

WHATCOM COMMUNITY FOUNDATION

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2019

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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 consolidated financial statements of Whatcom Community Foundation and subsidiary ("the Foundation"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019, 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.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the consolidated financial statements, for the year ended June 30, 2019, the Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Information

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sulli LLP

October 23, 2019

WHATCOM COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019

(With Comparative Totals for June 30, 2018)

ASSETS	2019	2018
Cash	\$ 3,515,385	\$ 4,527,811
Restricted cash	99,047	87,121
Investments	22,594,372	21,551,796
Restricted investments	1,389,122	
Accounts receivable	12,508	6,389
Other assets	1,994	1,994
Grants receivable	1,500,000	775,000
Notes receivable, net allowance of \$10,000 and \$12,000 in 2019 and 2018, respectively		
Charitable trust receivable, net	11,750,430	13,523,006
Property and equipment, net	79,919	92,268
Total assets	\$ 40,942,777	\$ 40,565,385
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 76,264	\$ 30,304
Grant awards payable	642,548	2,232,836
Guarantee liability	104,312	
Funds held for others	3,581,556	3,428,170
Total liabilities	4,404,680	5,691,310
Net assets		
Without donor restrictions		
Operating	1,207,964	919,780
Board-designated	1,950,471	1,866,736
Total net assets without donor restrictions	3,158,435	2,786,516
With donor restrictions	33,379,662	32,087,559
Total net assets	36,538,097	34,874,075
Total liabilities and net assets	\$ 40,942,777	\$ 40,565,385

See Notes to Consolidated Financial Statements

WHATCOM COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue				
Contributions	\$ 31,791	\$ 3,046,609	\$ 3,078,400	\$ 5,072,250
In-kind contributions	13,910	960	14,870	40,961
Interest and dividends	70,065	451,734	521,799	435,160
Realized and unrealized gain on investments	85,081	897,479	982,560	817,157
Grant income	812,487	1,142,814	1,955,301	955,822
Program income	30,226	179,343	209,569	162,027
Management fee	38,744		38,744	36,604
Total revenue	1,082,304	5,718,939	6,801,243	7,519,981
Net Assets Released from Restrictions				
Satisfaction of restrictions	4,426,836	(4,426,836)		
Total revenue and net assets released	5,509,140	1,292,103	6,801,243	7,519,981
Expenses				
Program expenses	4,535,704		4,535,704	4,569,191
Management and general expenses	510,456		510,456	407,861
Fundraising	91,061		91,061	188,087
Total expenses	5,137,221		5,137,221	5,165,139
Change in net assets	371,919	1,292,103	1,664,022	2,354,842
Net Assets, beginning of year	2,786,516	32,087,559	34,874,075	32,519,233
Net Assets, end of year	\$ 3,158,435	\$ 33,379,662	\$ 36,538,097	\$ 34,874,075

See Notes to Consolidated Financial Statements

WHATCOM COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019			2018	
	Program	Management and General	Fundraising	Total	Total
Awards granted	\$ 3,830,334			\$ 3,830,334	\$ 3,886,209
Salaries, benefits, and taxes	369,584	288,950	55,679	714,213	711,440
Program services	246,180			246,180	315,724
Consultants		95,820		95,820	45,835
Development and communications	8,261	14,456	18,587	41,304	31,748
Equipment maintenance	19,158	14,978	2,886	37,022	35,079
Depreciation	8,640	6,755	1,302	16,697	18,453
Other	53,547	89,497	12,607	155,651	120,651
	<u>\$ 4,535,704</u>	<u>\$ 510,456</u>	<u>\$ 91,061</u>	<u>\$ 5,137,221</u>	<u>\$ 5,165,139</u>

See Notes to Consolidated Financial Statements

WHATCOM COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 1,664,022	\$ 2,354,842
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	16,697	18,453
Realized and unrealized gains on investments	(982,560)	(817,157)
Contributions restricted for long-term purposes	(1,159,517)	(3,329,445)
Changes in operating assets and liabilities		
Accounts receivable	(6,119)	(2,545)
Grants receivable	(725,000)	80,000
Charitable trust receivable	1,772,576	1,740,977
Other asset		(1,994)
Accounts payable and accrued expenses	45,960	(16,613)
Guarantee liability	104,312	
Grant awards payable	(1,590,288)	643,095
	(859,917)	669,613
Net cash flows from operating activities	(859,917)	669,613
Cash Flows from Investing Activities		
Collections on notes receivable		3,000
Proceeds and purchases of investments, net	(1,120,693)	(3,073,724)
Change in restricted cash	(11,926)	7,194
Purchases of equipment	(4,348)	
	(1,136,967)	(3,063,530)
Net cash flows from investing activities	(1,136,967)	(3,063,530)
Cash Flows from Financing Activities		
Collection of long-term contributions	1,159,517	3,329,445
Net payments made from funds held for others	(175,059)	(23,422)
	984,458	3,306,023
Net cash flows from financing activities	984,458	3,306,023
Net increase (decrease) in cash	(1,012,426)	912,106
Cash, beginning of year	4,527,811	3,615,705
Cash, end of year	\$ 3,515,385	\$ 4,527,811
Supplementary Disclosure of Noncash Donations		
Gifts of investments	\$ 645,327	\$ 3,010,208

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED 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 community members to serve as board members for local organizations this year by providing basic training and opportunities for engagement. The Executive Director Roundtable provided nonprofit leaders with opportunities to learn, share best practices, and enhance leadership skills.

The Foundation's Whatcom Scholarship Program awarded scholarships to 101 students across Whatcom County totaling \$212,120 in 2019.

In 2018, the Foundation became a contractor for the Washington State Department of Agriculture's ("WSDA") Emergency Food Assistance Program. During the year ended June 30, 2019, the Foundation received \$168,986 in WSDA reimbursements for payments to local vendors for food purchases made by local food banks and food pantries.

During the year ended June 30, 2019, the Foundation created a new entity called The Millworks LLC ("the LLC"). The Foundation is the sole member of the LLC. As an LLC, the liability of the member is generally limited to amounts invested. The LLC was formed for the purpose of serving as the development entity for a new mixed-use project that will include a food hub, workforce housing, and nonprofit offices. The LLC currently has an exclusive negotiating agreement with the Port of Bellingham ("the Port") for a three acre parcel on the Bellingham, Washington waterfront where the project will be developed and will be the entity that eventually holds the long-term memorandum of understanding with the Port for the site and its development. There was no activity for the LLC for the year ended June 30, 2019.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and 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:

Net assets without donor restrictions are not subject to grantor/donor-imposed stipulations and are available for operations, programs, and grant making. Net assets without donor restrictions 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, 2019:

Quasi-endowments	\$	1,741,346
Operating reserve		<u>209,125</u>
	\$	<u><u>1,950,471</u></u>

Net assets with donor restrictions 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, net assets with donor restrictions – time or purpose restricted are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions – time or purpose restricted at June 30, 2019, are restricted for the following:

Time		
Charitable Lead Annuity Trust receivable	\$	11,750,478
Grants receivable > 1yr		<u>750,000</u>
		12,500,478
Endowed funds		
Corpus		13,493,887
Earnings		<u>3,843,741</u>
		17,337,628
Non-endowed funds		
WCF Grantmaking:		
To designated organizations		306,123
Field of interest grants		270,398
Scholarships, upon student registration		573,699
Donor-advised grants, upon request		1,624,615
Programs and projects		421,162
Mission investments		<u>345,559</u>
		<u>3,541,556</u>
	\$	<u><u>33,379,662</u></u>

Net assets with donor restrictions - endowed are subject to donor-imposed stipulations to be maintained in perpetuity by the Foundation (see Note 13).

Basis of Consolidation

These consolidated financial statements include the accounts of the LLC. As noted above, the Foundation owns 100% of the LLC, so this entity is consolidated into the Foundation's financial statements.

Prior-Year Comparative Information

These consolidated 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, 2018, 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 and Investments

At June 30, 2019 and 2018, the Foundation has pledged certificates of deposit totaling \$99,047 and \$87,121, respectively, 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 consolidated 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 related to these guarantees was not material to the consolidated financial statements; therefore, no guarantee liability has been recorded in these consolidated financial statements related to these two guarantees. Both Whatcom County businesses were current on their loans at the date these consolidated 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.

At June 30, 2019, the Foundation has pledged investments totaling \$1,389,122 as collateral to guarantee a line of credit for a Whatcom County nonprofit organization to aid in a housing development program. These investments are recorded as part of total investments on the consolidated statement of financial position at June 30, 2019. The term of the underlying loan matures in September 2023. The loan is not currently at risk of default nor is it expected to be over the term of the loan. The fair value of the guarantee was valued at \$104,312 and is recorded as a liability on the consolidated statement of financial position at June 30, 2019.

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. Donations, gifts, and bequests are recorded as contributions to the appropriate program funds at fair value. Contributions received are recorded as net assets with or without donor restrictions based on donor-imposed stipulations despite variance power being granted to the Foundation, as the Foundation's intent is to honor the donor-imposed stipulation unless, in the sole judgement of the board, such restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area being served. These contributions are maintained in the funds until expended as grants, in accordance with the Board of Directors' authorization. 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, 2019, 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, 2019, but was considered immaterial and, therefore, was not recognized. All grants receivable are due from one donor and will be collected during the years ending June 30, 2020 and 2021.

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.

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 the final distribution for a total of \$1,041,822, which is recorded in the consolidated statement of activities for the year ended June 30, 2019.

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, 2019, the Foundation recognized approximately 54% 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 consolidated 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

Functional expenses are those expenses incurred by the Foundation in the accomplishment of its stated mission. They can further be categorized as follows:

- Program services – including grants awarded, impact investments, service to other nonprofits, philanthropic leadership and civic leadership;
- Development and fundraising – including establishing and maintaining relationships with donors; and
- Management and general – including expenses that benefit the Foundation as an entity and the management and accounting for funds.

The cost of providing the various program and supporting services has been summarized on a functional basis in the consolidated statements of activities and statements of functional expenses. These statements include expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel, professional services, information technology, and occupancy expenses are allocated on the basis of estimates of time and effort or other reasonable bases.

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2019, the Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 3).

Subsequent Events

Management of the Foundation has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was October 23, 2019 (see Note 14).

Note 3. Liquidity and Availability of Resources

The Foundation manages its cash to meet general expenditures and grants following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets; and
- Maintaining sufficient reserves to provide reasonable assurance that obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

General expenditures include management and general expenses, fundraising expenses, and some program expenses.

Financial assets at June 30, 2019, designated by the board for operating purposes:

Cash and cash equivalents	\$ 3,515,385
Investments, short term pool	411,599
Receivables with liquidity horizons of one year or less	<u>762,508</u>
Total financial assets available for general expenditures within one year	<u>\$ 4,689,492</u>

Administrative fees provide an ongoing source of income for general operations and programs. Fees are assessed to funds monthly, based on fund balance and/or activity. Administrative fees of \$466,962 were charged to funds for the year ended June 30, 2019. Such administrative fee income (operating fund) and administrative fee expense (other funds) is netted in the presentation of the statement of activities. Administrative fees available for general expenditures for the year ended June 30, 2020, are estimated to total \$458,500.

The Foundation manages its cash available for grant purposes by examining the purpose for which the fund was established and whether the fund is endowed or not. Most funds that are not endowed are invested in the Foundation's short-term pool in money market funds, as capital preservation and liquidity are the primary objectives.

Endowed funds are generally invested in the Foundation's long-term pool. The amount available for granting is calculated annually according to the Foundation's spending policy, which is currently 4% of the average quarterly market value of the fund over the preceding twelve quarters. In order to protect the principal value of an endowment, no grant distributions are made that will cause the fund balance to fall below the total contributions to the fund. Funds calculated as available to grant during the year ended June 30, 2019, were \$630,633. Assuming the current spending rate, an estimated \$650,000 will be made available for the year ended June 30, 2020: \$544,000 for grantmaking from donor restricted endowments and \$106,000 from board designated (quasi) endowments to support operating expenses.

Note 4. Investments

At June 30, 2019, investments consist of the following:

Mutual funds	
Large blend equity	\$ 9,045,745
Intermediate-term bond	5,538,118
Foreign large blend equity	3,901,474
Small cap blend equity	1,808,371
Mid-cap blend equity	1,218,708
Real estate equity fund	1,163,463
Money market fund	748,283
Large growth equity	147,734
Certificates of deposit	<u>411,598</u>
	<u>\$ 23,983,494</u>

Investments are recorded as follows on the statement of financial position at June 30, 2019:

Investments	\$ 22,594,372
Restricted investments	<u>1,389,122</u>
	<u>\$ 23,983,494</u>

Note 5. Notes Receivable

The Foundation holds one note receivable, which is recorded at cost (for \$20,000, which had an outstanding balance of \$10,000 at June 30, 2019). 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 2019.

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 \$12,528,233, 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, 2019, is as follows:

Receivable in less than one year	\$	2,018,008
Receivable in one to five years		8,072,030
Receivable thereafter		<u>2,438,195</u>
		12,528,233
Less: unamortized discount		<u>(777,803)</u>
	\$	<u><u>11,750,430</u></u>

Note 7. Property and Equipment

At June 30, 2019, property and equipment consist of the following:

Furniture	\$	12,575
Software		4,534
Office equipment		37,032
Leasehold improvements		<u>112,661</u>
		166,802
Less: accumulated depreciation		<u>(86,883)</u>
Property and equipment, net	\$	<u><u>79,919</u></u>

Note 8. Grants Payable

Included in grants payable are the following unconditional grants payable at June 30, 2019:

Amounts due in:		
Less than one year	\$	471,048
One to five years		<u>171,500</u>
Total grants payable	\$	<u><u>642,548</u></u>

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.

As of June 30, 2019, there were two conditional grants for \$320,500. Included in this balance is a grant for \$298,000, which 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, 2019.

Conditional scholarships for which payment is conditional upon student enrollment amounted to \$80,833 as of June 30, 2019. These scholarships will be recognized as a liability upon student enrollment over the next one to five years.

Note 10. Funds Held for Others

Funds held for others as of June 30, 2019, consist of the following:

Mount Baker Theatre Endowment Fund	\$	1,528,417
Pioneer Meadows Montessori School Endowment Fund		881,553
Bellingham Public Library Endowment Fund		257,755
Nooksack Salmon Enhancement Endowment Fund		152,226
Ferndale Band Boosters Endowment Fund		145,087
Whatcom County Library Foundation Fund		138,787
Bellingham Public Schools Foundation Endowment Fund		131,168
Lydia Place Endowment Fund		78,008
Whatcom Symphony Endowment Fund		42,576
Master Gardener Foundation of Whatcom County Endowment Fund		28,580
Bellingham Festival of Music Agency Fund		23,711
Law Advocates Agency Endowment Fund		19,216
Whatcom Literacy Council Agency Fund		16,296
Northwest Youth Services Endowment Fund		14,844
Agape Home for Women & Children Fund		14,174
Lighthouse Mission Endowment Fund		13,675
Brigid Collins Endowment Fund		11,822
Bruce Wolf Endowment Fund		11,293
Compass Health Endowment		11,229
Eric Braun Memorial Endowment for Cedar Tree Montessori		10,948
Bellingham Parks & Recreation Endowment Fund		8,911
Whatcom Land Trust Fund		7,375
Ferndale Double Dome Fund		4,812
Bellingham Festival of Music Education and Outreach		1,592
Whatcom County Library Foundation Endowment Fund for:		
Blaine Library		1,141
Deming Library		1,141
Everson Library		1,141
Ferndale Library		17,074
Island Library		1,141
Lynden Library		1,299
North Fork Library		1,141
Point Roberts Library		1,141
South Whatcom Library		1,141
Sumas Library		1,141
Total funds held for others	\$	<u>3,581,556</u>

Note 11. 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, 2019, was \$19,149, including Washington Federal's \$9,036 in-kind donation. Minimum rent payable is as follows for the years ending June 30:

2020	\$	11,236
2021		11,575
2022		11,923
2023		12,280
2024		12,650
Thereafter		2,125
		<hr/>
	\$	61,789
		<hr/>

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, 2019, were \$50,736.

Note 13. Endowments

The Foundation's endowment consists of 140 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 10, 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 net assets with donor restrictions – endowed (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets with donor restrictions - endowed is classified as net assets with donor restrictions – time or purpose restricted 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, 2019:

	Without Donor Restrictions - Board Designated	With Donor Restrictions - Time or Purpose Endowed	With Donor Restrictions - Endowed	Funds Held for Others	Total
Endowment net assets composition by type of fund as of June 30, 2019					
Donor-restricted endowment funds	\$ -	\$ 3,843,741	\$ 13,493,887	\$ 3,581,556	\$ 20,919,184
Board-designated endowment funds	<u>1,741,346</u>				<u>1,741,346</u>
Total funds	<u>1,741,346</u>	<u>3,843,741</u>	<u>13,493,887</u>	<u>3,581,556</u>	<u>22,660,530</u>
Endowment net assets, June 30, 2018 (excluding pledges receivable)					
	1,667,659	3,482,136	12,250,945	3,428,170	20,828,910
Endowment investment return					
Interest and dividends	40,966	388,472		83,978	513,416
Realized and unrealized gains	<u>87,253</u>	<u>857,644</u>		<u>175,239</u>	<u>1,120,136</u>
Total endowment investment return	128,219	1,246,116		259,217	1,633,552
Contributions	225		1,159,517	56,085	1,215,827
Management fee	(25,163)	(193,127)		(38,744)	(257,034)
Appropriation of endowment for expenditure	(29,594)	(338,796)		(123,172)	(491,562)
Transfer to/from endowment		<u>(352,588)</u>	83,425		(269,163)
Endowment net assets, June 30, 2019	<u>\$ 1,741,346</u>	<u>\$ 3,843,741</u>	<u>\$ 13,493,887</u>	<u>\$ 3,581,556</u>	<u>\$ 22,660,530</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with endowment funds with donor restrictions 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, 2019.

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. Subsequent Event

On September 25, 2019, the Foundation's Board approved the creation of a Qualified Opportunity Fund ("QOF"), with the legal structure to be determined, to facilitate investment in Whatcom County's federally designated Opportunity Zones. The Millworks site is located in one of the three local Opportunity Zones and meets the intent of the enabling legislation of creating ongoing, meaningful community benefits while also generating financial returns. A QOF would allow investors to invest in Whatcom County's Opportunity Zones while taking advantage of the tax benefits provided by the program.