

**WHATCOM COMMUNITY FOUNDATION**

FINANCIAL REPORT

JUNE 30, 2016



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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, 2016, 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 misstatements 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Peterson Sullivan LLP*

November 3, 2016

## WHATCOM COMMUNITY FOUNDATION

### STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With comparative totals for June 30, 2015)

ASSETS	2016	2015
Cash	\$ 3,896,154	\$ 3,055,974
Restricted cash	102,526	
Investments	14,420,270	13,964,238
Accounts receivable	664	1,138
Grants and pledges receivable	1,548,515	37,675
Notes receivable, net allowance of \$20,000	15,000	385,698
Charitable trust receivable	16,973,927	18,311,159
Property and equipment, net	112,863	128,678
Total assets	<u>\$ 37,069,919</u>	<u>\$ 35,884,560</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 35,134	\$ 20,662
Grant awards payable	1,440,275	1,523,836
Funds held for others	2,846,006	2,843,219
Total liabilities	<u>4,321,415</u>	<u>4,387,717</u>
Net assets		
Unrestricted		
Operating	1,835,100	1,062,926
Board-designated	1,397,353	1,419,152
Total unrestricted	<u>3,232,453</u>	<u>2,482,078</u>
Temporarily restricted	22,024,386	21,983,979
Permanently restricted	7,491,665	7,030,786
Total net assets	<u>32,748,504</u>	<u>31,496,843</u>
Total liabilities and net assets	<u>\$ 37,069,919</u>	<u>\$ 35,884,560</u>

See Notes to Financial Statements

**WHATCOM COMMUNITY FOUNDATION**

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016  
(With comparative totals for June 30, 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue					
Contributions	\$ 994,622	\$ 648,487	\$ 256,691	\$ 1,899,800	\$ 19,381,400
In-kind contributions	603			603	28,283
Interest and dividends	38,091	248,655		286,746	266,694
Realized and unrealized gain (loss) on investments	(23,567)	130,160		106,593	216,936
Grant income	674,733	1,528,500	204,188	2,407,421	222,100
Program income	7,125	9,736		16,861	12,927
Management fee	31,720			31,720	30,906
<b>Total revenue</b>	<b>1,723,327</b>	<b>2,565,538</b>	<b>460,879</b>	<b>4,749,744</b>	<b>20,159,246</b>
Net assets released from restrictions					
Satisfaction of restrictions	2,525,131	(2,525,131)			
<b>Total revenue and net assets released</b>	<b>4,248,458</b>	<b>40,407</b>	<b>460,879</b>	<b>4,749,744</b>	<b>20,159,246</b>
Expenses					
Program expenses	3,088,563			3,088,563	4,044,560
Management and general expenses	263,484			263,484	258,722
Fundraising	146,036			146,036	125,807
<b>Total expenses</b>	<b>3,498,083</b>			<b>3,498,083</b>	<b>4,429,089</b>
<b>Change in net assets</b>	<b>750,375</b>	<b>40,407</b>	<b>460,879</b>	<b>1,251,661</b>	<b>15,730,157</b>
Net assets, beginning of year	2,482,078	21,983,979	7,030,786	31,496,843	15,766,686
Net assets, end of year	\$ 3,232,453	\$ 22,024,386	\$ 7,491,665	\$ 32,748,504	\$ 31,496,843

See Notes to Financial Statements

**WHATCOM COMMUNITY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016  
(With comparative totals for June 30, 2015)

	2016			Total	2015
	Program	Management and General	Fundraising		
Awards granted	\$ 2,598,169	\$ -	\$ -	\$ 2,598,169	\$ 3,602,844
Salaries, benefits, and taxes	192,244	198,760	111,722	502,726	450,388
Program services	211,608			211,608	154,624
Bad debt expense		3,250	5,100	8,350	22,600
Consultants	37,737	4,263		42,000	7,919
Occupancy	2,982	5,963	994	9,939	15,918
Development and communications	5,553		12,957	18,510	26,538
Equipment maintenance	5,180	10,359	1,727	17,266	53,453
Conferences	11,916		2,979	14,895	11,722
Professional fees		18,866		18,866	15,856
Depreciation	5,520	11,039	1,840	18,399	12,837
Telephone and utilities	2,215	2,215	492	4,922	6,451
Dues and publications	4,463	1,785	2,678	8,926	9,696
Office expense	2,187	4,373	729	7,289	29,119
Insurance	588	1,175	196	1,959	2,603
Meetings	6,648		739	7,387	1,636
Fundraising			2,139	2,139	
Fees and discounts	501	501	1,003	2,005	1,053
Other	1,052	935	741	2,728	3,832
	<u>\$ 3,088,563</u>	<u>\$ 263,484</u>	<u>\$ 146,036</u>	<u>\$ 3,498,083</u>	<u>\$ 4,429,089</u>

See Notes to Financial Statements

## WHATCOM COMMUNITY FOUNDATION

### STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

(With comparative totals for June 30, 2015)

	2016	2015
Cash Flows from Operating Activities		
Changes in net assets	\$ 1,251,661	\$ 15,730,157
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	18,399	12,837
Realized and unrealized gains on investments	(106,593)	(216,936)
Contributions restricted for long-term purposes	(460,879)	(18,420)
Change in allowance for notes receivable		20,000
Change in operating assets and liabilities		
Accounts receivable	474	(1,138)
Grants and pledges receivable	(1,510,840)	234,612
Charitable trust receivable	1,337,232	(18,311,159)
Prepaid expenses		1,040
Accounts payable and accrued expenses	14,472	(7,764)
Grant awards payable	(83,561)	(267,988)
Funds held for others	(112,614)	(63,206)
Net cash flows from operating activities	347,751	(2,887,965)
Cash Flows from Investing Activities		
Collections on notes receivable	370,698	42,158
Proceeds and purchases of investments, net	(234,038)	352,694
Change in restricted cash	(102,526)	
Purchases of equipment	(2,584)	(122,339)
Net cash flows from investing activities	31,550	272,513
Cash Flows From Financing Activity		
Collection of long-term contributions	460,879	18,420
<b>Net Increase (Decrease) in Cash</b>	<b>840,180</b>	<b>(2,597,032)</b>
Cash, beginning of year	3,055,974	5,653,006
Cash, end of year	\$ 3,896,154	\$ 3,055,974
Supplementary Disclosure of Noncash Donations		
Gifts of Investments	\$ 1,551,315	\$ 448,633

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 support charitable programs in 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 education, arts and culture, health, social welfare, civic development, and the environment, in keeping with its mission of *enhancing philanthropy to strengthen Whatcom County by linking people who care with causes that matter.*

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, 2016:

Quasi-endowments	\$ 1,202,942
Operating reserve	164,395
Capital reserve	30,016
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	\$ 1,397,353
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**Whatcom Community Foundation  
Notes to the Financial Statements**

*Temporarily restricted net assets* are subject to grantor/donor-imposed stipulations that may be met, either by 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, 2016, are restricted for the following:

Time	\$ 17,307,538
Earnings on endowment	2,286,179
WCF grantmaking	1,562,400
Designated funds	416,086
Field of interest funds	208,063
Scholarship funds	175,380
Program and fiscal sponsorship funds	64,740
Capital expenditures	4,000
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	\$ 22,024,386

*Permanently restricted net assets* are subject to donor-imposed stipulations to be maintained permanently by the Foundation.

**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, 2015, 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**

The Foundation has pledged certificates of deposit totaling \$102,526 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 guaranty (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 annually 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 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. Consequently, all contributions are classified as unrestricted if they are available to the Foundation with no restriction as to when the funds are available for expenditure and grant making.

**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, 2016, 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 December 31, 2015, 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. On occasion, the Foundation has cash balances in excess of federally insured limits.

For the year ended June 30, 2016, the Foundation recognized approximately 40% of its grant and contribution revenue from two donors. For the year ended June 30, 2015, the Foundation recognized approximately 94% of its revenue from a Charitable Lead Annuity Trust (see Note 6).

**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 on which these financial statements were available to be issued, which was November 3, 2016.

**Note 3. Investments**

At June 30, 2016, investments consisted of the following:

Mutual funds:	
Large blend	\$ 5,437,822
Intermediate term bond	3,875,684
Foreign large blend	1,769,096
Small blend	1,099,891
Real estate	743,945
Mid-cap blend	723,536
Money market	328,794
Large growth	81,238
Certificates of deposit	360,264
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	\$ 14,420,270
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**Note 4. Grants and Pledges Receivable**

Included in grants and pledges receivable are the following unconditional promises to give at June 30, 2016. Approximately 98% of grants and pledges receivable is due from one donor.

Amounts are due during the years ending June 30 as follows:

2017	\$ 798,515
2018	750,000
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	\$ 1,548,515
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**Whatcom Community Foundation  
Notes to the Financial Statements**

**Note 5. Notes Receivable**

The Foundation holds two notes receivable, which are recorded at cost (one for \$20,000 and the other for \$15,000). The notes bear interest between 0% and 3% per annum and interest is recorded as earned. The notes are past due as of June 30, 2016, and management is renegotiating the terms with the borrowers as of the date of these financial statements. An allowance for estimated uncollectible notes receivable of \$20,000 has been recorded as of June 30, 2016. Future minimum principal payments to be received for the year ending June 30, 2017, is summarized as follows:

Total amount due	\$	35,000
Less: allowance		(20,000)
		15,000
	\$	15,000

**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 Foundation received the first payment during the year ended June 30, 2016. The total remaining payments to be received over the course of the annuity period amount to \$18,582,249 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, 2016, was as follows:

Receivable in less than one year	\$	2,018,008
Receivable in one to five years		8,072,032
Receivable thereafter		8,492,209
		18,582,249
Less: unamortized discount		(1,608,322)
	\$	16,973,927

**Note 7. Property and Equipment**

At June 30, 2016, property and equipment consisted of the following:

Furniture	\$	12,575
Software		4,534
Office equipment		41,056
Leasehold improvements		112,661
		170,826
Less: accumulated depreciation		(57,963)
Property and equipment, net	\$	112,863

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

**Note 8. Funds Held for Others**

Funds held for others as of June 30, 2016, consist of:

Mount Baker Theatre Endowment Fund	\$ 1,348,934
Pioneer Meadows Montessori School Endowment Fund	759,832
Bellingham Public Library Endowment Fund	232,214
Nooksack Salmon Enhancement Endowment Fund	137,589
Ferndale Band Boosters Endowment Fund	131,100
Lydia Place Endowment Fund	70,294
Whatcom County Library Foundation Fund	43,230
Law Advocates Agency Endowment Fund	13,906
Northwest Youth Services Endowment Fund	13,410
Agape Home for Women & Children Fund	12,839
Whatcom Symphony Endowment Fund	12,508
Lighthouse Mission Endowment Fund	12,333
Whatcom Literacy Council Agency Fund	11,860
Compass Health Endowment	9,689
Brigid Collins Endowment Fund	9,468
Bellingham Parks & Recreation Endowment Fund	8,007
Bruce Wolf Endowment Fund	7,522
Whatcom Land Trust Fund	6,647
Ferndale Double Dome Fund	3,828
Bellingham Festival of Music Agency Fund	796
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Total funds held for others	<u>\$ 2,846,006</u>

**Note 9. 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, 2016, was \$9,939. Minimum rent payable for the years ending June 30 is as follows:

2017	\$ 10,284
2018	10,592
2019	10,910
2020	11,236
2021	11,575
Thereafter	38,977
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	<u>\$ 93,574</u>

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

**Note 10. 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, 2016, were \$36,916.

**Note 11. Endowments**

The Foundation's endowment consists of 105 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 U.S. 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.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted or unrestricted 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.



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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds Held for Others</u>	<u>Total</u>
Endowment net assets composition by type of fund as of June 30, 2016 (excluding pledges receivable)					
Donor-restricted endowment funds	\$ -	\$ 2,286,179	\$ 7,491,665	\$ 2,846,006	\$ 12,623,850
Board designated endowment funds	<u>1,202,942</u>				<u>1,202,942</u>
Total funds	<u>1,202,942</u>	<u>2,286,179</u>	<u>7,491,665</u>	<u>2,846,006</u>	<u>13,826,792</u>
Endowment net assets, June 30, 2015 (excluding pledges receivable)	1,224,872	2,394,397	7,030,786	2,843,219	13,493,274
Endowment investment return					
Interest and dividends	29,119	230,575		67,397	327,091
Realized and unrealized gains	<u>13,872</u>	<u>127,457</u>		<u>33,407</u>	<u>174,736</u>
Total endowment investment return	42,991	358,032		100,804	501,827
Contributions	450	7,619	256,691	27,439	292,199
Management fee	(17,854)	(111,649)		(30,272)	(159,775)
Appropriation of endowment for expenditure	(26,951)	(372,055)		(76,417)	(475,423)
Transfer to/from endowment		9,835	204,188	(18,767)	195,256
Transfer to/from quasi-endowments	<u>(20,566)</u>				<u>(20,566)</u>
Endowment net assets, June 30, 2016 (excluding pledges receivable)	<u>\$ 1,202,942</u>	<u>\$ 2,286,179</u>	<u>\$ 7,491,665</u>	<u>\$ 2,846,006</u>	<u>\$ 13,826,792</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, 2016.

**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.

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

**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.