

Skagit Valley College Foundation

Financial Statements with
Independent Auditor's Report

Years Ended June 30, 2023 and 2022



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

Opinion

I have audited the accompanying financial statements of Skagit Valley College Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities, functional expenses, and cash flows for the years 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, 2023 and 2022, 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.

Basis for Opinion

I conducted my audits 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 audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 audits, significant audit findings, and certain internal control related matters that I identified during the audits.



Bellingham, Washington
November 15, 2023

Skagit Valley College Foundation

Statements of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 2,088,600	\$ 1,701,998
Advances due from Skagit Valley College	219,860	429,252
Pledges receivable and other current assets	36,985	29,712
Investments	20,091,725	16,311,802
Property and equipment, net	2,991,429	3,029,098
Other assets	<u>6,451</u>	<u>8,319</u>
Total assets	<u>\$ 25,435,050</u>	<u>\$ 21,510,181</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 10,788	\$ 105,997
Advances due to Skagit Valley College	255,890	354,763
Deferred sponsorship support	57,359	17,750
Tenant security deposits and prepaid rent	37,019	36,560
Passthrough funds held as agent	19,893	26,992
Long-term debt, net	<u>177,849</u>	<u>345,697</u>
Total liabilities	558,798	887,759
Net assets		
Without donor restrictions		
Board designated – Endowments	1,622,266	1,617,114
Board designated – Endowments for operating reserve	92,477	93,577
Board designated – Campus View Village	1,605,991	1,434,586
Board designated – Booster Club	459,717	324,335
Undesignated	<u>1,930,005</u>	<u>1,930,937</u>
Total net assets without donor restrictions	5,710,456	5,400,549
With donor restrictions	<u>19,165,796</u>	<u>15,221,873</u>
Total net assets	<u>24,876,252</u>	<u>20,622,422</u>
Total liabilities and net assets	<u>\$ 25,435,050</u>	<u>\$ 21,510,181</u>

Skagit Valley College Foundation

Statements of Activities

Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions	\$ 9,647	\$ 4,265,340	\$ 4,274,987	\$ 20,804	\$ 2,749,522	\$ 2,770,326
Net investment return (loss)	113,594	1,048,776	1,162,370	(308,806)	(2,504,416)	(2,813,222)
Campus housing and related income	770,421	-	770,421	660,324	-	660,324
In-kind contributions	174,649	-	174,649	254,691	-	254,691
Fundraising activities, net of direct expenses of \$76,599 and \$70,485 for 2023 and 2022, respectively	145,105	-	145,105	76,519	-	76,519
Other income	145,553	-	145,553	99,390	-	99,390
Satisfaction of restrictions	1,370,193	(1,370,193)	-	2,867,069	(2,867,069)	-
Total support and revenue	2,729,162	3,943,923	6,673,085	3,669,991	(2,621,963)	1,048,028
Expenses						
Program services	2,074,151	-	2,074,151	1,993,551	-	1,993,551
Management and general	247,850	-	247,850	220,766	-	220,766
Fundraising activities	97,254	-	97,254	125,447	-	125,447
Total expenses	2,419,255	-	2,419,255	2,339,764	-	2,339,764
Changes in net assets	309,907	3,943,923	4,253,830	1,330,227	(2,621,963)	(1,291,736)
Net assets – beginning of year	5,400,549	15,221,873	20,622,422	4,070,322	17,843,836	21,914,158
Net assets – end of year	<u>\$ 5,710,456</u>	<u>\$ 19,165,796</u>	<u>\$ 24,876,252</u>	<u>\$ 5,400,549</u>	<u>\$ 15,221,873</u>	<u>\$ 20,622,422</u>

Skagit Valley College Foundation

Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services			Supporting Services		
	Foundation	Campus View Village	Total Program Services	Management and General	Fundraising	Total
Scholarships	\$ 803,582	\$ -	\$ 803,582	\$ -	\$ -	\$ 803,582
Wages and benefits	136,218	193,235	329,453	159,407	84,572	573,432
Program assistance	300,523	-	300,523	-	-	300,523
Utilities and telephone	-	148,241	148,241	18,000	-	166,241
Depreciation	42,427	91,366	133,793	222	-	134,015
Booster Club	110,823	-	110,823	-	-	110,823
Other	17,604	10,185	27,789	35,515	6,689	69,993
Repairs and maintenance	-	65,145	65,145	1,631	-	66,776
Program assistance in-kind	49,548	-	49,548	-	-	49,548
Insurance	-	40,918	40,918	7,520	-	48,438
Professional services	953	6,850	7,803	19,160	152	27,115
Awards and recognition	21,532	-	21,532	-	-	21,532
Supplies	148	17,229	17,377	2,880	-	20,257
Interest	-	13,722	13,722	-	-	13,722
Other fundraising	3,902	-	3,902	3,515	5,841	13,258
Total expenses	\$ 1,487,260	\$ 586,891	\$ 2,074,151	\$ 247,850	\$ 97,254	\$ 2,419,255

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
Depreciation and amortization	-	94,087	94,087	2,334	-	96,421
Booster Club	113,618	-	113,618	-	-	113,618
Other	12,261	2,821	15,082	33,358	16,302	64,742
Repairs and maintenance	-	40,111	40,111	-	-	40,111
Program assistance in-kind	87,691	-	87,691	-	-	87,691
Insurance	-	33,388	33,388	1,787	-	35,175
Professional services	20,590	6,849	27,439	21,393	1,500	50,332
Awards and recognition	46,176	-	46,176	-	-	46,176
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

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Changes in net assets	\$ 4,253,830	\$ (1,291,736)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	134,015	92,403
Amortization of bond discount and issuance cost	4,020	4,018
Contributions restricted for long-term endowments	(3,491,506)	(601,090)
Net realized and unrealized loss (gain) on investments	(738,126)	3,628,448
Contributions restricted for capital projects	(20,000)	(1,494,984)
Changes in assets and liabilities:		
Pledges receivable and other current assets	(7,273)	5,242
Accounts payable	(95,209)	13,280
Deferred sponsorship support	39,609	11,275
Tenant security deposits and prepaid rent	459	3,484
Passthrough funds held as agent	<u>(7,099)</u>	<u>(19,452)</u>
Net cash provided by operating activities	72,720	350,888
Cash flows from investing activities		
Property and equipment additions and improvements	(96,346)	(1,541,653)
Purchases of investments, net of proceeds from sales	<u>(3,041,797)</u>	<u>(406,340)</u>
Net cash used by investing activities	(3,138,143)	(1,947,993)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowments	3,491,506	601,090
Proceeds from contributions restricted for capital projects	20,000	1,494,984
Principal paid on long-term debt	(170,000)	(165,000)
Change in advances to/from Skagit Valley College	<u>110,519</u>	<u>(222,396)</u>
Net cash provided by financing activities	<u>3,452,025</u>	<u>1,708,678</u>
Net increase in cash and cash equivalents	386,602	111,573
Cash and cash equivalents – beginning of year	<u>1,701,998</u>	<u>1,590,425</u>
Cash and cash equivalents – end of year	<u><u>\$ 2,088,600</u></u>	<u><u>\$ 1,701,998</u></u>
Supplemental cash flow information		
Cash paid during the year for interest	<u><u>\$ 14,883</u></u>	<u><u>\$ 17,733</u></u>
Non-cash investing and financing activities		
Property additions included in accounts payable	<u><u>\$ -</u></u>	<u><u>\$ 80,798</u></u>

Notes to Financial Statements

June 30, 2023 and 2022

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 statements 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, 2023 and 2022; thus, no allowance has been established for uncollectible pledges. In addition, all pledges receivable are collectible within one year.

Notes to Financial Statements

June 30, 2023 and 2022

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 statements 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 \$5,000. 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 57% and 39% of total support and revenue, excluding net investment return (loss), for the years ended June 30, 2023 and 2022, respectively.

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 14% and 17% for the years ended June 30, 2023 and 2022, 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.

Donated goods and services – Donations of 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.

Donated payroll and benefits are valued based on the actual payments made to the College employees multiplied by the estimated percentage of their time spent on Foundation activities. The fair market value of other donated services is determined based on estimated cost of similar services available in the area. Donated capital improvements are valued based on the actual cost incurred by the College.

Notes to Financial Statements

June 30, 2023 and 2022

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

Donated goods and services (continued) – Donated goods are recorded at their fair market value based upon qualified appraisals for items valued at more than \$5,000 or the fair market value provided by the donor that is compared against estimates using comparable values sourced from third-party comparable resources, such as Ebay and Kelly Blue Book. Other than donated goods to be sold at the Foundation's auction fundraiser, all donated goods and services are either used in operations or donated to the College to be used in operations and are not monetized. Additionally, there were no donor imposed restrictions on donated goods and services other than auction items during the years ended June 30, 2023 and 2022.

Donated goods and services consisted of the following during the years ended June 30:

	2023	2022
Donated goods		
Auction items	\$ 3,191	\$ 4,726
Vehicles and auto equipment	28,410	13,189
Boats and marine equipment	19,998	69,776
Total donated goods	51,599	87,691
Payroll, benefits, and capital improvements from the College	123,050	167,000
	<u>\$ 174,649</u>	<u>\$ 254,691</u>

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.

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.

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

Net assets without donor restrictions related to the Board designated endowment was overstated and net assets with donor restrictions related to unappropriated endowment earnings was understated by \$452,431 and \$1,221,415 as of June 30, 2022 and June 30, 2021, respectively. These balances have been appropriately reclassified in these comparative financial statements.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2023 and 2022

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

Subsequent events – In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 15, 2023, 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:

	2023	2022
Cash and cash equivalents	\$ 2,088,600	\$ 1,701,998
Pledges receivable and other current assets	36,985	29,712
Advances due from Skagit Valley College	219,860	429,252
Investments	20,091,725	16,311,802
Less amounts not available for general expenditure within one year		
Donor-restricted	(19,165,796)	(15,221,873)
Board designated	(3,780,451)	(3,469,612)
Add-back: Board approved reserve spending for upcoming year	425,223	861,731
	<u>\$ (83,854)</u>	<u>\$ 643,010</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, program assistance, and faculty excellence/teacher scholar awards with corpus totaling \$1,476,927 at both June 30, 2023 and 2022. 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, 2023 and 2022, 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, 2023 and 2022, the board approved spending rates of 2.75% and 4.5%, which equals \$425,223 and \$861,731, to be used for the upcoming years ending June 30, 2024 and 2023, 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 \$2,065,708 and \$1,758,921 at June 30, 2023 and 2022, 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.

Notes to Financial Statements

June 30, 2023 and 2022

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. Pooling donor-restricted and board-designated endowment funds for investment purposes has many benefits, including but not limited to spreading the total risk for each fund and making the risk equal for all funds invested in the master accounting, enhancing the investment performance relative to that of an individual fund; and reducing management fees. Net investment return of the master investment account is allocated quarterly to the individual endowment funds based upon the relationship of the fair value of each to the total fair value of the Foundation’s master investment account, as adjusted for additions to or deductions from those accounts.

Investments are held for the following purposes at June 30:

	<u>2023</u>	<u>2022</u>
Endowment	\$ 19,715,147	\$ 15,896,177
Student housing:		
Debt service reserve	-	176,887
Debt service	124,845	119,120
Replacement reserve	251,733	74,425
Other	-	45,193
	<u>\$ 20,091,725</u>	<u>\$ 16,311,802</u>

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.

Notes to Financial Statements

June 30, 2023 and 2022

Note 4 – Fair Value Measurements – (Continued)

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, 2023 and 2022.

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

	2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 642,737	\$ -	\$ -	\$ 642,737
Certificates of deposit	-	266,823	-	266,823
Mutal funds				
Equity funds	7,335,790	-	-	7,335,790
Fixed income funds	4,009,861	-	-	4,009,861
Bonds				
Treasury bonds	1,788,831	-	-	1,788,831
Corporate bonds	3,797,075	-	-	3,797,075
Stock				
Common stock	2,086,678	-	-	2,086,678
Preferred stock	163,930	-	-	163,930
Total	<u>\$ 19,824,902</u>	<u>\$ 266,823</u>	<u>\$ -</u>	<u>\$ 20,091,725</u>

Notes to Financial Statements

June 30, 2023 and 2022

Note 4 – Fair Value Measurements – (Continued)

	2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 299,325	\$ -	\$ -	\$ 299,325
Certificates of deposit	-	440,909	-	440,909
Mutal funds				
Equity funds	6,799,103	-	-	6,799,103
Fixed income funds	5,138,727	-	-	5,138,727
Bonds				
Treasury bonds	199,984	-	-	199,984
Corporate bonds	1,145,040	-	-	1,145,040
Stock				
Common stock	2,109,684	-	-	2,109,684
Preferred stock	179,030	-	-	179,030
Total	<u>\$ 15,870,893</u>	<u>\$ 440,909</u>	<u>\$ -</u>	<u>\$ 16,311,802</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.

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, 2023 and 2022, 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:

	2023	2022
Campus View Village:		
Land	\$ 608,266	\$ 608,266
Buildings	1,984,120	1,984,120
Improvements	634,958	618,586
Furnishings and equipment	44,116	42,480
Total Campus View Village	<u>3,271,460</u>	<u>3,253,452</u>
Operating furnishings and equipment	14,710	14,710
Pickleball Pavilion held for benefit of the College	1,695,685	1,627,224
Total property and equipment, at cost	<u>4,981,855</u>	<u>4,895,386</u>
Less accumulated depreciation	<u>(1,990,426)</u>	<u>(1,866,288)</u>
	<u>\$ 2,991,429</u>	<u>\$ 3,029,098</u>

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Note 5 – Property and Equipment – (Continued)

Campus View Village (CVV) is a student housing complex providing housing for students enrolled at the College, which the Foundation leases to the College (see Note 10). CVV assets are held for the benefit of the College, with the Foundation planning to transfer its ownership to the College at the end of the current lease term. In addition, the Foundation constructed a Pickleball Pavilion on College grounds (see Note 10) and placed the asset into service, effective June 30, 2022. 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. When both CVV and the Pickleball Pavilion assets were placed into service, the timing of ownership transfer to the College was not set. As such, the Foundation has elected to assign useful lives based on the actual estimated useful lives of the underlying assets instead of assigning shorter useful lives based on the length of lease agreements, which may be subject to amendment and extension. Depreciation expense totaled \$134,015 and \$92,403 for the years ended June 30, 2023 and 2022, respectively.

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:

	<u>2023</u>	<u>2022</u>
1998 Student Housing Revenue and Refunding Bonds	\$ 180,000	\$ 350,000
Less amortized bond discount	(2,151)	(4,303)
	<u>\$ 177,849</u>	<u>\$ 345,697</u>

Aggregate future annual principal payments on long-term debt for bonds payable total \$180,000 for the year ending June 30, 2024.

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, 2023 and 2022. 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 (see Note 3). No rebate account was required at June 30, 2023 and 2022.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Note 7 – Net Assets with Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Gifts restricted for scholarships	\$ 667,022	\$ 532,118
Gifts restricted for program assistance and other student support	498,370	504,269
Unappropriated endowment earnings for scholarships and program assistance	2,134,744	1,812,026
Donor-restricted endowments corpus to be held in perpetuity	15,865,660	12,373,460
	<u>\$ 19,165,796</u>	<u>\$ 15,221,873</u>

Note 8 – Endowments

The Foundation's endowments consist of 146 individual funds at June 30, 2023, established for a variety of purposes. Of these total individual funds, 135 are donor restricted and 11 are board-designated with corpus totaling \$15,865,660 and \$1,565,918, 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 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

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Note 8 – Endowments – (Continued)

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ 18,000,404	\$ 18,000,404
Board-designated	1,714,743	-	1,714,743
Total endowment net assets	<u>\$ 1,714,743</u>	<u>\$ 18,000,404</u>	<u>\$ 19,715,147</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ 14,185,486	\$ 14,185,486
Board-designated	1,710,691	-	1,710,691
Total endowment net assets	<u>\$ 1,710,691</u>	<u>\$ 14,185,486</u>	<u>\$ 15,896,177</u>

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,710,691	\$ 14,185,486	\$ 15,896,177
Endowment investment return	110,507	1,048,776	1,159,283
Contributions	-	3,480,856	3,480,856
Transfers	(40,365)	(12,228)	(52,593)
Appropriation for expenditure – program assistance and scholarships	(40,640)	(497,406)	(538,046)
Appropriation for expenditure – admin fee	(25,450)	(205,080)	(230,530)
Endowment net assets, end of year	<u>\$ 1,714,743</u>	<u>\$ 18,000,404</u>	<u>\$ 19,715,147</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,136,244	\$ 16,952,993	\$ 19,089,237
Endowment investment return (loss)	(309,637)	(2,504,416)	(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	<u>\$ 1,710,691</u>	<u>\$ 14,185,486</u>	<u>\$ 15,896,177</u>

Notes to Financial Statements

June 30, 2023 and 2022

Note 8 – Endowments – (Continued)

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.

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 40-70% equity, 20-50% 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 4.5% and 5% for the 2022-2023 and 2021-2022 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, 2023, 35 individual funds with original gift values totaling \$2,747,005, fair values totaling \$2,625,119, and deficiencies totaling \$121,886 were reported in net assets with donor restrictions. 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.

Skagit Valley College Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Note 9 – Affiliated Organizations

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, 2023. Support is recognized in these financial statements. Services and support exceeding the agreement's stated amount, totaling \$174,649 and \$254,691 for the years ended June 30, 2023 and 2022, respectively, are billed to the Foundation by the College business office.

The Foundation sends scholarship payments, program support, rent, and other reimbursements to the College throughout the year, in accordance with the Foundation's mission. All payments from the Foundation to the College totaled \$1,800,676 and \$1,603,333 for the years ended June 30, 2023 and 2022, respectively. Conversely, the College sends CVV receipts, returned scholarships, and other reimbursements to the Foundation throughout the year. All payments from the College to the Foundation totaled \$1,109,573 and \$731,768 for the years ended June 30, 2023 and 2022, respectively. Advances to/from the College are separately broken-out in the statements of financial position.

Note 10 – Operating 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. The Foundation intends to transfer ownership of the underlying leased assets to the College upon maturity of the current lease term.

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.

Notes to Financial Statements

June 30, 2023 and 2022

Note 11 – Commitment

During the year ended June 30, 2023, the Foundation's Board of Governors approved \$425,223 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, 2024.

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. During the year ended June 30, 2022, the Foundation acted in an advisory role with other named representatives to determine scholarship recipients. In March 2023, the entirety of the funds, totaling \$3,117,567, were transferred to the Foundation to be held and managed as an endowment. These funds are reported as contributions with donor restrictions in the accompanying statement of activities for the year ended June 30, 2023.