

WHATCOM COMMUNITY FOUNDATION

FINANCIAL REPORT

JUNE 30, 2017



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Audit Committee
Whatcom Community Foundation
Bellingham, Washington

We have audited the accompanying financial statements of Whatcom Community Foundation ("the Foundation"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017, 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.

Report on Summarized Information

We have previously audited the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Correction of an Error

As discussed in Note 12 to the financial statements, the Foundation has corrected for an error in its classification of donor advised non-endowed funds as of June 30, 2016. Accordingly, amounts reported for unrestricted and temporarily restricted net assets have been restated in the June 30, 2016, summarized comparative information now presented to correct the error and show the reclassification between unrestricted and temporarily restricted net asset balances. Our opinion is not modified with respect to that matter.

A handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

September 27, 2017

WHATCOM COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Comparative Totals for June 30, 2016)

ASSETS	2017	2016
Cash	\$ 3,615,705	\$ 3,896,154
Restricted cash	94,315	102,526
Investments	17,336,818	14,420,270
Accounts receivable	3,844	664
Grants receivable	855,000	1,548,515
Notes receivable, net allowance of \$20,000 in both years	3,000	15,000
Charitable trust receivable	15,263,983	16,973,927
Property and equipment, net	110,721	112,863
Total assets	<u>\$ 37,283,386</u>	<u>\$ 37,069,919</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 46,917	\$ 35,134
Grant awards payable	1,589,741	1,440,275
Funds held for others	3,127,495	2,846,006
Total liabilities	<u>4,764,153</u>	<u>4,321,415</u>
Net assets		
Unrestricted		
Operating	180,790	272,166
Board-designated	1,775,914	1,397,353
Total unrestricted	<u>1,956,704</u>	<u>1,669,519</u>
Temporarily restricted	21,666,395	23,587,320
Permanently restricted	8,896,134	7,491,665
Total net assets	<u>32,519,233</u>	<u>32,748,504</u>
Total liabilities and net assets	<u>\$ 37,283,386</u>	<u>\$ 37,069,919</u>

See Notes to Financial Statements

WHATCOM COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017
(With Comparative Totals for June 30, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue					
Contributions	\$ 56,178	\$ 1,632,454	\$ 1,252,973	\$ 2,941,605	\$ 1,899,800
In-kind contributions	50			50	603
Interest and dividends	34,963	259,760		294,723	286,746
Realized and unrealized gain on investments	110,437	925,116		1,035,553	106,593
Grant income	9,853	292,250		302,103	2,407,421
Program income	12,196	77,628		89,824	16,861
Management fee	32,802			32,802	31,720
Total revenue	256,479	3,187,208	1,252,973	4,696,660	4,749,744
Net Assets Released from Restrictions					
Satisfaction of restrictions	4,956,637	(5,108,133)	151,496		
Total revenue and net assets released	5,213,116	(1,920,925)	1,404,469	4,696,660	4,749,744
Expenses					
Program expenses	4,319,635			4,319,635	3,088,563
Management and general expenses	447,302			447,302	263,484
Fundraising	158,994			158,994	146,036
Total expenses	4,925,931			4,925,931	3,498,083
Change in net assets	287,185	(1,920,925)	1,404,469	(229,271)	1,251,661
Net Assets, beginning of year	1,669,519	23,587,320	7,491,665	32,748,504	31,496,843
Net Assets, end of year	\$ 1,956,704	\$ 21,666,395	\$ 8,896,134	\$ 32,519,233	\$ 32,748,504

See Notes to Financial Statements

WHATCOM COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017
 (With Comparative Totals for June 30, 2016)

	2017			2016	
	Program	Management and General	Fundraising	Total	Total
Awards granted	\$ 3,851,020	\$ -	\$ -	\$ 3,851,020	\$ 2,598,169
Salaries, benefits, and taxes	205,341	212,424	118,329	536,094	502,726
Program services	194,868			194,868	211,608
Consultants		149,796		149,796	42,000
Development and communications	8,053		18,791	26,844	18,510
Equipment maintenance	9,902	19,803	3,301	33,006	17,266
Depreciation	5,623	11,245	1,874	18,742	18,399
Other	44,828	54,034	16,699	115,561	89,405
	<u>\$ 4,319,635</u>	<u>\$ 447,302</u>	<u>\$ 158,994</u>	<u>\$ 4,925,931</u>	<u>\$ 3,498,083</u>

See Notes to Financial Statements

WHATCOM COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
Cash Flows from Operating Activities		
Changes in net assets	\$ (229,271)	\$ 1,251,661
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	18,742	18,399
Realized and unrealized gains on investments	(1,035,553)	(106,593)
Contributions restricted for long-term purposes	(1,252,973)	(460,879)
Changes in operating assets and liabilities		
Accounts receivable	(3,180)	474
Grants receivable	693,515	(1,510,840)
Charitable trust receivable	1,709,944	1,337,232
Accounts payable and accrued expenses	11,783	14,472
Grant awards payable	149,466	(83,561)
Net cash flows from operating activities	62,473	460,365
Cash Flows from Investing Activities		
Collections on notes receivable	12,000	370,698
Proceeds and purchases of investments, net	(1,556,898)	(234,038)
Change in restricted cash	8,211	(102,526)
Purchases of equipment	(16,600)	(2,584)
Net cash flows from investing activities	(1,553,287)	31,550
Cash Flows From Financing Activity		
Collection of long-term contributions	1,252,973	460,879
Net payments made from funds held for others	(42,608)	(112,614)
Net cash flows from financing activities	1,210,365	348,265
Net increase (decrease) in cash	(280,449)	840,180
Cash, beginning of year	3,896,154	3,055,974
Cash, end of year	\$ 3,615,705	\$ 3,896,154
Supplementary Disclosure of Noncash Donations		
Gifts of investments	\$ 1,096,576	\$ 1,551,315

See Notes to Financial Statements

**Whatcom Community Foundation
Notes to the Financial Statements**

Note 1. Organization

Whatcom Community Foundation ("the Foundation") is a not-for-profit Washington Corporation established in May 1996, to strengthen and enhance communities of Whatcom County, Washington. With the support of individuals, businesses, and nonprofit organizations, the Foundation provides funding to a wide range of organizations promoting innovative community building programs in food and agriculture, education, arts and culture, health and wellness, hunger and poverty, economic development, nonprofit capacity building, and the environment, in keeping with its mission to amplify the force of philanthropy – by connecting people, ideas, and resources – so that communities flourish.

The Foundation has been certified as compliant with the National Standards program established by the Council on Foundations, which provides a framework of 41 standards for internal development and external assessment in order to provide quality assurance to donors, as well as to their legal and financial advisors, and reflects the Foundation's commitment to financial accountability, security, and transparency.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of grantor/donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets are not subject to grantor/donor-imposed stipulations and are available for operations, programs, and grant making. Unrestricted net assets also include those assets that are board-designated for a particular purpose. Since the board has authority to revoke its decision at any time, these assets are not subject to the same restrictions as those from grantors/donors. Board-designated net assets consist of the following at June 30, 2017:

Quasi-endowments	\$ 1,577,189
Operating reserve	<u>198,725</u>
	<u><u>\$ 1,775,914</u></u>

Whatcom Community Foundation
Notes to the Financial Statements

Temporarily restricted net assets are subject to grantor/donor-imposed stipulations that may be met by either actions of the Foundation, the occurrence of certain events, or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets at June 30, 2017, are restricted for the following:

Time	\$ 15,263,983
Earnings on endowment	2,922,767
Gifts to endowment spendable (endowment earnings)	79,985
WCF grantmaking	1,318,736
Designated funds	289,504
Field of interest funds	337,901
Scholarship funds	375,441
Program and fiscal sponsorship funds	197,623
Mission investing funds	138,326
Donor-advised non-endowed	742,129
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	\$ 21,666,395

Permanently restricted net assets are subject to donor-imposed stipulations to be maintained permanently by the Foundation. Occasionally, donors will direct a temporarily restricted amount to a permanently restricted endowment as an internal gift.

Prior Year Comparative Information

These financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Cash

Cash includes cash in a bank and money market funds, except money market funds held as investments.

Restricted Cash

At June 30, 2017, the Foundation has pledged certificates of deposit totaling \$94,315 at a bank to guarantee loans for two small Whatcom County businesses as part of the Foundation's Community Mission Investment Initiative. These certificates of deposit have been reported as restricted cash on the statement of financial position. Generally accepted accounting principles require that the Foundation record a liability for the fair value of the guarantee (i.e., the benefit provided to the borrower) at the date the guarantee is made. Management has determined that the fair value of the guarantee was not material to the financial statements; therefore, no guarantee liability has been recorded in these financial statements. Both Whatcom County businesses were current on their loans at the date these financial statements were available to be issued. The Foundation evaluates guarantees quarterly and would record a loss and related liability if management of the Foundation believed they needed to fulfill its guarantee obligation.

Whatcom Community Foundation Notes to the Financial Statements

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the Foundation to develop its own assumptions.

All of the Foundation's investments are stated at fair value and are classified as Level 1 investments, except for certificates of deposit, which are recorded at cost plus accrued interest.

Property, Equipment, and Depreciation

Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged against operations; renewals and betterments that materially extend the life of the assets are capitalized. Gains or losses on dispositions are included in operations in the year of disposal. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, or for leasehold improvements, the shorter of their estimated useful lives or the lease term.

Funds Held for Others

The Foundation may accept funds from a nonprofit organization (to establish a permanent endowment fund naming that organization as beneficiary), subject to the variance power of the Foundation's board and to the Foundation's endowment, investment, and spending policies. The amounts are included in the Foundation's assets and as an offsetting liability. The liability presented is equal to the fair value of the funds held. Activities related to funds held for others do not affect the change in net assets on the statement of activities.

Contributions, Donations, Gifts, and Bequests

The Foundation's corporate bylaws and contribution documents grant the Foundation "variance power" that in effect gives the Foundation control over all grant disbursements from contributed funds. Donors may advise or make recommendations regarding the distribution of income and principal from a fund, but all such recommendations are ultimately subject to this variance power.

Donated Assets and Services

Noncash donations and donated marketable securities are recorded at their estimated fair value at the date of donation.

**Whatcom Community Foundation
Notes to the Financial Statements**

Pledges and Grants

The Foundation maintains an allowance for potential losses based upon management's periodic review of the Foundation's experience related to pledges and other collections. Receivables written off are charged against the allowance. At June 30, 2017, management determined that no allowance for potential receivable losses was necessary.

Unconditional pledges and grants receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value, which is measured at present value of the future cash flows. The discounts (if any) on those amounts are computed using risk-adjusted interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue in the statement of activities. A discount was calculated at June 30, 2017, but was considered immaterial and, therefore, was not recognized.

Grants Payable and Grant Expenses

Grant awards are reported as program expenses and grant awards payable when the unconditional award is made. Grant awards payable represent payments to be made related to grants previously expensed as program expenses. When the payment is made for grants previously expensed, they are offset against grant awards payable.

Concentration of Market and Credit Risk

The Foundation maintains cash balances at several financial institutions, focusing on those that are local or regional, and/or aligned with the Foundation's mission. On occasion, the Foundation may have cash balances at a financial institution in excess of federally insured limits, based on management's confidence level in the institution.

For the year ended June 30, 2017, the Foundation recognized approximately 45% of its grant and contribution revenue from two donors.

Federal Income Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting requirements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from the estimated amounts.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Whatcom Community Foundation
Notes to the Financial Statements**

Subsequent Events

Management of the Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was September 27, 2017.

Note 3. Investments

At June 30, 2017, investments consisted of the following:

Mutual funds	
Large blend	\$ 6,337,942
Intermediate-term bond	4,484,321
Foreign large blend	2,217,724
Small cap blend	1,255,331
Money market	910,742
Mid-cap blend	844,065
Real estate	812,181
Large growth	113,120
Certificates of deposit	361,392
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	\$ 17,336,818
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Note 4. Grants Receivable

All of the grants receivable are due from two donors and will be collected during the year ending June 30, 2018.

Note 5. Notes Receivable

The Foundation holds two notes receivable, which are recorded at cost (one for \$20,000 and the other for \$50,000, which had an outstanding balance of \$3,000 at June 30, 2017). The notes bear interest between 0% and 3% per annum and interest is recorded as earned. The \$20,000 note was past due as of June 30, 2016, and an allowance of \$20,000 was recorded at that time. Management has renegotiated terms with the borrower as of the date of the financial statements with payments beginning September 2017.

Whatcom Community Foundation
Notes to the Financial Statements

Note 6. Charitable Lead Annuity Trust Receivable

During the year ended June 30, 2015, the Foundation received a gift of a current interest in a Charitable Lead Annuity Trust ("CLAT") from which the Foundation will receive annual payments beginning on December 31, 2015, through March 17, 2025. The total remaining payments to be received over the course of the annuity period amount to \$16,564,249 and management has determined a discount rate of 1.8%, at the time of the gift, to be the most relevant discount factor to value the gift at fair value. The CLAT receivable at June 30, 2017, was as follows:

Receivable in less than one year	\$	2,018,008
Receivable in one to five years		8,072,032
Receivable thereafter		6,474,209
		16,564,249
Less: unamortized discount		(1,300,266)
		\$ 15,263,983

Note 7. Property and Equipment

At June 30, 2017, property and equipment consisted of the following:

Furniture	\$	12,575
Software		4,534
Office equipment		57,657
Leasehold improvements		112,661
		187,427
Less: accumulated depreciation		(76,706)
Property and equipment, net		\$ 110,721

Note 8. Grants Payable

Included in grants payable are the following unconditional grants payable at June 30, 2017:

Amounts due in:		
Less than one year	\$	1,099,937
One to five years		489,804
Total grants payable		\$ 1,589,741

**Whatcom Community Foundation
Notes to the Financial Statements**

Note 9. Conditional Grants and Scholarships

Conditional grants and scholarships are recognized only when the conditions on which they depend are substantially met and the grant becomes unconditional.

Conditional grants, for which payment is conditional upon receiving certain matching contributions, amount to \$150,000 as of June 30, 2017.

Conditional scholarships, for which payment is conditional upon student enrollment, amount to \$73,846 as of June 30, 2017.

Note 10. Funds Held for Others

Funds held for others as of June 30, 2017, consist of:

Mount Baker Theatre Endowment Fund	\$ 1,435,872
Pioneer Meadows Montessori School Endowment Fund	835,965
Bellingham Public Library Endowment Fund	245,664
Nooksack Salmon Enhancement Endowment Fund	145,290
Ferndale Band Boosters Endowment Fund	138,475
Lydia Place Endowment Fund	74,401
Whatcom County Library Foundation Fund	90,777
Master Gardener Foundation of Whatcom County Endowment Fund	25,022
Law Advocates Agency Endowment Fund	17,613
Northwest Youth Services Endowment Fund	14,167
Agape Home for Women & Children Fund	13,530
Whatcom Symphony Endowment Fund	13,218
Lighthouse Mission Endowment Fund	13,051
Whatcom Literacy Council Agency Fund	14,054
Compass Health Endowment	10,288
Brigid Collins Endowment Fund	10,403
Bellingham Parks & Recreation Endowment Fund	8,498
Bruce Wolf Endowment Fund	8,211
Whatcom Land Trust Fund	7,038
Ferndale Double Dome Fund	4,248
Bellingham Festival of Music Education and Outreach Agency Fund	938
Bellingham Festival of Music Agency Fund	772
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Total funds held for others	<u>\$ 3,127,495</u>

**Whatcom Community Foundation
Notes to the Financial Statements**

Note 11. Operating Lease

In June 2014, the Foundation entered into a ten-year lease for office space commencing in November 2014. Total rent expense for the year ended June 30, 2017, was \$10,210. Minimum rent payable is as follows for the years ending June 30:

2018	\$	10,592
2019		10,910
2020		11,236
2021		11,575
2022		11,923
Thereafter		27,054
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	\$	83,290
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Note 12. Pension Plan

The Foundation sponsors a defined contribution retirement plan for employees. Employer contributions equal 10% of each eligible employee's compensation and vest immediately. Pension contributions for the year ended June 30, 2017, were \$38,785.

Note 13. Endowments

The Foundation's endowment consists of 110 funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds, funds designated by the Board of Directors to function as endowments (quasi-endowments), and funds established by other nonprofit organizations to support their organizations, which are listed in Note 8, Funds Held for Others. As required by generally accepted accounting principles, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Whatcom Community Foundation
Notes to the Financial Statements

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Endowment net assets are as follows as of and for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Funds Held for Others	Total
Endowment net assets composition by type of fund as of June 30, 2017 (excluding pledges receivable)					
Donor-restricted endowment funds	\$ -	\$ 2,997,411	\$ 8,896,134	\$ 3,127,495	\$ 15,021,040
Board-designated endowment funds	1,577,189				1,577,189
Total funds	<u>1,577,189</u>	<u>2,997,411</u>	<u>8,896,134</u>	<u>3,127,495</u>	<u>16,598,229</u>
Endowment net assets, June 30, 2016 (excluding pledges receivable)	1,202,942	2,286,179	7,491,665	2,846,006	13,826,792
Endowment investment return					
Interest and dividends	30,177	243,468		68,448	342,093
Realized and unrealized gains	108,889	899,040		255,648	1,263,577
Total endowment investment return	139,066	1,142,508		324,096	1,605,670
Contributions	23,300	79,985	1,252,973	70,539	1,426,797
Management fee	(19,754)	(132,527)		(32,820)	(185,101)
Appropriation of endowment for expenditure	(47,426)	(373,393)			(420,819)
Transfer to/from endowment			151,496	(80,326)	71,170
Transfer to/from quasi-endowments	279,061				279,061
Endowment net assets, June 30, 2017 (excluding pledges receivable)	<u>\$ 1,577,189</u>	<u>\$ 3,002,752</u>	<u>\$ 8,896,134</u>	<u>\$ 3,127,495</u>	<u>\$ 16,603,570</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In the cases when this happens, spending for that particular endowment is suspended to prevent spending of the corpus. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies at June 30, 2017.

**Whatcom Community Foundation
Notes to the Financial Statements**

Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve a long-term rate of growth sufficient to offset normal inflation, administrative fees, and management fees (if any), plus reasonable, regular distributions within prudent risk constraints. Endowment assets are invested in a well-diversified asset mix, which includes equity, fixed income securities, and cash equivalents. Investment risk is measured in terms of the total endowment; investment assets and allocation between asset classes and strategies are managed to not expose the endowment to unacceptable levels of risk. The distribution portion of endowed funds, as determined by the Foundation's spending policy, may be used for grantmaking or community impact investing, subject to the Foundation's impact investing policy.

Spending Policy

The Foundation has a policy of appropriating a percentage (currently 4%) of each endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. No appropriations are made until a fund has been established for 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature, and duration of the endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

Note 14. Prior Period Adjustment

The Foundation has restated its financial statements as of and for the year ended June 30, 2016 to correct for an error in its classification of donor-advised non-endowed funds from unrestricted to temporarily restricted to more accurately reflect the Foundation's policies and practices. The effect of this change in classification is to increase the 2016 temporarily restricted net asset balance by \$1,562,934 and decrease unrestricted net assets by the same amount. There was no impact on the change in net assets for 2016 (or 2015).

The following table presents the effects of the restatement adjustment on the Foundation's previously reported financial statements as of and for the year ended June 30, 2016:

	As Previously Reported	As Restated	Change
Statement of Financial Position			
Unrestricted net assets - operating	\$ 1,835,100	\$ 272,166	\$ (1,562,934)
Total unrestricted net assets	3,232,453	1,669,519	(1,562,934)
Temporarily restricted net assets	22,024,386	23,587,320	1,562,934
Statement of Activities			
Unrestricted net assets, beginning of year	3,232,453	1,669,519	(1,562,934)
Temporarily restricted net assets, beginning of year	22,024,386	23,587,320	1,562,934