accounting shall be modified to reflect the true economic substance of the transaction rather than the legal form. The Foundation entered into this lease and holds the pickleball related assets for the benefit of the College and does not itself derive direct benefit from these assets or below-market lease. As such, the Foundation has not recognized in-kind contribution revenue, rent expense, and long-term non-cash rent receivable related to this lease.

Note 11 – Commitment

During the year ended June 30, 2022, the Foundation's Board of Governors approved $861,731 spending for scholarships and program assistance from its endowments and other restricted funds to be used by recipients for the upcoming year ending June 30, 2023.

Note 12 – 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 the Foundation’s endowment funds. The memorial scholarships benefit students at the 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. The Foundation acts in an advisory role with other named representatives to determine scholarship recipients.

Note 13 – Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance, as amended by subsequent ASU’s on the topic, requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, are required. Application is required for annual periods beginning after December 15, 2021. The Foundation expects to adopt this standard on July 1, 2022. While the Foundation is still evaluating impact of the new accounting guidance on its financial statements, based on management’s preliminary assessment, the Foundation will record assets and liabilities for the Campus View Village long-term operating lease currently included in Note 10.