



**COMMUNITY  
FOUNDATION**

**SOUTHWEST  
WASHINGTON**

# **FINANCIAL STATEMENTS**

**December 31, 2014 & 2013**



**NATIONAL  
STANDARDS<sup>SM</sup>**



**KERN & THOMPSON, LLC**  
Certified Public Accountants

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2014 and 2013**

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**KERN & THOMPSON, LLC**

Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Community Foundation for Southwest Washington  
Vancouver, Washington

We have audited the accompanying consolidated financial statements of Community Foundation for Southwest Washington (a non-profit organization), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

The Organization's 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditors' 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 Community Foundation for Southwest Washington as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*KERN & THOMPSON, LLC*

Portland, Oregon  
May 1, 2015

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31, 2014 and 2013**

<b>ASSETS</b>		
	<u><b>2014</b></u>	<u><b>2013</b></u>
Cash and cash equivalents	\$ 901,706	\$ 1,288,568
Investments	76,682,385	67,433,169
Assets held in charitable trusts	2,157,988	2,191,778
Assets held in charitable gift annuities	1,317,927	1,514,782
Contributions receivable	2,170,000	7,352,905
Beneficial interest in remainder trust	266,966	264,553
Other assets	111,814	105,254
Property and equipment, net of accumulated depreciation of \$36,803 and \$100,226 in 2014 and 2013, respectively	<u>6,213</u>	<u>15,543</u>
<b>Total assets</b>	<b><u>\$ 83,614,999</u></b>	<b><u>\$ 80,166,552</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts and other payables	\$ 102,263	\$ 93,872
Liabilities for split-interest agreements	2,082,669	2,063,492
Funds held under agency endowment agreements	<u>632,494</u>	<u>919,683</u>
<b>Total liabilities</b>	<b><u>2,817,426</u></b>	<b><u>3,077,047</u></b>
<b>Net assets</b>		
Unrestricted		
Available for operations	76,485,434	67,828,979
Board designated for charitable gift annuity reserve	380,066	556,772
Board designated for operating reserve	<u>481,926</u>	<u>-</u>
<b>Total unrestricted</b>	<b><u>77,347,426</u></b>	<b><u>68,385,751</u></b>
Temporarily restricted	<u>3,450,147</u>	<u>8,703,754</u>
<b>Total net assets</b>	<b><u>80,797,573</u></b>	<b><u>77,089,505</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 83,614,999</u></b>	<b><u>\$ 80,166,552</u></b>

See notes to consolidated financial statements.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**Years Ended December 31, 2014 and 2013**

	<b>2014</b>			<b>2013</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Operating Revenue</b>						
Contributions	\$ 9,351,939	\$ 432,432	\$ 9,784,371	\$ 11,199,363	\$ 7,363,793	\$ 18,563,156
Special event revenue	88,927	-	88,927	48,446	-	48,446
Investment income	605,782	-	605,782	499,258	-	499,258
Net appreciation in the fair value of investments	2,461,296	-	2,461,296	7,050,839	-	7,050,839
Changes in the actuarial value of charitable trusts, charitable gift annuities, and long-term contributions receivable	-	(33,135)	(33,135)	-	83,032	83,032
Service fees assessed against funds held under agency endowment agreements and charitable trusts	12,516	-	12,516	13,559	-	13,559
	<u>12,520,460</u>	<u>399,297</u>	<u>12,919,757</u>	<u>18,811,465</u>	<u>7,446,825</u>	<u>26,258,290</u>
Net assets released from restrictions	5,652,904	(5,652,904)	-	50,000	(50,000)	-
<b>Total operating revenue</b>	<b><u>18,173,364</u></b>	<b><u>(5,253,607)</u></b>	<b><u>12,919,757</u></b>	<b><u>18,861,465</u></b>	<b><u>7,396,825</u></b>	<b><u>26,258,290</u></b>
<b>Operating Expenses</b>						
Grants to the community	7,830,419	-	7,830,419	6,873,259	-	6,873,259
Administrative expenses	1,381,270	-	1,381,270	1,324,885	-	1,324,885
<b>Total operating expenses</b>	<b><u>9,211,689</u></b>	<b><u>-</u></b>	<b><u>9,211,689</u></b>	<b><u>8,198,144</u></b>	<b><u>-</u></b>	<b><u>8,198,144</u></b>
<b>Change in net assets</b>	<b>8,961,675</b>	<b>(5,253,607)</b>	<b>3,708,068</b>	<b>10,663,321</b>	<b>7,396,825</b>	<b>18,060,146</b>
Net assets, beginning of year	<u>68,385,751</u>	<u>8,703,754</u>	<u>77,089,505</u>	<u>57,722,430</u>	<u>1,306,929</u>	<u>59,029,359</u>
<b>Net assets, end of year</b>	<b><u>\$ 77,347,426</u></b>	<b><u>\$ 3,450,147</u></b>	<b><u>\$ 80,797,573</u></b>	<b><u>\$ 68,385,751</u></b>	<b><u>\$ 8,703,754</u></b>	<b><u>\$ 77,089,505</u></b>

See notes to consolidated financial statements.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 3,708,068	\$ 18,060,146
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions of real property and other non-cash assets	(263,700)	(291,730)
Contributions to charitable trusts and gift annuities	12,432	10,888
Net investment losses (gains) on investments	(2,482,781)	(7,159,191)
Payment to beneficiaries of charitable trusts and gift annuities	(186,959)	(185,831)
Reduction in gift annuity reserve	(200,000)	-
Changes in actuarial value of charitable trusts and gift annuities	621,937	71,780
Depreciation	8,388	11,271
Changes in:		
Contributions receivable	5,182,905	(7,352,905)
Other assets	(6,561)	(5,772)
Accounts and other payables	8,391	(24,908)
Contributions received on behalf of agency funds	3,050	2,183
Grants made on behalf of agency funds	(325,274)	(430,141)
Service fees assessed against agency funds	(7,801)	(9,304)
Investment income earned on agency funds	42,836	131,391
<b>Net cash provided by (used in) operating activities</b>	<b><u>6,114,931</u></b>	<b><u>2,827,877</u></b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	5,698,690	6,974,916
Purchases of investments	(12,200,483)	(10,732,704)
Capital expenditures	-	(18,342)
<b>Net cash provided by (used in) investing activities</b>	<b><u>(6,501,793)</u></b>	<b><u>(3,776,130)</u></b>
<b>Net change in cash and cash equivalents</b>	<b><u>(386,862)</u></b>	<b><u>(948,253)</u></b>
Cash and cash equivalents, beginning of year	<u>1,288,568</u>	<u>2,236,821</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 901,706</u></b>	<b><u>\$ 1,288,568</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Non-cash investing activities:		
Contributions of real estate	<u>\$ 263,700</u>	<u>\$ 291,730</u>

See notes to consolidated financial statements.

## **COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2014 and 2013**

#### **NOTE 1 – DESCRIPTION OF ORGANIZATION**

The Community Foundation for Southwest Washington (the Foundation) was established in 1984 to carry out charitable, educational and scientific purposes primarily in and for the benefit of citizens in Southwest Washington. Funds are contributed by individuals, corporations and nonprofit agencies and support a wide range of organizations that promote education, culture, health, social welfare, civic development and conservation. The Foundation operates a grants program for the effective use of its resources in a manner consistent with donor intent.

The National Standards seal by our name confirms that our Organization has met the most rigorous standards in philanthropy. The National Standards program, established by the Council on Foundations, provides a framework of 41 standards for internal development and external assessment. It is designed to provide quality assurance to donors, as well as to their legal and financial advisors, and indicates our commitment to financial accountability, security, transparency, and to providing philanthropic services of the highest quality.

The Supporting Organization of the Community Foundation for Southwest Washington (the Supporting Organization) is a separate tax-exempt trust created by the Foundation. The Foundation performs all administrative functions for the Supporting Organization and appoints the members of the Board of Trustees. The Supporting Organization has not been active during 2014 and 2013 and has no assets or liabilities.

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Foundation consolidated with the accounts of its wholly-owned subsidiary, Community Foundation for Southwest Washington Charitable LLC (the "LLC," a single-member limited liability company). The Foundation formed the LLC on December 12, 2012 for the purpose of holding gifts of land and operating businesses. All inter-organizational accounts and transactions have been eliminated. The LLC is treated as a disregarded entity for purposes of federal exempt organization business information return reporting.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting which recognizes income when earned and expenses when incurred.

##### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Basis of Presentation**

The Foundation presents its net assets and its revenue and gains based upon the existence of donor-imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

Grants and expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed or purpose was satisfied) are reported as net assets released from restrictions.

**Investment Policy**

The Foundation follows a total-return strategy in which investment decisions are made with the intent of maximizing the long-term total return of the portfolio, combining market-value changes (realized and unrealized) and current yield (interest and dividends). The Foundation's assets are invested in a mixture of equities, fixed-income instruments, cash and alternative investment classes such as hedge funds, distressed debt, and private instruments.

**Agency Endowment Funds**

The Foundation may accept contributions from another nonprofit organization and agree to transfer those assets, the return on investment of those assets, or both, back to the nonprofit organization at some point in the future.

Because the Foundation maintains variance power and fiduciary responsibility for all funds held under agency endowment agreements, these funds continue to be reported as assets. However, a liability, "funds held under agency endowment agreements," has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the nonprofit organization that established the fund for its own benefit.

**Contributions**

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation determines an allowance for uncollectible accounts based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity. No allowance for uncollectible pledges was deemed necessary at December 31, 2014 and 2013.

**In-Kind Contributions**

The Foundation reports revenue for the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of its activities. During the years ended December 31, 2014 and 2013, the amounts of \$17,516 and \$7,200, respectively, were recorded for donated printing and advertising services.



**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

For the purposes of the consolidated financial statements, the Foundation considers all liquid investments having initial maturities of three months or less to be cash equivalents.

**Fair Value Measurements**

Financial assets required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy for fair value investments. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. Investments, assets held under split-interest agreements, and beneficial interests in remainder trusts are the only assets of the Foundation measured at fair value on a recurring basis.

**Investments**

The Foundation carries investments in marketable equity securities and equity funds with readily determinable fair values and all investments in debt securities and fixed income funds at their fair values based on quoted prices in active markets (all Level 1 or Level 2 measurements). Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. The Foundation initially records its real estate investments at the fair value as of the dates the investments are donated to the Foundation and thereafter carries such investments primarily at current appraised or comparable values (Level 3 measurements). Fair values for alternative investments in off-shore hedge funds, limited liability companies, and private equity partnerships for which quoted market prices are not readily available are estimated in good faith by management based on analyses from independent investment advisors or financial information prepared by the general partners of the respective partnership or limited liability company investments (Level 3 measurements). Because these alternative investments are recorded at their estimated fair values, the reported value may differ from the value that would have been used had a quoted market price existed. Interest income is accrued as earned, and reported net of investment advisory fees. Security transactions are recorded on a trade date basis.

**Assets Held Under Split-Interest Agreements**

The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by the Foundation and distributions are made to the beneficiaries under the terms of the agreement. These funds are generally invested in equity and fixed income mutual funds, and the Foundation records its interest at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying values are reported as a change in value of split-interest agreements in the accompanying consolidated financial statements.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets Held Under Split-Interest Agreements (Continued)**

Obligations under split-interest agreements, including charitable remainder trusts, charitable lead trusts, and charitable gift annuities are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specific period. Present values are determined using discount rates determined by the Internal Revenue Service and actuarially determined life expectancies. Obligations under split-interest agreements are revalued annually at December 31 to reflect actual experience; the discount rate is not changed. The net revaluations, together with any remaining recorded obligations after all trust or gift obligations under terminated agreements have been satisfied, are recorded as net changes in the value of split-interest agreements.

**Property and Equipment**

Office furniture and equipment are carried at cost, and at market value when acquired by gift. All costs for equipment greater than \$5,000 are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, generally three to five years.

**Grants**

Grants are made from available resources in accordance with donor and grant committee recommendations and are approved by the Board of Directors.

**Income Taxes**

The Foundation and the Supporting Organization are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Washington statutes. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purposes.

The entities' federal exempt organization information returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

**Concentrations of Credit Risk**

Investments consist primarily of financial instruments including cash equivalents, equity and fixed income securities, money market funds, and partnership and similar interests. These financial instruments may subject the Foundation to concentrations of credit risk. Bank deposits in excess of FDIC insurance are automatically invested into government secured repurchase agreements and are fully protected against loss.

**Reclassifications**

Certain 2013 amounts have been reclassified to conform with the 2014 financial statement presentation.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 3 – FAIR VALUE MEASUREMENTS**

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

**Level 1** – Quoted prices in active markets for identical assets. Assets in this level typically include publicly traded equities, mutual fund investments, cash equivalents, and listed derivatives.

**Level 2** – Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data such as published interest rates and yield curves, over-the-counter derivatives, market modeling, or other valuation methodologies. Assets in this level include debt securities and partnerships that hold Level 1 assets.

**Level 3** – Unobservable inputs that reflect management's assumptions and best estimates based on available data. Assets in this level include alternative investments, real estate held for investment, investments in partnerships and limited liability companies, and beneficial interests in charitable remainder trusts.

Fair value of the beneficial interest in remainder trust is determined by calculating the present value of future distributions to be received based on the trust agreement and a discount rate of 8.5%.

Realized and unrealized gains and losses from these assets are reported in the Statement of Activities as they occur. There have been no changes in valuation techniques and related inputs.

Fair values of assets measured on a recurring basis at December 31, 2014 and 2013 were as follows:

	2014			Fair Value
	Level 1	Level 2	Level 3	Total
Investments	\$ 51,909,183	\$ -	\$ 24,773,202	\$ 76,682,385
Assets held in charitable trusts	2,157,988	-	-	2,157,988
Assets held in charitable gift annuities	1,317,927	-	-	1,317,927
Beneficial interest in remainder trust	-	-	266,966	266,966
	<u>\$ 55,385,098</u>	<u>\$ -</u>	<u>\$ 25,040,168</u>	<u>\$ 80,425,266</u>
	2013			Fair Value
	Level 1	Level 2	Level 3	Total
Investments	\$ 42,594,810	\$ -	\$ 24,838,359	\$ 67,433,169
Assets held in charitable trusts	2,191,778	-	-	2,191,778
Assets held in charitable gift annuities	1,514,782	-	-	1,514,782
Beneficial interest in remainder trust	-	-	264,553	264,553
	<u>\$ 46,301,370</u>	<u>\$ -</u>	<u>\$ 25,102,912</u>	<u>\$ 71,404,282</u>

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

For the years ended December 31, 2014 and 2013, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 25,102,912	\$ 21,990,699
Purchases (sales) - net	(2,013,414)	436,918
Total gains and losses included on the Statement of Activities	<u>1,950,670</u>	<u>2,675,295</u>
Balance, ending	<u>\$ 25,040,168</u>	<u>\$ 25,102,912</u>

**NOTE 4 – INVESTMENTS**

The following is a summary of investments held at December 31:

	<u>2014</u>	<u>2013</u>
Domestic common stocks and equity funds	\$ 22,504,346	\$ 14,620,301
Fixed income securities and funds	13,911,794	10,740,933
Interests in private equity partnerships and limited liability companies	24,214,300	24,173,147
International equity securities	10,472,430	10,658,112
Money market funds and other cash equivalents	5,020,614	6,575,464
Timberland	250,000	250,000
Land	<u>308,901</u>	<u>415,212</u>
	<u>\$ 76,682,385</u>	<u>\$ 67,433,169</u>

Net investment expenses have been offset against investment income in the Statements of Activities and totaled \$112,000 and \$103,079 for the years ended December 31, 2014 and 2013, respectively.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 5 – ASSETS HELD IN CHARITABLE TRUSTS AND CHARITABLE GIFT ANNUITIES**

Assets held related to these trusts and agreements at December 31, are as follows:

	2014		2013	
	Trusts	Annuities	Trusts	Annuities
Common stocks and equity funds	\$ 925,129	\$ 617,794	\$ 924,927	\$ 764,450
Fixed income securities and funds	884,910	492,727	811,395	525,390
Money market funds and other				
cash equivalents	49,451	35,578	138,558	45,642
International funds	298,498	171,828	316,898	179,300
	<u>\$ 2,157,988</u>	<u>\$ 1,317,927</u>	<u>\$ 2,191,778</u>	<u>\$ 1,514,782</u>

A liability for these trusts and charitable gift annuities, representing the actuarially determined present value of the estimated future payments to be made to the beneficiaries using discount rates in the range of 1.8% to 8.5%, has been recognized.

The issuance of charitable gift annuities in the State of Washington is regulated by the Washington State Office of the Insurance Commissioner. The Insurance Commissioner requires, among other things, that the issuer of charitable gift annuities maintain certain minimum reserves, calculated in accordance with rules promulgated in RCW 28.38.020 of the Washington Insurance Code, and that these reserves be held in separate investment accounts. The minimum calculated reserve required at December 31, 2014 and 2013 totaled \$999,410 and \$1,001,393, respectively. The Foundation held \$1,317,927 and \$1,514,782 in separate accounts for these purposes at December 31, 2014 and 2013, respectively.

**NOTE 6 – BENEFICIAL INTEREST IN REMAINDER TRUST**

The Foundation is the beneficiary of a charitable remainder unitrust and upon termination of the trust will receive the assets remaining in the trust.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 7 – FUNDS HELD UNDER AGENCY ENDOWMENT AGREEMENTS**

Activity for the year ended December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 919,683	\$ 1,225,554
Additions:		
Contributions and transfers	3,050	2,183
Investment income (loss)	42,836	131,392
Total income (loss)	<u>45,886</u>	<u>133,575</u>
Deductions		
Grants and transfers	(325,274)	(430,142)
Service fees assessed	(7,801)	(9,304)
Total deductions	<u>(333,075)</u>	<u>(439,446)</u>
Ending balance	<u>\$ 632,494</u>	<u>\$ 919,683</u>

**NOTE 8 – DESIGNATIONS OF UNRESTRICTED NET ASSETS**

The Foundation manages approximately 295 individual funds established by donors for a variety of purposes. These include endowed funds and non-endowed funds. Because the Foundation holds variance power over these funds as described in Note 2, all fund assets are classified as unrestricted assets. The Foundation's unrestricted net assets at December 31, 2014 and 2013 are further classified as follows:

	<u>2014</u>	<u>2013</u>
Administrative	\$ 816,113	\$ 1,019,479
Discretionary	18,221,502	11,667,967
Designated	22,423,363	22,413,952
Donor advised	24,095,991	21,854,607
Field of interest	3,287,103	3,406,508
Scholarship	7,641,363	7,466,466
Total undesignated	<u>76,485,435</u>	<u>67,828,979</u>
Board designated	<u>861,991</u>	<u>556,772</u>
Total unrestricted net assets	<u>\$ 77,347,426</u>	<u>\$ 68,385,751</u>

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 8 – DESIGNATIONS OF UNRESTRICTED NET ASSETS (CONTINUED)**

**Interpretation of Relevant Law**

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by Washington State. UPMIFA eliminates the historic dollar value threshold, an amount below which an organization could not spend from a fund, and establishes a set of prudent management and investments standards for boards to follow when managing endowment funds. Under UPMIFA, the Foundation may spend so much of an endowment fund as it considers prudent, regardless of whether the fund is below its historic dollar value. A donor's intent to maintain an endowment in perpetuity must still be considered and the fund managed accordingly. However, the Foundation's organizing documents and fund agreements set forth the power to modify any restrictions or conditions on distributions from funds if, in the Foundation's judgment, such restrictions or conditions become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area being served. As a result of this variance power, the Foundation classifies all endowment funds as unrestricted net assets.

Changes to endowment net assets are as follows for the years ended December 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013</u>
Endowment net assets, beginning of year	\$ 50,970,991	\$ -	\$ -	\$ 50,970,991	\$ 38,072,652
Endowment investment return-					
Interest and dividends	437,088	-	-	437,088	409,964
Total net gains and losses, net of fees	1,746,563	-	-	1,746,563	4,661,179
Total investment returns	2,183,651	-	-	2,183,651	5,071,143
Contributions to endowments	3,241,395	-	-	3,241,395	10,845,748
Transfers from endowments	(3,444,324)	-	-	(3,444,324)	(3,018,552)
Endowment net assets, end of year	<u>\$ 52,951,713</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,951,713</u>	<u>\$ 50,970,991</u>

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by these funds while seeking to maintain the purchasing power of the endowments. The Foundation's spending and investment policies work together to achieve these objectives. The Foundation's investment policy establishes an achievable return objective through diversification of asset classes.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 8 – DESIGNATIONS OF UNRESTRICTED NET ASSETS (CONTINUED)**

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment decisions are made in the context of the Foundation's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation.

**Spending Policy and How Investment Objectives Relate to the Spending Policy**

The Foundation has a policy of appropriating for distribution each year a percentage of the trailing three-year rolling-average of a fund's fair-market-value. In establishing this spending rate, the Foundation considers numerous factors listed in UPMIFA, including long-term expected return on investments, inflation, and other economic indicators. Accordingly, over the long term, the Foundation expects its spending policy to allow its endowment funds to grow at a rate equal to inflation. This is consistent with the Foundation's objective to maintain the purchasing power of its endowed assets.

**NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following and are restricted for timing as of December 31:

	<u>2014</u>	<u>2013</u>
Net assets held in charitable trusts, beneficial interest, and annuities	\$ 1,280,147	\$ 1,350,849
Contributions receivable	<u>2,170,000</u>	<u>7,352,905</u>
	<u>\$ 3,450,147</u>	<u>\$ 8,703,754</u>

**NOTE 10 – CONCENTRATIONS**

For the year ended December 31, 2014, 43% of contributions for the year were made by two donors. Approximately 59% of contributions for the year ended December 31, 2013 were provided by three donors.



**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 11 – ADMINISTRATIVE EXPENSES**

The costs of operations and overseeing general grantmaking activities are reported as administrative expenses. Administrative expenses for the years ended December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Salaries and related expenses	\$ 717,586	\$ 826,853
Professional services	41,536	89,681
Outreach expenses	96,610	74,316
Program expenses	194,410	107,800
Occupancy	147,259	66,235
Printing	453	582
Equipment lease and maintenance	94,055	69,489
Office and postage expenses	47,486	35,344
Professional development	3,155	5,053
Depreciation	8,388	11,271
Insurance	17,209	14,253
Telecommunications	6,422	5,279
Travel	5,037	6,149
Other	1,664	12,580
	<u>\$ 1,381,270</u>	<u>\$ 1,324,885</u>

**NOTE 12 – RETIREMENT PLAN**

The Foundation provides all employees who work 1,000 hours or more annually with a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code. The annual contribution is equal to 4.0% of the annual compensation of each participating employee. All eligible employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. Employees select from among several investment options. Employees vest into the employer-contributions portion of the plan on their third year of participation in the plan. Contributions to the plan totaled approximately \$23,080 and \$23,033 for the years ended December 31, 2014 and 2013, respectively.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014 and 2013**

**NOTE 13 – OPERATING LEASE**

The Foundation currently leases its office space under a 5-year operating lease commencing on October 13, 2014. Monthly payments due under the lease begin at \$8,250 per month and increase to \$8,755 per month. Rent expense was \$64,296 and \$53,726 for the years ended December 31, 2014 and 2013, respectively.

Future commitments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 99,000
2016	99,495
2017	101,485
2018	103,515
2019	<u>78,794</u>
	\$ <u><u>482,289</u></u>

**NOTE 14 – RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2014 and 2013, the Foundation recognized \$3,026,529 and \$2,483,836, respectively, in contributions from members of the Board of Directors.

**NOTE 15 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 1, 2015, which is the date the consolidated financial statements were available to be issued.

## OTHER INFORMATION

## **COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

### **BOARD OF DIRECTORS**

Brett Bryant, Chair  
Mark Matthias, Vice Chair  
Steve Hansen, Treasurer  
Dr. Jim Youde, Secretary

Albert Angelo III  
Twila Barnes  
Jody Campbell  
Mark Dodson  
Marty Forsmann  
Scott Keeney  
Vaughn Lein  
David Nierenberg  
Terry Prill  
Dr. David Ruiz  
Scott South  
Kaycee Wiita  
Rick Wollenberg  
Dr. Candace Young

### **EXECUTIVE MANAGEMENT AND STAFF**

Jennifer Rhoads, President  
Mary E. Pringle, V.P. and Chief Financial Officer  
Anne Digenis, Senior Philanthropic Advisor  
Shona Carter, Program Officer  
Pam Cabanatuan, Controller  
Judy Lundeen, Donor and Community Relations Manager  
Maury Harris, Marketing and Communications Specialist  
Huyen Shaw, Program Coordinator  
Ellora La Shier, Program and Scholarship Associate  
Richard Melching, Strategic Advisor

### **CONTACT INFORMATION**

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