

Oak Harbor Educational Foundation

Financial Statements with
Independent Auditor's Report

Year Ended December 31, 2021

Larson Gross 

Oak Harbor Educational Foundation

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Independent Auditor's Report

To the Board of Trustees
Oak Harbor Educational Foundation
Bellingham, Washington

Opinion

We have audited the accompanying financial statements of Oak Harbor Educational Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Harbor Educational Foundation as of December 31, 2021, 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Oak Harbor Educational Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Oak Harbor Educational 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

Our 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 our 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 generally accepted auditing standards 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 generally accepted auditing standards, we:

- 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 Oak Harbor Educational 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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oak Harbor Educational Foundation's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

Larson Gross PLLC

Bellingham, Washington
January 19, 2023

Oak Harbor Educational Foundation

Statement of Financial Position

December 31, 2021

Assets	
Current assets	
Cash	\$ 60,109
Investments	<u>1,552,963</u>
Total assets	<u><u>\$ 1,613,072</u></u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 1,100
Accrued liabilities	<u>8,900</u>
Total current liabilities	10,000
Net assets	
Net deficit without donor restrictions	(11,416)
Net assets with donor restrictions	<u>1,614,488</u>
Total net assets	<u><u>1,603,072</u></u>
Total liabilities and net assets	<u><u>\$ 1,613,072</u></u>

Oak Harbor Educational Foundation

Statement of Activities

Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Contributions	\$ 2,356	\$ 601,794	\$ 604,150
Investment income, net	18,987	71,371	90,358
Net assets released from restrictions	<u>111,057</u>	<u>(111,057)</u>	<u>-</u>
Total support and revenue	132,400	562,108	694,508
 Expenses			
Program services	89,134		89,134
General and administrative	<u>28,197</u>	<u>-</u>	<u>28,197</u>
Total expenses	117,331	-	117,331
 Changes in net assets	15,069	562,108	577,177
 Net assets (deficit) – beginning of year	<u>(26,485)</u>	<u>1,052,380</u>	<u>1,025,895</u>
 Net assets (deficit) – end of year	<u>\$ (11,416)</u>	<u>\$ 1,614,488</u>	<u>\$ 1,603,072</u>

Oak Harbor Educational Foundation

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services	Management and General	Total
Scholarships	\$ 61,500	\$ -	\$ 61,500
Professional fees	-	17,975	17,975
Grants distributed	17,430	-	17,430
Program expenses	10,181	-	10,181
Events	-	9,177	9,177
Insurance	-	767	767
Other	23	278	301
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 89,134</u>	<u>\$ 28,197</u>	<u>\$ 117,331</u>

Oak Harbor Educational Foundation

Statement of Cash Flows

Year Ended December 31, 2021

Cash flows from operating activities	
Changes in net assets	\$ 577,177
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Contributions restricted for long-term endowments	(515,357)
Net realized and unrealized gain on investments	(50,154)
Change in assets and liabilities	
Other assets	25
Accounts payable	1,088
Accrued liabilities	<u>(10,146)</u>
Net cash used by operating activities	2,633
Cash flows from investing activities	
Purchases of investments, net of proceeds from sales	<u>(544,443)</u>
Net cash used by investing activities	(544,443)
Cash flows from financing activities	
Proceeds from contributions restricted for investment in endowments	<u>515,357</u>
Net cash provided by financing activities	<u>515,357</u>
Net decrease in cash	(26,453)
Cash – beginning of year	<u>86,562</u>
Cash – end of year	<u><u>\$ 60,109</u></u>

Notes to Financial Statements

December 31, 2021

Note 1 – Summary of Significant Accounting Policies

Description of operations – Oak Harbor Educational Foundation (the Foundation), a Washington nonprofit Foundation incorporated in 1992, operates as a conduit for donations, manages contributed assets, and raises funds to benefit education in Oak Harbor schools. Oak Harbor Educational Foundation’s primary programs focus on scholarships, education initiatives, and applied learning grants. The Foundation is supported primarily by contributions.

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; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

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

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

Net assets with donor restrictions – Support received that is subject to donor-imposed restrictions or time restrictions that will be met either through actions of the Foundation or by passage of time are classified as net assets with donor restrictions. This includes donor-imposed restrictions stipulating that assets 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. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose of restrictions.

Cash – Cash consists of cash in checking, savings and money market accounts for purposes of the statements of cash flows. 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.

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.

Notes to Financial Statements

December 31, 2021

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

Contributions – Contributions revenue 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. One donor accounted for 74% of the total support and revenue during the year ended December 31, 2021.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited and have been allocated on a reasonable basis that is consistently applied. All expenses are direct assigned to a function. There were no fundraising expenses during the year ended December 31, 2021.

Income taxes – The Foundation is a not-for-profit Foundation exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The tax returns for the prior three years remain subject to examination by major tax jurisdictions.

Use of estimates – The preparation of financial statements in accordance 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.

Subsequent events – In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 19, 2023 the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure consist of the following within one year of December 31, 2021:

Cash	\$ 60,109
Investments	1,552,963
Less amounts not available for general expenditure within one year	
Donor-restricted	<u>(1,614,488)</u>
Assets available for general expenditure	<u>\$ (1,416)</u>

The Foundation has certain donor-restricted assets limited to use which are not available for general expenditures within one year in the normal course of business. Accordingly, these assets have been excluded in the quantitative information above.

The Foundation maintains endowments that are donor-restricted. Income derived from donor-restricted endowments are not available for general expenditure until appropriated by the Board of Trustees.

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

December 31, 2021

Note 3 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Mutual funds and exchanged traded funds are valued at the daily closing price as reported by the fund. These funds are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Foundation are deemed to be actively traded.

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 year ended December 31, 2021.

Investments at fair value consist of the following as of December 31, 2021:

	<u>Cost</u>	<u>Fair Market Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutal funds	\$ 1,167,055	\$ 1,500,054	\$ -	\$ -	\$ 1,500,054
Exchange traded and closed-end funds	11,890	52,909	-	-	52,909
Total	<u>\$ 1,178,945</u>	<u>\$ 1,552,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,552,963</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.

Notes to Financial Statements

December 31, 2021

Note 3 – 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 year ended December 31, 2021, there were no significant transfers in or out of Level 3.

Note 4 – Endowments

The Foundation's endowments consist of 8 individual donor-restricted funds at December 31, 2021, established for future scholarships and programs for Oak Harbor school district students.

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

Changes in endowment net assets consist of the following for the year ended December 31:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 784,409	784,409
Endowment investment return	-	71,371	71,371
Contributions	-	515,357	515,357
Appropriation for expenditure	-	(27,610)	(27,610)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,343,527</u>	<u>\$ 1,343,527</u>

Notes to Financial Statements

December 31, 2021

Note 4 – Endowments – (Continued)

Return Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation expects its endowment funds, over time, to provide a 5% return over a full market cycle of 3-5 years. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The target asset allocation for endowment investments is 20-70% equity and 30-75% fixed income 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 – Each endowment fund specifies the types of scholarships or program funding available from the endowment. The Foundation has a committee that reviews and approves scholarship applications and program funding requests in accordance with endowment fund policies. The Foundation charges an administrative fee to funds based on operating expenses and is allocated to funds with balances exceeding \$5,000.

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. 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 December 31, 2021.

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2021:

Endowment – corpus	\$ 1,146,102
Scholarships	221,459
Endowment	197,425
Programs and students needs	33,603
Applied learning funds	15,899
	<u>\$ 1,614,488</u>

Note 6 – Subsequent Event

Subsequent to year-end, the Foundation's investments were impacted by declines in the market resulting in significant unrealized loss on investments. The resulting loss caused several of the Foundation's endowments to become underwater.