

**WHATCOM COMMUNITY FOUNDATION**

FINANCIAL REPORT

JUNE 30, 2018

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Peterson Sulli LLP.*

September 26, 2018

**WHATCOM COMMUNITY FOUNDATION**

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(With Comparative Totals for June 30, 2017)

ASSETS	2018	2017
Cash	\$ 4,527,811	\$ 3,615,705
Restricted cash	87,121	94,315
Investments	21,551,796	17,336,818
Accounts receivable	6,389	3,844
Other assets	1,994	
Grants receivable	775,000	855,000
Notes receivable, net allowance of \$12,000 and \$20,000 in 2018 and 2017, respectively		3,000
Charitable trust receivable, net	13,523,006	15,263,983
Property and equipment, net	92,268	110,721
<b>Total assets</b>	<b>\$ 40,565,385</b>	<b>\$ 37,283,386</b>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 30,304	\$ 46,917
Grant awards payable	2,232,836	1,589,741
Funds held for others	3,428,170	3,127,495
<b>Total liabilities</b>	<b>5,691,310</b>	<b>4,764,153</b>
Net assets		
Unrestricted		
Operating	919,780	180,790
Board-designated	1,866,736	1,775,914
<b>Total unrestricted</b>	<b>2,786,516</b>	<b>1,956,704</b>
Temporarily restricted	19,836,614	21,666,395
Permanently restricted	12,250,945	8,896,134
<b>Total net assets</b>	<b>34,874,075</b>	<b>32,519,233</b>
<b>Total liabilities and net assets</b>	<b>\$ 40,565,385</b>	<b>\$ 37,283,386</b>

See Notes to Financial Statements

**WHATCOM COMMUNITY FOUNDATION**

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018  
(With Comparative Totals for June 30, 2017)

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue					
Contributions	\$ 36,244	\$ 1,706,561	\$ 3,329,445	\$ 5,072,250	\$ 2,941,605
In-kind contributions	8,788	32,173		40,961	50
Interest and dividends	50,440	384,720		435,160	294,723
Realized and unrealized gain on investments	91,772	725,385		817,157	1,035,553
Grant income	819,418	136,404		955,822	302,103
Program income	28,179	133,848		162,027	89,824
Management fee	36,604			36,604	32,802
Total revenue	1,071,445	3,119,091	3,329,445	7,519,981	4,696,660
Net Assets Released from Restrictions					
Satisfaction of restrictions	4,923,506	(4,948,872)	25,366		
Total revenue and net assets released	5,994,951	(1,829,781)	3,354,811	7,519,981	4,696,660
Expenses					
Program expenses	4,569,191			4,569,191	4,319,635
Management and general expenses	407,861			407,861	447,302
Fundraising	188,087			188,087	158,994
Total expenses	5,165,139			5,165,139	4,925,931
<b>Change in net assets</b>	<b>829,812</b>	<b>(1,829,781)</b>	<b>3,354,811</b>	<b>2,354,842</b>	<b>(229,271)</b>
Net Assets, beginning of year	1,956,704	21,666,395	8,896,134	32,519,233	32,748,504
Net Assets, end of year	\$ 2,786,516	\$ 19,836,614	\$ 12,250,945	\$ 34,874,075	\$ 32,519,233

See Notes to Financial Statements

**WHATCOM COMMUNITY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018  
(With Comparative Totals for June 30, 2017)

	2018			2017	
	Program	Management and General	Fundraising	Total	Total
Awards granted	\$ 3,886,209	\$ -	\$ -	\$ 3,886,209	\$ 3,851,020
Salaries, benefits, and taxes	288,616	283,400	139,424	711,440	536,094
Program services	315,724			315,724	194,868
Consultants		45,835		45,835	149,796
Equipment maintenance	10,524	21,047	3,508	35,079	33,006
Development and communications	9,524		22,224	31,748	26,844
Depreciation	5,536	11,072	1,845	18,453	18,742
Other	53,058	46,507	21,086	120,651	115,561
	<u>\$ 4,569,191</u>	<u>\$ 407,861</u>	<u>\$ 188,087</u>	<u>\$ 5,165,139</u>	<u>\$ 4,925,931</u>

See Notes to Financial Statements

## WHATCOM COMMUNITY FOUNDATION

### STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018  
(With Comparative Totals for June 30, 2017)

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 2,354,842	\$ (229,271)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	18,453	18,742
Realized and unrealized gains on investments	(817,157)	(1,035,553)
Contributions restricted for long-term purposes	(3,329,445)	(1,252,973)
Changes in operating assets and liabilities		
Accounts receivable	(2,545)	(3,180)
Grants receivable	80,000	693,515
Charitable trust receivable	1,740,977	1,709,944
Other asset	(1,994)	
Accounts payable and accrued expenses	(16,613)	11,783
Grant awards payable	643,095	149,466
Net cash flows from operating activities	669,613	62,473
Cash Flows from Investing Activities		
Collections on notes receivable	3,000	12,000
Proceeds and purchases of investments, net	(3,073,724)	(1,556,898)
Change in restricted cash	7,194	8,211
Purchases of equipment		(16,600)
Net cash flows from investing activities	(3,063,530)	(1,553,287)
Cash Flows From Financing Activity		
Collection of long-term contributions	3,329,445	1,252,973
Net payments made from funds held for others	(23,422)	(42,608)
Net cash flows from financing activities	3,306,023	1,210,365
<b>Net increase (decrease) in cash</b>	<b>912,106</b>	<b>(280,449)</b>
Cash, beginning of year	3,615,705	3,896,154
Cash, end of year	\$ 4,527,811	\$ 3,615,705
Supplementary Disclosure of Noncash Donations		
Gifts of investments	\$ 3,010,208	\$ 1,096,576

See Notes to Financial Statements



## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization

Whatcom Community Foundation ("the Foundation") is a not-for-profit Washington Corporation established in 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.

Over the past several years, the Foundation has been working to help schools provide healthy food for students through the Whatcom Farm to School Initiative, as many local schools lack adequate food preparation facilities. In 2018, the Foundation made a \$1,000,000 grant to Bellingham Public Schools to build a centralized kitchen for the district, and the Foundation continues to work with the Port of Bellingham and other entities to explore options for a local food campus to strengthen and enhance the local food system and the local food economy.

The Foundation's Nonprofit Capacity Building Initiative offers several programs, including Board Match, matching 22 community members to serve as board members for 20 local organizations this year by providing basic training and opportunities for engagement. The Executive Director Roundtable provided 18 nonprofit leaders with opportunities to learn, share best practices, and enhance leadership skills.

The Foundation's Whatcom Dollars for Scholars Program awarded scholarships to 95 students across Whatcom County totaling \$196,000 in 2018.

In 2018, the Foundation became a contractor for the Washington State Department of Agriculture's Emergency Food Assistance Program and received \$111,712 in WSDA reimbursements for payments to local vendors for food purchases made by local food banks and food pantries.

### 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, 2018:

Quasi-endowments	\$	1,667,659
Operating reserve		199,077
		<hr/>
	\$	1,866,736
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*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, 2018, are restricted for the following:

Time	\$ 13,523,053
Earnings on endowment	3,432,896
Gifts to endowment spendable (endowment earnings)	49,240
WCF grantmaking	585,533
Designated funds	275,504
Field of interest funds	372,286
Scholarship funds	408,471
Program and fiscal sponsorship funds	156,855
Mission investing funds	136,881
Donor-advised non-endowed	895,895
	\$ 19,836,614
	\$ 19,836,614

*Permanently restricted net assets* are subject to donor-imposed stipulations to be maintained permanently by the Foundation. Occasionally, a donor that had made contributions in prior years will direct an unspent 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, 2017, 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, 2018, the Foundation has pledged certificates of deposit totaling \$87,121 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 the guarantee obligation would need to be fulfilled.

## **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.

## **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, 2018, 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, 2018, but was considered immaterial and, therefore, was not recognized. All of the grants receivable are due from two donors and will be collected during the year ending June 30, 2019.

## **Bequests**

The Foundation receives bequests from time to time. It is the policy of the Foundation to record the bequest when it has cleared probate and all related fees have been determined.

## **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 approved as program expenses. When payments are made for grants previously approved, 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, 2018, the Foundation recognized approximately 76% 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.

### **Subsequent Events**

Management of the Foundation has evaluated subsequent events through the date these financial statements were available to be issued, which was September 26, 2018.

### **Note 3. Investments**

At June 30, 2018, investments consist of the following:

Mutual funds	
Large blend equity	\$ 8,274,011
Intermediate-term bond	5,776,515
Foreign large blend equity	2,571,101
Small cap blend equity	1,687,692
Real estate equity fund	1,153,605
Mid-cap blend equity	1,093,870
Money market	498,392
Large growth equity	134,038
Certificates of deposit	362,572
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	\$ 21,551,796
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### **Note 4. Notes Receivable**

The Foundation holds one note receivable, which is recorded at cost (for \$20,000, which had an outstanding balance of \$12,000 at June 30, 2018). The note does not bear interest. In a prior year, a reserve for the entire balance of the note was established. Management has renegotiated terms with the borrower and has been receiving payments during fiscal year 2018.

**Note 5. 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 \$14,546,241, 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, 2018, is as follows:

Receivable in less than one year	\$ 2,018,008
Receivable in one to five years	8,072,032
Receivable thereafter	<u>4,456,201</u>
	14,546,241
Less: unamortized discount	<u>(1,023,235)</u>
	<u>\$ 13,523,006</u>

**Note 6. Property and Equipment**

At June 30, 2018, property and equipment consist of the following:

Furniture	\$ 12,575
Software	4,534
Office equipment	54,592
Leasehold improvements	<u>112,661</u>
	184,362
Less: accumulated depreciation	<u>(92,094)</u>
Property and equipment, net	<u>\$ 92,268</u>

**Note 7. Grants Payable**

Included in grants payable are the following unconditional grants payable at June 30, 2018:

Amounts due in:	
Less than one year	\$ 1,913,738
One to five years	<u>319,098</u>
Total grants payable	<u>\$ 2,232,836</u>

## Note 8. 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.

As of June 30, 2018, there was one conditional grant for \$298,000, for which payment is conditional upon all funds being secured for the purchase of a portion of land. The condition must be fulfilled by December 31, 2019. No funds have been disbursed for this award as of June 30, 2018.

Conditional scholarships for which payment is conditional upon student enrollment amount to \$92,000 as of June 30, 2018. These scholarships will be recognized as a liability upon student enrollment over the next one to five years.

## Note 9. Funds Held for Others

Funds held for others as of June 30, 2018, consist of:

Mount Baker Theatre Endowment Fund	\$	1,486,430
Pioneer Meadows Montessori School Endowment Fund		861,785
Bellingham Public Library Endowment Fund		252,565
Nooksack Salmon Enhancement Endowment Fund		149,223
Ferndale Band Boosters Endowment Fund		142,224
Bellingham Public Schools Foundation Endowment Fund		124,078
Whatcom County Library Foundation Fund		104,702
Lydia Place Endowment Fund		76,465
Master Gardener Foundation of Whatcom County Endowment Fund		26,653
Whatcom Symphony Endowment Fund		41,097
Bellingham Festival of Music Agency Fund		22,289
Law Advocates Agency Endowment Fund		18,122
Whatcom Literacy Council Agency Fund		15,949
Northwest Youth Services Endowment Fund		14,551
Agape Home for Women & Children Fund		13,895
Lighthouse Mission Endowment Fund		13,405
Brigid Collins Endowment Fund		11,155
Bruce Wolf Endowment Fund		10,728
Compass Health Endowment		10,579
Eric Braun Memorial Endowment for Cedar Tree Montessori		10,291
Bellingham Parks & Recreation Endowment Fund		8,734
Whatcom Land Trust Fund		7,229
Ferndale Double Dome Fund		4,525
Bellingham Festival of Music Education and Outreach Agency Fund		1,496
Total funds held for others	\$	<u>3,428,170</u>

**Note 10. Operating Lease**

The Foundation entered into a 10-year lease for office space commencing in November 2014. Total rent expense for the year ended June 30, 2018, was \$18,518, including Washington Federal's \$8,787 in-kind donation. Minimum rent payable is as follows for the years ending June 30:

2019	\$	10,910
2020		11,236
2021		11,575
2022		11,923
2023		12,280
Thereafter		14,773
	\$	<u>72,697</u>

**Note 11. 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, 2018, were \$42,907.

**Note 12. Endowments**

The Foundation's endowment consists of 95 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 9, 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.



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, 2018:

	<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, 2018 (excluding pledges receivable)					
Donor-restricted endowment funds	\$ -	\$ 3,482,136	\$ 12,250,945	\$ 3,428,170	\$ 19,161,251
Board-designated endowment funds	<u>1,667,659</u>				<u>1,667,659</u>
Total funds	<u>\$ 1,667,659</u>	<u>\$ 3,482,136</u>	<u>\$ 12,250,945</u>	<u>\$ 3,428,170</u>	<u>\$ 20,828,910</u>
Endowment net assets, June 30, 2017 (excluding pledges receivable)	\$ 1,577,189	\$ 3,002,752	\$ 8,896,134	\$ 3,127,495	\$ 16,603,570
Endowment investment return					
Interest and dividends	38,225	343,668		75,369	457,262
Realized and unrealized gains	<u>90,749</u>	<u>720,615</u>		<u>182,578</u>	<u>993,942</u>
Total endowment investment return	128,974	1,064,283		257,947	1,451,204
Contributions	48,806	19,240	3,329,445	196,341	3,593,832
Management fee	(25,069)	(181,018)		(36,604)	(242,691)
Appropriation of endowment for expenditure	(59,332)	(355,724)		(117,009)	(532,065)
Transfer to/from endowment	<u>(2,909)</u>	<u>(67,397)</u>	25,366		<u>(44,940)</u>
Endowment net assets, June 30, 2018 (excluding pledges receivable)	<u>\$ 1,667,659</u>	<u>\$ 3,482,136</u>	<u>\$ 12,250,945</u>	<u>\$ 3,428,170</u>	<u>\$ 20,828,910</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, 2018.

## **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 13. Bequests, Realized and in Process**

The Foundation was named as beneficiary of the Estate of Robert G. Bragg, who died on September 25, 2017, to establish the Robert Bragg and George Muldrow Endowment for the Bellingham Public Library. The Foundation has received \$2,496,077 to date, which is recorded in the statement of activities for the year ended June 30, 2018. The Foundation expects to receive the final distribution for the endowment, estimated at \$1,000,000, after all debts and taxes have been paid. This last distribution has not yet been recorded in the financial statements.

As a beneficiary of the Hayden Family Living Trust, the Foundation received a partial distribution of \$581,093 in the year ended June 30, 2018, and was recorded in the statement of activities in the same year. The Foundation expects to receive a final distribution of approximately \$25,000 in late 2018, which will be recorded in the financial statements once it has cleared probate and all related fees have been determined.

The Foundation is a residual beneficiary of the Last Will and Testament of Dorothy Gonzales. Subsequent to year-end, following the termination of the estate, approximately \$125,000 will be distributed to the Foundation to establish endowments to benefit three local organizations.

In addition, the Foundation was a residual beneficiary of the Estate of Joan Casey, which was recorded in the statements of activities in the years ended June 30, 2018 and 2017.