COMMUNITY FOUNDATION

SOUTHWEST WASHINGTON

# FINANCIAL STATEMENTS

## December 31, 2016 & 2015

cf NATIONAL STANDARDS SM

K&T KERN & THOMPSON, LLC Certified Public Accountants

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016 and 2015**

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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, 2016 and 2015, 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***

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, 2016 and 2015, 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
June 7, 2017



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**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31, 2016 and 2015**

**ASSETS**

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | $ 1,261,081 | $ 991,749 |
| Investments | 156,433,452 | 77,972,887 |
| Assets held in charitable trusts | 2,044,072 | 2,018,311 |
| Assets held in charitable gift annuities | 1,186,485 | 1,173,759 |
| Contributions receivable | 20,067,352 | 20,426,500 |
| Beneficial interest in remainder trust | 268,861 | 253,010 |
| Other assets | 111,273 | 104,100 |
| **Total assets** | **$ 181,372,576** | **$ 102,940,316** |

**LIABILITIES AND NET ASSETS**

| | 2016 | 2015 |
|---|---|---|
| Accounts and other payables | $ 37,652 | $ 91,353 |
| Liabilities for split-interest agreements | 2,100,843 | 1,988,382 |
| Funds held under agency endowment agreements | 399,401 | 608,164 |
| **Total liabilities** | **2,537,896** | **2,687,899** |
| **Net assets** | | |
| Unrestricted | | |
| Available for operations | 156,696,737 | 77,727,001 |
| Board designated for charitable gift annuity reserve | 354,506 | 359,795 |
| Board designated for operating reserve | 672,016 | 624,718 |
| **Total unrestricted** | **157,723,259** | **78,711,514** |
| Temporarily restricted | 21,111,421 | 21,540,903 |
| **Total net assets** | **178,834,680** | **100,252,417** |
| **Total liabilities and net assets** | **$ 181,372,576** | **$ 102,940,316** |

See notes to consolidated financial statements.

## COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

## CONSOLIDATED STATEMENTS OF ACTIVITIES

### Years Ended December 31, 2016 and 2015

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| **Operating Revenue** | | | | | | |
| Contributions | $ 82,440,150 | $ 201,870 | $ 82,642,020 | $ 10,120,562 | $ 20,457,371 | $ 30,577,933 |
| Special event revenue | 54,150 | - | 54,150 | 61,718 | - | 61,718 |
| Investment income | 1,608,434 | - | 1,608,434 | 760,178 | - | 760,178 |
| Net appreciation in the fair value of investments | 3,406,480 | - | 3,406,480 | (2,508,057) | - | (2,508,057) |
| Changes in the actuarial value of charitable trusts, charitable gift annuities, and long-term contributions receivable | - | (58,952) | (58,952) | - | (159,115) | (159,115) |
| Service fees assessed against funds held under agency endowment agreements and charitable trusts | 7,638 | - | 7,638 | 11,587 | - | 11,587 |
| | 87,516,852 | 142,918 | 87,659,770 | 8,445,988 | 20,298,256 | 28,744,244 |
| Net assets released from restrictions | 572,400 | (572,400) | - | 2,207,500 | (2,207,500) | - |
| **Total operating revenue** | **88,089,252** | **(429,482)** | **87,659,770** | **10,653,488** | **18,090,756** | **28,744,244** |
| **Operating Expenses** | | | | | | |
| Grants to the community | 7,458,191 | - | 7,458,191 | 7,860,347 | - | 7,860,347 |
| Administrative expenses | 1,619,316 | - | 1,619,316 | 1,429,053 | - | 1,429,053 |
| **Total operating expenses** | **9,077,507** | **-** | **9,077,507** | **9,289,400** | **-** | **9,289,400** |
| **Change in net assets** | **79,011,745** | **(429,482)** | **78,582,263** | **1,364,088** | **18,090,756** | **19,454,844** |
| Net assets, beginning of year | 78,711,514 | 21,540,903 | 100,252,417 | 77,347,426 | 3,450,147 | 80,797,573 |
| **Net assets, end of year** | **$ 157,723,259** | **$ 21,111,421** | **$ 178,834,680** | **$ 78,711,514** | **$ 21,540,903** | **$ 100,252,417** |

See notes to consolidated financial statements.

## COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 78,582,263 | $ 19,454,844 |
| 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 | - | (1,182,000) |
| Net investment losses (gains) on investments | (3,249,966) | 2,484,062 |
| Changes in actuarial value of charitable trusts and gift annuities | 58,123 | 203,514 |
| Depreciation | - | 6,213 |
| Changes in: | | |
| Contributions receivable | 359,148 | (18,256,500) |
| Other assets | (7,172) | 7,714 |
| Accounts and other payables | (53,702) | (10,909) |
| Funds held under agency endowment agreements | (208,763) | (24,330) |
| **Net cash provided by (used in) operating activities** | **75,479,931** | **2,682,608** |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | 78,971,843 | 8,365,843 |
| Purchases of investments | (154,182,442) | (10,958,408) |
| **Net cash provided by (used in) investing activities** | **(75,210,599)** | **(2,592,565)** |
| **Net change in cash and cash equivalents** | **269,332** | **90,043** |
| Cash and cash equivalents, beginning of year | 991,749 | 901,706 |
| **Cash and cash equivalents, end of year** | **$ 1,261,081** | **$ 991,749** |
| **Supplemental disclosure of cash flow information:** | | |
| Non-cash investing activities: | | |
| Contributions of units in an LLC | $ - | $ 1,182,000 |

See notes to consolidated financial statements.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

## NOTE 1 – DESCRIPTION OF ORGANIZATION

The Community Foundation for Southwest Washington (the Foundation) is a publicly-supported charity founded in 1984 to carry out charitable, educational and scientific purposes primarily in and for the benefit of citizens in Southwest Washington. The Foundation's mission is to inspire a culture of giving to create a vibrant and engaged community. It receives contributions from individuals, corporations and nonprofit agencies and with these contributions, operates an effective grants program to strengthen our region for today and tomorrow. Grants are made to a wide range of not-for-profit organizations promoting education, arts and culture, communities and neighborhoods, basic needs and healthy living, scholarships, and conservation and the environment.

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 was not active during 2016 and 2015 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 subsidiaries: Community Foundation for Southwest Washington Charitable LLC and Community Foundation for Southwest Washington Charitable LLC #2. These charitable LLCs were formed December 12, 2012 and April 20, 2016, respectively, for the purpose of holding gifts of land and interests in operating businesses. All inter-organizational accounts and transactions have been eliminated. The LLCs are treated as disregarded entities 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.

## 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, 2016 and 2015.

### 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, 2016 and 2015, donated printing and advertising services were not material to the Foundation’s financial statements.

## 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. 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.

## 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 when purchased; at market value when acquired by gift. Cost of furniture and equipment greater than $5,000 is capitalized and depreciated on a straight-line basis over the estimated useful life of the asset, 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.

### 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.

## 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.

The Foundation has elected early application of Accounting Standards Update (ASU) 2015-07. Accordingly, Foundation investments for which fair value is measured using net asset value per share as a practical expedient are not categorized within the fair value hierarchy. These investments are non-published funds following investment company accounting standards and are available for daily redemption. Adoption of ASU 2015-07 does not result in reclassification of investments held at December 31, 2015.

Fair values of assets measured on a recurring basis at December 31, 2016 were as follows:

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value Total |
| Investments | $ 79,740,873 | $ - | $ 14,170,539 | $ 93,911,412 |
| Assets held in charitable trusts | 2,044,072 | - | - | 2,044,072 |
| Assets held in charitable gift annuities | 1,186,485 | - | - | 1,186,485 |
| Beneficial interest in remainder trust | - | - | 268,861 | 268,861 |
| | $ 82,971,430 | $ - | $ 14,439,400 | $ 97,410,830 |
| Other Assets Measured at Net Asset Value | | | | 62,522,040 |
| Total Per Balance Sheet | | | | $ 159,932,870 |

## NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a recurring basis at December 31, 2015 were as follows:

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value Total |
| Investments | $ 55,235,469 | $ - | $ 22,737,418 | $ 77,972,887 |
| Assets held in charitable trusts | 2,018,311 | - | - | 2,018,311 |
| Assets held in charitable gift annuities | 1,173,759 | - | - | 1,173,759 |
| Beneficial interest in remainder trust | - | - | 253,010 | 253,010 |
| | $ 58,427,539 | $ - | $ 22,990,428 | $ 81,417,967 |
| Other Assets Measured at Net Asset Value | | | | - |
| Total Per Balance Sheet | | | | $ 81,417,967 |

For the years ended December 31, 2016 and 2015, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning | $ 22,990,428 | $ 25,040,168 |
| Purchases (sales) - net | (8,395,710) | (1,755,938) |
| Total gains and losses included on the Statement of Activities | (155,318) | (293,802) |
| Balance, ending | $ 14,439,400 | $ 22,990,428 |

## NOTE 4 – INVESTMENTS

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

| | 2016 | 2015 |
|---|---|---|
| Domestic common stocks and equity funds | $ 12,447,584 | $ 23,873,853 |
| Fixed income securities and funds | 30,236,760 | 13,714,549 |
| Interests in private equity partnerships and limited liability companies | 14,046,039 | 22,425,918 |
| International equity securities | 33,953,783 | 14,720,355 |
| Money market funds and other cash equivalents | 65,624,786 | 2,926,712 |
| Timberland | 88,000 | 250,000 |
| Land | 36,500 | 61,500 |
| | $ 156,433,452 | $ 77,972,887 |

## NOTE 4 – INVESTMENTS (CONTINUED)

The Foundation's board of directors approved a restructured investment program to include outsourced investment management services provided through Russell Investments, thereby consolidating custodial and analysis services and reducing overall net investment expenses. Net investment expenses have been offset against investment income in the consolidated statements of activities and were $61,445 in 2016 and $180,584 in 2015.

## 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Trusts | Annuities | Trusts | Annuities |
| Common stocks and equity funds | $ 891,376 | $ 428,081 | $ 862,097 | $ 583,322 |
| Fixed income securities and funds | 776,047 | 412,347 | 805,279 | 242,679 |
| Money market funds and other cash equivalents | 63,697 | 66,337 | 90,924 | 56,381 |
| International funds | 312,952 | 279,720 | 260,011 | 291,377 |
| | $ 2,044,072 | $ 1,186,485 | $ 2,018,311 | $ 1,173,759 |

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 48.38.020 of the Washington Insurance Code, and that these reserves be held in separate investment accounts. The minimum calculated reserve required at December 31, 2016 and 2015 totaled $1,042,994 and $982,295, respectively. The Foundation held $1,186,485 and $1,173,759 in separate accounts for these purposes at December 31, 2016 and 2015, respectively.

## NOTE 6 – CONTRIBUTIONS RECEIVABLE

From time to time the Foundation is the recipient of bequest gifts which are recorded as revenue in the year a particular gift becomes irrevocable and its value can be objectively estimated, in accordance with generally accepted accounting principles. In 2015, the Foundation was named as the beneficiary of such a gift in a decedent's estate. The bequest is comprised of real estate and business interest assets estimated at $20 million. During 2016, $78,400 was received against the receivable, bringing the value included in contributions receivable to $19,921,600. Consistent with other bequests, the assets will be converted to cash before distribution to the Foundation. The timing of the cash receipts is not currently determinable. Accordingly, the contribution receivable is reported as temporarily restricted until such time as the gift is received.

## NOTE 7 – 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. The net value of the expected future cash receipts of the beneficial interest was $268,861 and $253,010 as of December 31, 2016 and 2015, respectively.

## NOTE 8 – FUNDS HELD UNDER AGENCY ENDOWMENT AGREEMENTS

Activity for the year ended December 31 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Beginning balance | $ 608,164 | $ 632,494 |
| Additions: | | |
| Contributions and transfers | 915 | 1,050 |
| Investment income (loss) | 33,882 | (13,250) |
| Total income (loss) | 34,797 | (12,200) |
| Deductions | | |
| Grants and transfers | (238,380) | (5,500) |
| Service fees assessed | (5,180) | (6,630) |
| Total deductions | (243,560) | (12,130) |
| Ending balance | $ 399,401 | $ 608,164 |

## NOTE 9 –DESIGNATIONS OF UNRESTRICTED NET ASSETS

The Foundation manages approximately 300 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, 2016 and 2015 are further classified as follows:

| | 2016 | 2015 |
|---|---|---|
| Available for operations: | | |
| Administrative | $ 285,707 | $ 332,782 |
| Discretionary | 22,287,698 | 21,740,490 |
| Designated | 23,712,870 | 21,306,568 |
| Donor advised | 100,016,257 | 24,218,048 |
| Field of interest | 3,389,562 | 3,315,981 |
| Scholarship | 7,004,643 | 6,813,132 |
| Total available for operations | 156,696,737 | 77,727,001 |
| Board designated | | |
| Charitable gift annuity reserve | 354,506 | 359,795 |
| Operating reserve | 672,016 | 624,718 |
| Total board designated | 1,026,522 | 984,513 |
| Total unrestricted net assets | $ 157,723,259 | $ 78,711,514 |

### 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.

## NOTE 9 – DESIGNATIONS OF UNRESTRICTED NET ASSETS (CONTINUED)

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2016 | Total 2015 |
|---|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 52,882,106 | $ - | $ - | $ 52,882,106 | $ 52,951,713 |
| Endowment investment return- | | | | | |
| Interest and dividends | 93,779 | - | - | 93,779 | 557,059 |
| Total net gains and losses, net of fees | 2,301,544 | - | - | 2,301,544 | (1,584,149) |
| Total investment returns | 2,395,323 | - | - | 2,395,323 | (1,027,090) |
| Contributions to endowments | 1,530,168 | - | - | 1,530,168 | 4,639,826 |
| Transfers from endowments | (1,798,636) | - | - | (1,798,636) | (3,682,343) |
| Endowment net assets, end of year | $ 55,008,961 | $ - | $ - | $ 55,008,961 | $ 52,882,106 |

### 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.

### 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 10 – TEMPORARILY RESTRICTED NET ASSETS

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

| | 2016 | 2015 |
|---|---|---|
| Net assets held in charitable trusts, beneficial interest, and annuities | $ 1,044,069 | $ 1,096,903 |
| Contributions receivable | 20,067,352 | 20,426,500 |
| Other contributions | - | 17,500 |
| | $ 21,111,421 | $ 21,540,903 |

## NOTE 11 – CONCENTRATIONS

For the years ended December 31, 2016 and December 31, 2015, 74% and 66% of contributions for the year were made by one donor, respectively.

## NOTE 12 – ADMINISTRATIVE EXPENSES

The costs of operations and overseeing general grantmaking activities are reported as administrative expenses. Administrative expenses for the years ended December 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Salaries and related expenses | $ 1,004,868 | $ 834,452 |
| Professional services | 101,523 | 67,759 |
| Outreach expenses | 123,914 | 189,418 |
| Program expenses | 53,024 | 26,645 |
| Occupancy | 106,004 | 105,560 |
| Equipment lease and maintenance | 102,433 | 91,259 |
| Office and postage expenses | 58,904 | 58,299 |
| Professional development | 26,391 | 12,760 |
| Depreciation | - | 6,213 |
| Insurance | 18,562 | 16,858 |
| Telecommunications | 11,095 | 10,365 |
| Travel | 7,312 | 6,789 |
| Other | 5,286 | 2,676 |
| | $ 1,619,316 | $ 1,429,053 |

## NOTE 13 – RETIREMENT PLAN

The Foundation provides all employees who work 1,000 hours or more annually a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code. Once an employee becomes eligible under the plan, the Foundation contributes 7% of his or her compensation to the plan. Employees become fully vested into the Foundation's contributions after their third year of participation. Employees may select among several investment options. For the years ended December 31, 2016 and December 31, 2015, the Foundation's plan contributions were $46,004 and $43,972, respectively.

## NOTE 14 – OPERATING LEASE

The Foundation currently leases its office space under a 5-year operating lease expiring in September 2019. Monthly payments due under the lease began at $8,250 per month and increase to $8,755 per month. Rent expense was $101,223 and $100,728 for the years ended December 31, 2016 and 2015, respectively.

Future commitments are as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2017 | $ 102,241 |
| 2018 | 103,767 |
| 2019 | 78,795 |
| | $ 284,803 |

## NOTE 15 – RELATED PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015, the Foundation recognized $1,143,158 and $1,334,136, respectively, in contributions from members of the Board of Directors.

## NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 7, 2017, which is the date the consolidated financial statements were available to be issued.

# OTHER INFORMATION

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

## BOARD OF DIRECTORS



## EXECUTIVE MANAGEMENT AND STAFF

Jennifer Rhoads, President
Mary E. Pringle, Vice President and Chief Financial Officer
Michael Macnab, Vice President of Gift Planning
Shona Carter, Senior Program Officer
Pam Cabanatuan, Controller
Anne Digenis, Senior Philanthropic Advisor
Maury Harris, Marketing and Communications Specialist
Ellora La Shier, Scholarship Manager and Program Associate
Ursula Arlauskas, Development Coordinator
Chrissy Trammell, Operations Assistant
Richard Melching, Strategic Advisor

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