



# Whatcom Community Foundation

Consolidated Financial Statements  
Years Ended June 30, 2020 and 2019

# **Whatcom Community Foundation**

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Consolidated Financial Statements  
Years Ended June 30, 2020 and 2019

# Whatcom Community Foundation

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## **Independent Auditor's 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, 2020, 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 of America; 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 of America. 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.



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### ***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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter - Report on Summarized Comparative Information***

The financial statements of Whatcom Community Foundation as of and for the year ended June 30, 2019, were audited by Peterson Sullivan LLP, whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. Peterson Sullivan LLP expressed an unmodified opinion on those statements in their report dated October 23, 2019.

Therefore, the summarized June 30, 2019, consolidated financial statement information presented herein is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

*BDO USA, LLP*

October 26, 2020

## **Consolidated Financial Statements**

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**Whatcom Community Foundation**  
**Consolidated Statement of Financial Position**  
(With Comparative Totals for June 30, 2019)

<i>June 30, 2020</i>	2020	2019
<b>Assets</b>		
Cash	\$ 4,279,299	\$ 3,515,385
Restricted cash	70,000	99,047
Investments	22,606,673	22,594,372
Restricted investments	1,561,051	1,389,122
Accounts receivable	472,430	12,508
Other assets	1,994	1,994
Grants receivable	750,000	1,500,000
Notes receivable, net allowance of \$0 and \$10,000 in 2020 and 2019, respectively	100,000	-
Charitable trust receivable, net	9,945,732	11,750,430
Land and equipment, net	10,567,764	79,919
<b>Total Assets</b>	<b>\$ 50,354,943</b>	<b>\$ 40,942,777</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 407,151	\$ 76,264
Grant awards payable	1,545,118	642,548
Guarantee liability	105,994	104,312
Funds held for others	3,643,817	3,581,556
<b>Total Liabilities</b>	<b>5,702,080</b>	<b>4,404,680</b>
<b>Net Assets</b>		
Without donor restrictions		
Operating	1,056,036	1,207,964
Board-designated	2,037,542	1,950,471
Total net assets without donor restrictions	3,093,578	3,158,435
With donor restrictions	41,559,285	33,379,662
<b>Total Net Assets</b>	<b>44,652,863</b>	<b>36,538,097</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 50,354,943</b>	<b>\$ 40,942,777</b>

*See accompanying notes to the consolidated financial statements.*

**Whatcom Community Foundation**  
**Consolidated Statement of Activities**  
(With Comparative Totals for June 30, 2019)

<i>Years Ended June 30,</i>	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue</b>				
Contributions	\$ 19,854	\$ 2,367,269	\$ 2,387,123	\$ 3,078,400
In-kind contributions	16,222	10,500,000	10,516,222	14,870
Interest and dividends	55,266	427,390	482,656	521,799
Realized and unrealized gain on investments	43,667	559,817	603,484	982,560
Grant income	17,237	696,854	714,091	1,955,301
Program income	30,343	654,155	684,498	209,569
Management fee	40,728		40,728	38,744
<b>Total Revenue</b>	<b>223,317</b>	<b>15,205,485</b>	<b>15,428,802</b>	<b>6,801,243</b>
<b>Net Assets Released from Restrictions</b>				
Satisfaction of restrictions	7,025,862	(7,025,862)	-	-
<b>Total Revenue and Net Assets Released</b>	<b>7,249,179</b>	<b>8,179,623</b>	<b>15,428,802</b>	<b>6,801,243</b>
<b>Expenses</b>				
Program expenses	6,737,764	-	6,737,764	4,535,704
Management and general expenses	483,905	-	483,905	510,456
Fundraising	92,367	-	92,367	91,061
<b>Total Expenses</b>	<b>7,314,036</b>	<b>-</b>	<b>7,314,036</b>	<b>5,137,221</b>
<b>Change in Net Assets</b>	<b>(64,857)</b>	<b>8,179,623</b>	<b>8,114,766</b>	<b>1,664,022</b>
<b>Net Assets, beginning of year</b>	<b>3,158,435</b>	<b>33,379,662</b>	<b>36,538,097</b>	<b>34,874,075</b>
<b>Net Assets, end of year</b>	<b>\$ 3,093,578</b>	<b>\$ 41,559,285</b>	<b>\$ 44,652,863</b>	<b>\$ 36,538,097</b>

*See accompanying notes to the consolidated financial statements.*

**Whatcom Community Foundation**  
**Consolidated Statement of Functional Expenses**  
(With Comparative Totals for June 30, 2019)

<i>Years Ended June 30,</i>	2020			2019	
	Program	Management and General	Fundraising	Total	Total
Awards granted	\$ 5,499,817	\$ -	\$ -	\$ 5,499,817	\$ 3,830,334
Salaries, benefits, and taxes	509,445	338,266	49,879	897,590	714,213
Program services	614,115	-	-	614,115	246,180
Consultants	28,419	30,224	-	58,643	95,820
Development and communications	14,558	-	33,968	48,526	41,304
Equipment maintenance	23,144	15,367	2,266	40,777	37,022
Depreciation	10,543	6,999	1,032	18,574	16,697
Other	37,723	93,049	5,222	135,994	155,651
	<b>\$ 6,737,764</b>	<b>\$ 483,905</b>	<b>\$ 92,367</b>	<b>\$ 7,314,036</b>	<b>\$ 5,137,221</b>

*See accompanying notes to the consolidated financial statements.*

# Whatcom Community Foundation

## Consolidated Statement of Cash Flows (With Comparative Totals for June 30, 2019)

Years Ended June 30,	2020	2019
<b>Cash Flows from (for) Operating Activities</b>		
Change in net assets	\$ 8,114,766	\$ 1,664,022
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	18,574	16,697
Realized and unrealized gains on investments	(603,484)	(982,560)
Contributions restricted for long-term purposes	(123,342)	(1,159,517)
Contribution of land	(10,500,000)	-
Changes in operating assets and liabilities		
Accounts receivable	(459,922)	(6,119)
Grants receivable	750,000	(725,000)
Charitable trust receivable	1,804,698	1,772,576
Notes receivable allowance	(10,000)	-
Write-off of notes receivable	6,500	-
Accounts payable and accrued expenses	330,887	45,960
Guarantee liability	1,682	104,312
Grant awards payable	902,570	(1,590,288)
<b>Net Cash Flows from (for) Operating Activities</b>	<b>232,929</b>	<b>(859,917)</b>
<b>Cash Flows from (for) Investing Activities</b>		
Issuance on notes receivable	(100,000)	-
Collections of note receivable	3,500	-
Proceeds and purchases of investments, net	747,699	(1,120,693)
Purchases of equipment	(6,419)	(4,348)
<b>Net Cash Flows from (for) Investing Activities</b>	<b>644,780</b>	<b>(1,125,041)</b>
<b>Cash Flows for (from) Financing Activities</b>		
Collection of long-term contributions	123,342	1,159,517
Net payments made from funds held for others	(266,184)	(175,059)
<b>Net Cash Flows for (from) Financing Activities</b>	<b>(142,842)</b>	<b>984,458</b>
<b>Net Increase (Decrease) in Cash and Restricted Cash</b>	<b>734,867</b>	<b>(1,000,500)</b>
<b>Cash and Restricted Cash, beginning of year</b>	<b>3,614,432</b>	<b>4,614,932</b>
<b>Cash and Restricted Cash, end of year</b>	<b>\$ 4,349,299</b>	<b>\$ 3,614,432</b>
<b>Supplemental Disclosure of Noncash Donations</b>		
Gifts of investments	\$ 1,029,812	\$ 645,327
<b>Cash and Restricted Cash, as presented on the Statements of Financial Position</b>		
Cash	\$ 4,279,299	\$ 3,515,385
Restricted Cash	70,000	99,047
	<b>\$ 4,349,299</b>	<b>\$ 3,614,432</b>

*See accompanying notes to the consolidated financial statements.*

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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### 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 economic and community development, food and agriculture, education, arts and culture, health and wellness, affordable housing, 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.

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 owns or holds the long-term lease with the Port for the site and any relevant agreements for its development. There was no activity for the LLC for the year ended June 30, 2020.

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, 2020, the Foundation received \$541,155 in WSDA reimbursements for payments to local vendors for food purchases made by local food banks and food pantries.

The Foundation’s Nonprofit Capacity Building Initiative offers several programs, including Board Match, matching community members to serve as board members for local organizations by providing basic training and opportunities for engagement. The Executive Director Roundtable supported by the Community Foundation provided 17 nonprofit leaders with opportunities to learn, share best practices, and enhance leadership skills each month with the help of a professional coach and facilitator.

The Foundation’s Whatcom Scholarship Program awarded scholarships to 98 students across Whatcom County totaling \$210,635 in 2020.

On November 19, 2019, Lakeland Foundation became a “Type 1” supporting organization of Whatcom Community Foundation. Whatcom Community Foundation was chosen as a partner and supported organization for its local philanthropic expertise. The assets of the Lakeland Foundation consist of nineteen adjoining parcels totaling 329 acres of farmland and timberland located near Willey’s Lake in Whatcom County. The farm was gifted from Lakeland Farms LLC to the Lakeland Foundation on December 23, 2019, with a value of \$10,500,000.

The donor’s wish is that Lakeland Foundation would not sell, and instead hold the property as its primary asset. The donor’s belief is that with efficient administration, the cropland lease income will be sufficient to continue supporting the Jansen Art Center (a nonprofit organization located in the Bellingham area), and to support other local charitable causes.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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Lakeland Foundation and Whatcom Community Foundation have entered into a management agreement, effective January 1, 2020, whereas the latter has agreed to provide services which include: grantmaking, financial management, administrative services, and Board of Director's support.

### 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, 2020:

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Quasi-endowments	\$ 1,737,542
Operating reserve	300,000
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	\$ 2,037,542

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Certain 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, 2020, are restricted for the following:

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<b>Time</b>	
Charitable Lead Annuity Trust receivable	\$ 9,945,732
	<hr/>
	9,945,732
<b>Non-Endowed Funds (Purpose)</b>	
WCF Grantmaking	
To designated organizations	333,877
Field of interest grants	668,791
Scholarships, upon student registration	552,276
Donor-advised grants, upon request	1,155,390
Programs and projects	277,900
Mission investments	359,572
Lakeland Foundation	10,608,305
	<hr/>
	13,956,111
	<hr/>
	\$ 23,901,843

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# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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Other net assets with donor restrictions endowed are subject to donor-imposed stipulations to be maintained in perpetuity by the Foundation (see Note 13) and consistent of the following at June 30, 2020:

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<b>Endowed Funds</b>	
Corpus	\$ 13,626,733
Earnings	4,030,709
	<hr/>
	\$ 17,657,442

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### ***Basis of Consolidation***

These consolidated financial statements include the accounts of the Foundation, the LLC, and Lakeland Foundation. As noted above, the Foundation owns 100% of the LLC, so this entity is consolidated into the Foundation's financial statements. The Foundation also maintains control of Lakeland Foundation's operations, so this entity is also 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, 2019, 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, 2020 and 2019, the Foundation has pledged funds totaling \$70,000 and \$99,047, respectively, at a bank to guarantee loans for two small Whatcom County businesses as part of the Foundation's Community Mission Investment Initiative. These funds 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. At the date these consolidated financial statements were available to be issued, the businesses holding the \$65,000 and \$5,000 loans were current on both. 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, 2020, the Foundation has pledged investments totaling \$1,561,051 as collateral to guarantee a line of credit for a Whatcom County LLC formed by two Whatcom County nonprofit organizations to aid in a housing development program. These investments are recorded as part of

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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total investments on the consolidated statement of financial position at June 30, 2020. 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 \$105,994 and is recorded as a liability on the consolidated statement of financial position at June 30, 2020.

### ***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.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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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, 2020, 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, 2020, but was considered immaterial and, therefore, was not recognized. All grants receivable are due from one donor and will be collected during the year ending June 30, 2021. Accounts receivable at June 30, 2020, consist of the following:

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Washington State Department of Agriculture	\$	397,764
Seattle Foundation		72,821
Other		1,845
	\$	472,430

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The primary reason accounts receivable increased from 2019 to 2020 was because of funding to be received from the Washington State Department of Agriculture (extra COVID-19 funding). The anticipated payment out of these funds is the primary reason accounts payable and accrued expenses increased from 2019 to 2020.

### ***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.

### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-19, Revenue from Contracts with Customers ("Topic 606"). The pronouncement was issued to clarify the principles for recognizing revenue, and the core principles of the guidance is

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflected the consideration to which the entity expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

Step 1: Identify the contract with customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the organization satisfies a performance obligation

In May 2020, the FASB voted to approve the proposed deferral of the effective date for Topic 606 for one year for all privately held entities that had not issued financial statements as of the date the final ASU issued.

As such, the Foundation has elected to defer implementation of Topic 606 until the year ending June 30, 2021.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities* (“Topic 958”), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU assists in the determination of the nature of the transaction, which then governs the revenue recognition methodology and timing of the transaction. The Foundation adopted this update in fiscal year 2020 under the modified prospective basis. The adoption of this update did not materially impact contribution revenue in the financial statements.

During the year ended June 30, 2020, the Foundation adopted the provisions of ASU 2016-18, *Statement of Cash Flows*, (“Topic 230”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash, and requires that restricted cash be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts presented on the statement of cash flows. The adoption of this ASU resulted in including cash restricted for purposes of the statement of cash flows. The ASU has been applied retrospectively to all periods presented.

### **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.

Grants payable increased from 2019 to 2020 primarily due to the Sustainable Whatcom Fund awarding large multi-year grants.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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### ***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, 2020, the Foundation did not have any concentrations for grant and contribution revenue.

### ***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 principles generally accepted in the United States of America 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.

### ***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 7, 2020.

Subsequent to year end, the Foundation guaranteed an additional \$100,000 loan for the Telegraph Townhome Project, LLC. No amounts are considered necessary to accrue as of June 30, 2020.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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On July 24, 2020, the Foundation entered into a new fiscal sponsorship with Love Live Music, a Washington nonprofit corporation, created to raise funds to support independent live music venues across Washington State that were forced to cease operations as a result of COVID-19.

### 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.

Liquid financial assets available for use at June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 4,279,299	\$ 3,515,385
Investments, short term pool	316,932	411,599
Receivables with liquidity horizons of one year or less	1,222,430	762,508
<b>Total financial assets available for general expenditures within one year</b>	<b>\$ 5,818,661</b>	<b>\$ 4,689,492</b>

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 \$495,347 were charged to funds for the year ended June 30, 2020. 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, 2021, are estimated to total \$475,000.

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, 2020, were \$726,250. Assuming the current spending rate, an estimated \$730,000 will be made available for the year ended June 30, 2021: \$610,000 for

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

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grantmaking from donor-restricted endowments and \$120,000 from board-designated (quasi) endowments to support operating expenses.

**4. Investments**

At June 30, 2020, investments consist of the following:

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<b>Mutual Funds</b>	
Large blend equity	\$ 9,236,653
Intermediate-term bond	3,967,853
Restricted - Intermediate-term bond	1,335,000
Foreign large blend equity	4,109,533
Small cap blend equity	1,965,278
Mid-cap blend equity	1,254,129
Real estate equity fund	1,196,291
Money market fund	560,225
Large growth equity	162,616
<b>Certificates of Deposit</b>	
Certificates of Deposit	54,096
Restricted - Certificates of Deposit	226,051
<b>Impact Investments</b>	99,999
	<b>\$ 24,167,724</b>

Investments are recorded as follows on the statement of financial position at June 30, 2020:

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Investments	\$ 22,606,673
Restricted investments	1,561,051
	<b>\$ 24,167,724</b>

**5. Notes Receivable**

The Foundation holds one note receivable, which is recorded at cost (for \$100,000, which did not have an outstanding balance at June 30, 2019). The note bears interest at a rate of 5.5%. No allowance for the note is deemed necessary at June 30, 2020. At June 30, 2019, there was a \$10,000 note outstanding, but it was fully reserved. The \$10,000 note disclosed in the previous year had collections of \$3,500 during the year ended June 30, 2020, with the remaining balance fully written off.

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

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**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 \$10,510,228, 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, 2020, is as follows:

Receivable in less than one year	\$	2,018,008
Receivable in one to five years		8,492,220
		10,510,228
Less: Unamortized discount		(564,496)
	\$	9,945,732

**7. Land and Equipment**

At June 30, 2020, land and equipment consist of the following:

Land	\$	10,500,000
Furniture		13,821
Office equipment		42,097
Leasehold improvements		112,661
		10,668,579
Less: Accumulated depreciation		(100,815)
<b>Land and Equipment, net</b>	<b>\$</b>	<b>10,567,764</b>

**8. Grants Payable**

Included in grants payable are the following unconditional grants payable at June 30, 2020:

<b>Amounts Due in</b>		
Less than one year	\$	855,118
One to five years		690,000
<b>Total Grants Payable</b>	<b>\$</b>	<b>1,545,118</b>

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

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**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, 2020, there were no conditional grants.

Conditional scholarships for which payment is conditional upon student enrollment amounted to \$84,499 as of June 30, 2020. These scholarships will be recognized as a liability upon student enrollment over the next one to five years.

**10. Funds Held for Others**

Funds held for others as of June 30, 2020, consist of the following:

Mount Baker Theatre Endowment Fund (Agency)	\$ 1,535,959
Pioneer Meadows Montessori School Endowment (Agency)	880,939
Bellingham Public Library Endowment (Agency)	256,991
Whatcom County Library Foundation Endowment Fund (Agency)	159,015
Nooksack Salmon Enhancement Endowment (Agency)	151,772
Ferndale Band Boosters Endowment Fund (Agency)	144,654
Bellingham Public Schools Foundation Agency Endowment	130,796
Lydia Place Endowment Fund (Agency)	77,776
Bellingham Symphony Endowment Fund (Agency)	42,697
Master Gardener Foundation of Whatcom County Endowment (Agency)	29,588
Bellingham Festival of Music Endowment Fund (Agency)	23,807
Law Advocates Agency Endowment Fund	22,019
Bruce Wolf Endowment Fund (Agency)	21,656
Bellingham Chamber Chorale Endowment for Choral Arts (Agency)	20,158
Whatcom Literacy Council Endowment (Agency)	16,240
Northwest Youth Services Endowment Fund (Agency)	14,800
Agape Home for Women and Children Endowment Fund (Agency)	14,131
Lighthouse Mission Endowment Fund (Agency)	13,633
Brigid Collins Endowment Fund (Agency)	12,349
Compass Health Endowment (Agency)	11,690
Eric Braun Memorial Endowment for Cedar Tree Montessori (Agency)	11,334
Bellingham Parks and Recreation Endowment (Agency)	9,225
Whatcom Land Trust Endowment (Agency)	7,353
Ferndale Double Dome Fund (Agency)	4,983
Bellingham Festival of Music Education and Outreach Endowment (Agency)	1,595
Whatcom County Library Foundation Endowment Fund for	
Blaine Library	1,210
Deming Library	1,210
Everson Library	1,210
Ferndale Library	17,448
Island Library	1,210
Lynden Library	1,529
North Fork Library	1,210
Point Roberts Library	1,210
South Whatcom Library	1,210
Sumas Library	1,210
<b>Total Funds Held for Others</b>	<b>\$ 3,643,817</b>

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

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### 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, 2020, was \$21,567, including Washington Federal's \$9,378 in-kind donation. Minimum rent payable is as follows for the years ending June 30:

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2021	11,575
2022	11,923
2023	12,280
2024	12,650
2025	2,125
	<hr/>
	\$ 50,553

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### 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, 2020, were \$53,696.

### 13. Endowments

The Foundation's endowment consists of 138 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.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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, 2020:

	Without Donor Restrictions - Board Designated	With Donor Restrictions - Time or Purpose Ended	With Donor Restrictions - Ended	Funds Held for Others	Total
<b>Endowment net assets composition</b>					
<b>by type of fund, June 30, 2020</b>					
Donor-restricted endowment funds	\$ -	\$ 4,030,709	\$ 13,626,733	\$ 3,643,817	\$ 21,301,259
Board-designated endowment funds	1,737,542	-	-	-	1,737,542
<b>Total Funds</b>	<b>1,737,542</b>	<b>4,030,709</b>	<b>13,626,733</b>	<b>3,643,817</b>	<b>23,038,801</b>
<b>Endowment Net Assets, June 30, 2019</b>					
(excluding pledges receivable)	1,741,346	3,843,741	13,493,887	3,581,556	22,660,530
Endowment investment return					
Interest and dividends	38,342	377,937	-	77,685	493,964
Realized and unrealized gains	44,669	522,461	-	106,466	673,596
Total endowment investment return	83,011	900,398	-	184,151	1,167,560
Contributions	-	13,004	123,342	54,901	191,247
Management fee	(26,014)	(207,442)	-	(40,728)	(274,184)
Appropriation of endowment for expenditure	(60,801)	(348,266)	-	(136,063)	(545,130)
Transfer to/from endowment	-	(170,726)	9,504	-	(161,222)

Endowment Net Assets, June 30, 2020

### ***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 of America, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies at June 30, 2020.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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### *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. In light of COVID-19, the Foundation's commitment to equity and the growing call for philanthropy to increase the resources being put to work in communities, the Board of Directors is discussing an increase of the spending rate.

## **14. COVID-19**

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. While many businesses and nonprofits have been shut down, the Foundation continues to operate during the COVID-19 outbreak and, as of this report date, has not experienced significant impacts to its financial condition or liquidity. However, given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Foundation is not able to estimate the effects of the pandemic on its future operations, financial condition or liquidity for fiscal year 2021. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, supplies, industry, and workforce.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security ("CARES") Act." The CARES Act, among other things, includes provision relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to the tax depreciation methods for qualified improvement property.

# Whatcom Community Foundation

## Notes to Consolidated Financial Statements

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It also appropriated funds for the Small Business Administration Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small business and nonprofits harmed by COVID-19. The Foundation has not applied for or received a PPP loan. In addition, the Foundation has not received any other funding under the CARES Act, nor has it elected any other CARES Act provisions.

As part of the country-wide inter-governmental COVID-19 response effort through Whatcom Unified Command, the Foundation was asked to serve as the Food Security Unit lead. Unit leadership involves coordinating numerous food assistance providers in articulating a shared vision to meet the communities’ pandemic-related food security needs, communicating policy/advocacy issues to the appropriate parties, facilitating funding and troubleshooting as challenges arise. In addition, the Foundation promoted its Resilience Fund which is designed to serve as the community’s preparedness, response and recovery fund. By fiscal year-end, the Foundation raised almost \$1 million and distributed more than \$725,000. The onset of the pandemic also resulted in the Foundation’s staff shifting to working remotely. Management continues to examine the impact that COVID-19 and the CARES Act may have on the Foundation.



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## Independent Auditor's Report on Supplemental Information

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

We have audited the consolidated financial statements of Whatcom Community Foundation as of and for the year ended June 30, 2020, and our report thereon dated October 7, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 3 and 4. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of state financial assistance is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*BDO USA, LLP*

October 26, 2020