

**COMMUNITY FOUNDATION
FOR SOUTHWEST WASHINGTON**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016



**COMMUNITY
FOUNDATION**
SOUTHWEST
WASHINGTON

KERN ▲ THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 2, Community Foundation for Southwest Washington adopted the provisions of *Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958)*, for the year ended December 31, 2017. Our opinion is not modified with respect to this matter.

KERN & THOMPSON, LLC

Portland, Oregon
June 11, 2018

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS		<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$	1,230,067	\$ 1,261,081
Contributions receivable		26,101,874	20,067,352
Other assets		99,813	111,273
Investments		251,692,601	156,433,452
Assets held in charitable trusts		2,215,411	2,044,072
Assets held in charitable gift annuities		1,254,817	1,186,485
Beneficial interest in remainder trust		273,693	268,861
Loan receivable		400,000	-
Total assets		<u>\$ 283,268,276</u>	<u>\$ 181,372,576</u>
 LIABILITIES AND NET ASSETS			
Accounts and other payables	\$	36,441	\$ 37,652
Liabilities for split-interest agreements		2,227,154	2,100,843
Funds held under agency endowment agreements		124,668	399,401
Total liabilities		<u>2,388,263</u>	<u>2,537,896</u>
 Net assets			
Without donor restrictions			
Unrestricted		194,739,418	101,733,528
Board designated for gift annuity reserve		401,171	354,506
Board designated for operating reserve		742,924	672,016
		<u>195,883,513</u>	<u>102,760,050</u>
With donor restrictions		<u>84,996,500</u>	<u>76,074,630</u>
Total net assets		<u>280,880,013</u>	<u>178,834,680</u>
Total liabilities and net assets		<u>\$ 283,268,276</u>	<u>\$ 181,372,576</u>

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

	2017			2016		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue						
Contributions	\$ 78,528,891	\$ 29,981,297	\$ 108,510,188	\$ 80,955,733	\$ 1,686,287	\$ 82,642,020
Special event revenue	72,506	-	72,506	54,150	-	54,150
Investment income	3,452,768	91,300	3,544,068	1,514,655	93,779	1,608,434
Net appreciation in the fair value of investments	5,986,338	5,126,050	11,112,388	1,104,936	2,301,544	3,406,480
Changes in the actuarial value of charitable trusts, charitable gift annuities, and long-term contributions receivable	-	97,684	97,684	-	(58,952)	(58,952)
Service fees assessed against funds held under agency endowment agreements and charitable trusts	5,175	-	5,175	7,638	-	7,638
	<u>88,045,678</u>	<u>35,296,331</u>	<u>123,342,009</u>	<u>83,637,112</u>	<u>4,022,658</u>	<u>87,659,770</u>
Net assets released from restrictions	26,374,461	(26,374,461)	-	2,371,036	(2,371,036)	-
Total revenues and other support	<u>114,420,139</u>	<u>8,921,870</u>	<u>123,342,009</u>	<u>86,008,148</u>	<u>1,651,622</u>	<u>87,659,770</u>
Operating Expenses						
Grants and program services	20,316,107	-	20,316,107	8,203,516	-	8,203,516
Management and general	379,866	-	379,866	342,861	-	342,861
Fundraising	600,703	-	600,703	531,130	-	531,130
Total expenses	<u>21,296,676</u>	<u>-</u>	<u>21,296,676</u>	<u>9,077,507</u>	<u>-</u>	<u>9,077,507</u>
Change in net assets	93,123,463	8,921,870	102,045,333	76,930,641	1,651,622	78,582,263
Net assets, beginning of year, restated	<u>102,760,050</u>	<u>76,074,630</u>	<u>178,834,680</u>	<u>25,829,409</u>	<u>74,423,008</u>	<u>100,252,417</u>
Net assets, end of year	<u>\$ 195,883,513</u>	<u>\$ 84,996,500</u>	<u>\$ 280,880,013</u>	<u>\$ 102,760,050</u>	<u>\$ 76,074,630</u>	<u>\$ 178,834,680</u>

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 102,045,333	\$ 78,582,263
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net investment losses (gains) on investments	(11,097,282)	(3,249,966)
Changes in actuarial value of charitable trusts and gift annuities	(118,191)	58,123
Changes in:		
Contributions receivable	(6,034,522)	359,148
Note receivable	(400,000)	-
Other assets	11,460	(7,172)
Accounts and other payables	(1,211)	(53,702)
Funds held under agency endowment agreements	(274,733)	(208,763)
Net cash provided by (used in) operating activities	84,130,854	75,479,931
Cash flows from investing activities:		
Proceeds from sale of investments	16,647,090	78,971,843
Purchases of investments	(100,808,958)	(154,182,442)
Net cash provided by (used in) investing activities	(84,161,868)	(75,210,599)
Net change in cash and cash equivalents	(31,014)	269,332
Cash and cash equivalents, beginning of year	1,261,081	991,749
Cash and cash equivalents, end of year	\$ 1,230,067	\$ 1,261,081

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 2017 and 2016 and has no assets or liabilities.

The Rood Family Foundation is a supporting organization of the Community Foundation for Southwest Washington. It is a separate legal entity incorporated in 2017. Effective May 2, 2017, the Internal Revenue Service determined it to be tax-exempt under 501(c)(3) of the Internal Revenue Code. The Foundation performs all administrative functions of the Rood Family Foundation and appoints its members of the Board of Directors. The Rood Family Foundation anticipates awarding charitable grants in 2018.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation consolidated with the accounts of the supporting organizations and 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

Adoption of New Accounting Pronouncement

During the calendar year ended December 31, 2017, the Foundation implemented *Accounting Standards Update No. 2016-14, Not-for-Profit Entities Topic 958* ("ASU 2016-14"). This standard revises the net asset classification requirements and information presented in financial statements and notes regarding a not-for-profit entity's liquidity, financial performance, and cash flows. As a result of the implementation of ASU 2016-14, net assets are now presented in two categories: with donor restrictions and without donor restrictions. Previously, net assets were presented in three categories: unrestricted, temporarily restricted, and permanently restricted. Additionally, disclosures regarding liquidity have been added and the disclosures regarding the nature of donor restrictions and endowment funds have been made.

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

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncement (Continued)

Although the implementation of ASU 2016-14 had no effect on total net assets, the components of net assets as of December 2015 have been restated as a result of applying ASU 2016-14. The cumulative effect of the restatement on the components of net assets as of December 31, 2015 is as follows:

	<u>As Previously Reported</u>	<u>Changes to Classification of Donor Endowments</u>	<u>Amounts as Restated</u>
Net assets without donor restrictions (formerly "unrestricted")	\$ 78,711,515	\$ (52,882,106)	\$ 25,829,409
Net assets with donor restrictions (formerly "temporarily restricted")	<u>21,540,902</u>	<u>52,882,106</u>	<u>74,423,008</u>
Total net assets	<u>\$ 100,252,417</u>	<u>\$ -</u>	<u>\$ 100,252,417</u>

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 reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The Board of Directors of the Foundation may designate net assets without donor restrictions for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time, or net assets with donor restrictions that are not subject to appropriation or expenditure.

Grants and expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (i.e., the stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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 with donor restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 accounts was deemed necessary at December 31, 2017 and December 31, 2016.

Cash and Cash Equivalents

For 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.

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

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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 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.

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

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Organizations 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%.

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

December 31, 2017 and 2016

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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 elected early adoption of Accounting Standards Update (ASU) 2015-07 in 2016. Accordingly, for years 2017 and 2016, 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.

Fair values of assets measured on a recurring basis at December 31, 2017 were as follows:

	2017			Fair Value
	Level 1	Level 2	Level 3	Total
Investments	\$ 79,640,300	\$ -	\$ 22,314,785	\$ 101,955,085
Assets held in charitable trusts	2,215,411	-	-	2,215,411
Assets held in charitable gift annuities	1,254,817	-	-	1,254,817
Beneficial interest in remainder trust	-	-	273,693	273,693
	<u>\$ 83,110,528</u>	<u>\$ -</u>	<u>\$ 22,588,478</u>	<u>\$ 105,699,006</u>
Other Assets Measured at Net Asset Value				<u>149,737,516</u>
Total per Statement of Financial Position				<u>\$ 255,436,522</u>

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

	2016			Fair Value
	Level 1	Level 2	Level 3	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
	<u>\$ 82,971,430</u>	<u>\$ -</u>	<u>\$ 14,439,400</u>	<u>\$ 97,410,830</u>
Other Assets Measured at Net Asset Value				<u>62,522,040</u>
Total per Statement of Financial Position				<u>\$ 159,932,870</u>

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

December 31, 2017 and 2016

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

For the years ended December 31, 2017 and 2016, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning	\$ 14,439,400	\$ 22,990,428
Purchases (sales) - net	6,985,841	(8,395,710)
Total gains and losses included on the Statement of Activities	<u>1,163,237</u>	<u>(155,318)</u>
Balance, ending	<u>\$ 22,588,478</u>	<u>\$ 14,439,400</u>

NOTE 4 – INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Domestic common stocks and equity funds	\$ 26,228,095	\$ 12,447,584
Fixed income securities and funds	84,208,018	30,236,760
Interests in private equity partnerships and limited liability companies	22,766,436	14,046,039
International equity securities	93,134,486	33,953,783
Money market funds and other cash equivalents	25,231,066	65,624,786
Timberland	88,000	88,000
Land	<u>36,500</u>	<u>36,500</u>
	<u>\$ 251,692,601</u>	<u>\$ 156,433,452</u>

The Foundation's board of directors has approved an 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 statement of activities.

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

December 31, 2017 and 2016

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:

	2017		2016	
	Trusts	Annuities	Trusts	Annuities
Common stocks and equity funds	\$ 857,360	\$ 421,690	\$ 891,376	\$ 428,081
Fixed income securities and funds	831,909	421,309	776,047	412,347
Money market funds and other				
cash equivalents	202,715	43,905	63,697	66,337
International funds	323,427	367,913	312,952	279,720
	<u>\$ 2,215,411</u>	<u>\$ 1,254,817</u>	<u>\$ 2,044,072</u>	<u>\$ 1,186,485</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 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, 2017 and 2016 totaled \$1,023,305 and \$1,042,994, respectively. The Foundation held \$1,254,817 and \$1,186,485 in separate accounts for these purposes at December 31, 2017 and 2016, respectively.

NOTE 6 – LOAN RECEIVABLE

On December 7, 2017, the Foundation entered into a loan agreement with Housing Initiative, LLC, a wholly-owned subsidiary of Council for the Homeless, a Vancouver, Washington-based 501(c)(3). Housing Initiative, LLC was created for the purpose of increasing and preserving the supply of affordable housing available to Vancouver residents with limited means or other barriers to renting in the private market. Council for the Homeless is the sole member of Housing Initiative, LLC, which is considered a disregarded entity for tax purposes.

The loan is for the purpose of acquiring land and constructing an 18-unit affordable housing development located in Vancouver, Washington. The development will provide housing for low-income people with developmental disabilities and previously homeless or near homeless individuals. Housing Initiative, LLC promises to pay the Foundation \$400,000, with interest on the unpaid principal at three percent (3%) per annum for ten years as follows: payable annually, commencing 12 months after the certificate of occupancy has been issued, with principal due 10 years from the certificate of occupancy date. As of December 31, 2017, the project is not complete.

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

December 31, 2017 and 2016

NOTE 7 – CONTRIBUTIONS RECEIVABLE

From time to time the Foundation is the recipient of bequest gifts. In accordance with generally accepted accounting principles, such gifts are recorded as revenue in the year a particular gift becomes irrevocable and its value can be objectively estimated. In 2015, the Foundation was the recipient of an estate gift comprised of real estate and business interest assets valued at \$20 million. Proceeds received from the estate were \$78,400 in 2016 and \$85,000,000 in 2017. The remainder of the estate was revalued at \$18,000,000 as of December 31, 2017. At year end, the Foundation is the recipient of other bequest gifts totaling \$8,101,874. The timing of the receipts is not currently determinable. Accordingly, the contributions are reported as net assets with donor restrictions until such time as the gifts are received.

NOTE 8 – BENEFICIAL INTEREST IN REMAINDER TRUST

The Foundation is the beneficiary of a charitable remainder unitrust. Upon termination of the trust, the Foundation will receive the assets remaining in the trust. The net value of the expected future cash receipts of the beneficial interest was \$273,693 and \$268,861 as of December 31, 2017 and 2016, respectively.

NOTE 9 – FUNDS HELD UNDER AGENCY ENDOWMENT AGREEMENTS

Activity for the year ended December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ <u>399,401</u>	\$ <u>608,164</u>
Additions:		
Contributions and transfers	3,852	915
Investment income (loss)	<u>34,209</u>	<u>33,882</u>
Total income (loss)	<u>38,061</u>	<u>34,797</u>
Deductions		
Grants and transfers	(307,425)	(238,380)
Service fees assessed	<u>(5,369)</u>	<u>(5,180)</u>
Total deductions	<u>(312,794)</u>	<u>(243,560)</u>
Ending balance	\$ <u><u>124,668</u></u>	\$ <u><u>399,401</u></u>

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

December 31, 2017 and 2016

NOTE 10 – DESIGNATIONS OF NET ASSETS WITH DONOR RESTRICTIONS

Funds with donor restrictions include endowment funds created by donor stipulation requiring investment of the gift in perpetuity or for a specified term; charitable gift annuities and trusts, the assets of which are contractually restricted; and contributions receivable restricted for timing. Net assets with donor restrictions at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Endowment Funds:		
Discretionary	\$ 22,063,557	\$ 20,764,864
Designated	24,258,961	19,556,433
Donor advised	3,384,817	6,818,223
Field of interest	2,462,072	2,626,158
Scholarship	5,609,624	5,197,531
Contributions Receivable	26,101,874	20,067,352
Gift Annuities	(169,659)	(211,015)
Trusts	<u>1,285,254</u>	<u>1,255,084</u>
Total Net Assets With Donor Restrictions	<u>\$ 84,996,500</u>	<u>\$ 76,074,630</u>

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 an endowment fund, and establishes a set of prudent management and investment 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 retains variance power over its endowment assets. 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.

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

December 31, 2017 and 2016

NOTE 10 – DESIGNATIONS OF NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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

	2017	2016
Endowment net assets, beginning of year	\$ 55,008,961	\$ 52,882,106
Endowment investment return-		
Interest and dividends	91,300	93,779
Total net gains and losses, net of fees	5,126,050	2,301,544
Total investment returns	5,217,350	2,395,323
Contributions to endowments	7,457,455	1,530,168
Transfers from endowments	(6,382,548)	(1,798,636)
Endowment net assets, end of year	\$ 61,301,218	\$ 55,008,961

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.

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

December 31, 2017 and 2016

NOTE 11 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor-imposed restrictions consist of the following at December 31:

	2017	2016
Unrestricted:		
Administrative	\$ 237,272	\$ 285,707
Discretionary	1,558,880	1,522,834
Designated	4,404,377	4,156,438
Donor Advised	185,406,248	93,198,033
Field of Interest	1,323,915	763,404
Scholarship	1,808,726	1,807,112
Total Unrestricted	194,739,418	101,733,528
Board Designated:		
Gift Annuity Reserve	401,171	354,506
Operating Reserve	742,924	672,016
Total Board Designated	1,144,095	1,026,522
Total Net Assets Without Donor Restrictions	\$ 195,883,513	\$ 102,760,050

NOTE 12 – 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, 2017 and December 31, 2016, the Foundation's plan contributions were \$58,819 and \$46,004, respectively.

NOTE 13 – 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 \$97,479 and \$101,223 for the years ended December 31, 2017 and 2016, respectively.

Future commitments are as follows:

Year Ending December 31,	
2018	\$ 105,531
2019	80,307
	\$ 185,838

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

December 31, 2017 and 2016

NOTE 14 – LIQUIDITY

The following chart represents the Foundation’s financial assets available to meet cash needs for general expenditures within one year of December 31, 2017. Amounts not available for expenditure within one year include long-term investment of endowment funds, investments subject to contractual restriction, illiquid investments, and contributions receivable.

Financial assets at year-end*	
Cash and cash equivalents	\$ 1,230,067
Contributions receivable	26,101,874
Loan receivable	400,000
Investments	251,568,101
Assets held in charitable trusts	2,215,411
Assets held in charitable gift annuities	1,254,817
Beneficial interest in remainder trust	273,693
Other assets	<u>78,893</u>
Total financial assets	<u>283,122,856</u>
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:	
Long-term investment of endowment funds	(58,236,157)
Investments subject to contractual restrictions	(12,631,146)
Investments in limited liability corporations	(1,251,138)
Charitable trusts	(2,215,411)
Beneficial interest in remainder trust	(273,693)
Gift annuities	(1,254,817)
Contributions receivable	(22,327,974)
Loan receivable	(400,000)
Life insurance policy	<u>(78,893)</u>
Total unrestricted assets	<u>(98,669,229)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 184,453,627</u>

* Total assets, less nonfinancial assets (e.g. real property, prepaid expenses)

As part of the Foundation’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments.

Certain investments, including hedge funds and private equity, include lock-up provisions and are not available for spending within one year.

At December 31, 2017, the Foundation holds 126 endowment funds with net assets totaling \$61 million. The Foundation will appropriate for spending in 2018 approximately 3.5% of each fund’s three-year rolling average fair market value for grantmaking purposes and 1.5% for administrative fees.

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 and 2016

NOTE 15 – EXPENSE ANALYSIS

The following chart classifies the Foundation's operating expenses by function: program services, management and general activities, and fundraising. The Foundation's operating expenses include grants to the community and administrative expenses. Administrative expenses are allocated among program services and supporting activities based upon estimates of how Foundation employees' time is allocated among the three activities.

	2017			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expense</u>
Grants to the community	\$ 19,486,263	\$ -	\$ -	\$ 19,486,263
Program expenses	70,237	-	-	70,237
Salaries and related expenses	512,665	256,375	405,420	1,174,460
Professional services	22,517	11,261	17,807	51,585
Outreach expenses	57,051	28,530	45,116	130,697
Occupancy	44,582	22,295	35,256	102,133
Equipment lease, tech support, software	52,806	26,407	41,759	120,972
Office and postage	24,768	12,386	19,586	56,740
Professional development	26,045	13,024	20,596	59,665
Insurance	7,368	3,685	5,827	16,880
Telecommunications	5,178	2,589	4,095	11,862
Travel	3,445	1,723	2,724	7,892
Other	3,182	1,591	2,517	7,290
	<u>\$ 20,316,107</u>	<u>\$ 379,866</u>	<u>\$ 600,703</u>	<u>\$ 21,296,676</u>
	2016			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expense</u>
Grants to the community	\$ 7,458,191	\$ -	\$ -	\$ 7,458,191
Program expenses	53,024	-	-	53,024
Salaries and related expenses	444,152	219,965	340,754	1,004,871
Professional services	44,873	22,223	34,426	101,522
Outreach expenses	54,770	27,125	42,019	123,914
Occupancy	46,854	23,204	35,946	106,004
Equipment lease, tech support, software	45,275	22,423	34,735	102,433
Office and postage	26,036	12,894	19,974	58,904
Professional development	11,665	5,777	8,949	26,391
Insurance	8,204	4,063	6,294	18,561
Telecommunications	4,904	2,429	3,762	11,095
Travel	3,232	1,601	2,479	7,312
Other	2,336	1,157	1,792	5,285
	<u>\$ 8,203,516</u>	<u>\$ 342,861</u>	<u>\$ 531,130</u>	<u>\$ 9,077,507</u>

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

December 31, 2017 and 2016

NOTE 16 – CONCENTRATIONS

For the years ended December 31, 2017 and December 31, 2016, 77% and 74% of contributions for the year were made by one donor, respectively.

NOTE 17 – RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017 and 2016, the Foundation recognized \$2,112,203 and \$1,143,158, respectively, in contributions from members of the Board of Directors.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 11, 2018, which is the date the consolidated financial statements were available to be issued.

OTHER INFORMATION

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

BOARD OF DIRECTORS

Mark Matthias, Chair
Brett Bryant, Vice Chair
Steve Hansen, Treasurer
Marty Forsmann, Secretary

Albert Angelo III
Twyla Barnes, Ed. D.
Jody Campbell
Vanessa Gaston
Randy Grove, J.D., LL.M.
Vaughn Lein
Kirk Raboin
Scott South
Kaycee Wiita
Richard Wollenberg
Dr. Jim Youde
Dr. Candace Young

EXECUTIVE MANAGEMENT AND STAFF

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

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