

**COMMUNITY FOUNDATION  
FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**



**COMMUNITY  
FOUNDATION**

**SOUTHWEST  
WASHINGTON**

**KERN ▲ THOMPSON**  
CERTIFIED PUBLIC ACCOUNTANTS

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2018 and 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Board of Directors  
Community Foundation for Southwest Washington

**Other Matters**

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KERN & THOMPSON, LLC*

Portland, Oregon  
May 23, 2019

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**Years Ended December 31, 2018 and 2017**

<b>ASSETS</b>		<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$	3,216,896	\$ 1,230,067
Contributions receivable		21,480,681	26,101,874
Investments		241,319,308	251,692,601
Impact investments		1,900,000	400,000
Assets held in charitable trusts		2,003,368	2,215,411
Assets held in charitable gift annuities		1,076,818	1,254,817
Beneficial interest in remainder trust		-	273,693
Other assets		<u>163,273</u>	<u>99,813</u>
<b>Total assets</b>	<b>\$</b>	<b><u>271,160,344</u></b>	<b>\$ <u>283,268,276</u></b>
 <b>LIABILITIES AND NET ASSETS</b>			
Accounts and other payables	\$	649,832	\$ 36,441
Liabilities for split-interest agreements		2,029,852	2,227,154
Funds held under agency endowment agreements		<u>120,658</u>	<u>124,668</u>
<b>Total liabilities</b>		<b><u>2,800,342</u></b>	<b><u>2,388,263</u></b>
<b>Net assets</b>			
<b>Without donor restrictions</b>			
Undesignated		183,843,658	194,739,418
Board designated for gift annuity reserve		369,638	401,171
Board designated for operating reserve		<u>708,086</u>	<u>742,924</u>
		184,921,382	195,883,513
<b>With donor restrictions</b>		<u>83,438,620</u>	<u>84,996,500</u>
<b>Total net assets</b>		<b><u>268,360,002</u></b>	<b><u>280,880,013</u></b>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b><u>271,160,344</u></b>	<b>\$ <u>283,268,276</u></b>

See notes to consolidated financial statements.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue</b>						
Contributions	\$ 4,918,701	\$ 13,830,040	\$ 18,748,741	\$ 78,528,891	\$ 29,981,297	\$ 108,510,188
Special event revenue	21,875	-	21,875	72,506	-	72,506
Investment income	5,141,479	1,202,140	6,343,619	3,452,768	91,300	3,544,068
Net appreciation in the fair value of investments	(14,282,968)	(5,024,871)	(19,307,839)	5,986,338	5,126,050	11,112,388
Changes in the actuarial value of charitable trusts, charitable gift annuities, and long-term contributions receivable	-	(410,895)	(410,895)	-	97,684	97,684
Service fees assessed against funds held under agency endowment agreements and charitable trusts	4,502	-	4,502	5,175	-	5,175
	<u>(4,196,411)</u>	<u>9,596,414</u>	<u>5,400,003</u>	<u>88,045,678</u>	<u>35,296,331</u>	<u>123,342,009</u>
Net assets released from restrictions	11,154,294	(11,154,294)	-	26,374,461	(26,374,461)	-
<b>Total revenues and other support</b>	<b><u>6,957,883</u></b>	<b><u>(1,557,880)</u></b>	<b><u>5,400,003</u></b>	<b><u>114,420,139</u></b>	<b><u>8,921,870</u></b>	<b><u>123,342,009</u></b>
<b>Operating Expenses</b>						
Grants and program services	16,883,926	-	16,883,926	20,316,107	-	20,316,107
Management and general	465,968	-	465,968	379,866	-	379,866
Fundraising	570,120	-	570,120	600,703	-	600,703
<b>Total expenses</b>	<b><u>17,920,014</u></b>	<b><u>-</u></b>	<b><u>17,920,014</u></b>	<b><u>21,296,676</u></b>	<b><u>-</u></b>	<b><u>21,296,676</u></b>
<b>Change in net assets</b>	<b>(10,962,131)</b>	<b>(1,557,880)</b>	<b>(12,520,011)</b>	<b>93,123,463</b>	<b>8,921,870</b>	<b>102,045,333</b>
Net assets, beginning 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>
<b>Net assets, end of year</b>	<b><u>\$ 184,921,382</u></b>	<b><u>\$ 83,438,620</u></b>	<b><u>\$ 268,360,002</u></b>	<b><u>\$ 195,883,513</u></b>	<b><u>\$ 84,996,500</u></b>	<b><u>\$ 280,880,013</u></b>

See notes to consolidated financial statements.

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (12,520,011)	\$ 102,045,333
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net investment losses (gains) on investments	19,289,478	(11,097,282)
Changes in actuarial value of charitable trusts and gift annuities	466,433	(118,191)
Changes in:		
Contributions receivable	4,621,193	(6,034,522)
Other assets	(63,460)	11,460
Accounts and other payables	613,390	(1,211)
Funds held under agency endowment agreements	(4,010)	(274,733)
<b>Net cash provided by (used in) operating activities</b>	<b>12,403,013</b>	<b>84,530,854</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	19,544,927	16,647,090
Purchases of investments	(28,461,111)	(100,808,958)
Impact investments	(1,500,000)	(400,000)
<b>Net cash provided by (used in) investing activities</b>	<b>(10,416,184)</b>	<b>(84,561,868)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,986,829</b>	<b>(31,014)</b>
Cash and cash equivalents, beginning of year	1,230,067	1,261,081
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,216,896</b>	<b>\$ 1,230,067</b>

See notes to consolidated financial statements.

## COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

#### 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 2018 and 2017 and has no assets or liabilities.

The Rood Family Foundation is a tax-exempt supporting organization of the Community Foundation for Southwest Washington. The Foundation performs all administrative functions of the Rood Family Foundation and appoints its members of the Board of Directors. The Rood Family Foundation began 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

##### 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.



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

**December 31, 2018 and 2017**

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

**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.

**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.

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

**December 31, 2018 and 2017**

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

**Contributions (Continued)**

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, 2018 and December 31, 2017.

**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.

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.

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

**December 31, 2018 and 2017**

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

**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.

**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.

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

**December 31, 2018 and 2017**

**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.

In accordance with generally accepted accounting principles, 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, 2018 were as follows:

	2018			Fair Value Total
	Level 1	Level 2	Level 3	
Investments	\$ 84,457,624	\$ -	\$ 8,308,164	\$ 92,765,788
Assets held in charitable trusts	2,003,368	-	-	2,003,368
Assets held in charitable gift annuities	1,076,818	-	-	1,076,818
	<u>\$ 87,537,810</u>	<u>\$ -</u>	<u>\$ 8,308,164</u>	95,845,974
Other Assets Measured at Net Asset Value				<u>148,553,520</u>
Total per Statement of Financial Position				<u>\$ 244,399,494</u>

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

**December 31, 2018 and 2017**

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

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

	2017			Fair Value Total
	Level 1	Level 2	Level 3	
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>

For the years ended December 31, 2018 and 2017, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

	2018	2017
Balance, beginning	\$ 22,588,478	\$ 14,439,400
Purchases (sales) - net	(10,468,936)	6,985,841
Total gains and losses included on the Statement of Activities	<u>(3,811,378)</u>	<u>1,163,237</u>
Balance, ending	<u>\$ 8,308,164</u>	<u>\$ 22,588,478</u>

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

**December 31, 2018 and 2017**

**NOTE 4 – INVESTMENTS**

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

	2018	2017
Domestic common stocks and equity funds	\$ 44,113,557	\$ 26,228,095
Fixed income securities and funds	76,964,578	84,208,018
Interests in private equity partnerships and limited liability companies	11,603,053	22,766,436
International equity securities	94,051,610	93,134,486
Money market funds and other cash equivalents	14,550,010	25,231,066
Timberland	-	88,000
Land	36,500	36,500
	<u>\$ 241,319,308</u>	<u>\$ 251,692,601</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.

**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:

	2018		2017	
	Trusts	Annuities	Trusts	Annuities
Common stocks and equity funds	\$ 722,970	\$ 293,993	\$ 857,360	\$ 421,690
Fixed income securities and funds	934,551	453,820	831,909	421,309
Money market funds and other cash equivalents	52,937	92,985	202,715	43,905
International funds	292,910	236,020	323,427	367,913
	<u>\$ 2,003,368</u>	<u>\$ 1,076,818</u>	<u>\$ 2,215,411</u>	<u>\$ 1,254,817</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, 2018 and 2017 totaled \$954,657 and \$1,023,305, respectively. The Foundation held \$1,076,818 and \$1,254,817 in separate accounts for these purposes at December 31, 2018 and 2017, respectively.

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

**December 31, 2018 and 2017**

**NOTE 6 – IMPACT INVESTMENTS**

The Foundation has made three impact investments. These investments diversify and enhance the Foundation's investment portfolio, are aligned with its charitable mission, and are structured to achieve both a financial return and a social return. Impact investments made through December 31, 2018 are in the form of loans and total \$1,900,000.

On December 7, 2017, the Foundation entered into a \$400,000 loan agreement with Housing Initiative, LLC, a wholly-owned subsidiary of Council for the Homeless, a Vancouver, Washington-based 501(c)(3). The loan is for the purpose of acquiring land and constructing an 18-unit affordable housing development located in Vancouver. The development will provide housing for low-income people with developmental disabilities and previously homeless or near homeless individuals. In 2019, Housing Initiative, LLC secured other sources of funding for the project and repaid the loan in full.

On December 13, 2018, the Foundation entered into a \$1,000,000 subordinated debt agreement with a private high school located in Vancouver, Washington. The loan will be used for the financing of the school and its athletic fields. The 3% loan is payable over 15 years.

On December 27, 2018, the Foundation entered into a \$500,000 subordinated debt agreement with a Vancouver community development financial institution. The organization provides financial and banking services to the area's low to moderate income population. The loan will be used to increase the credit union's lending capacity by approximately \$5 million. The 2% loan is payable over 20 years.

**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. Proceeds received from the estate were \$78,400 in 2016 and \$85,000,000 in 2017. The remainder of the estate is valued at \$18,000,000 as of December 31, 2018. At year end, the Foundation is the recipient of other bequest gifts totaling \$3,480,681. 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**

At December 31, 2017, the Foundation was the remainder beneficiary of a charitable trust. During 2018, the Foundation determined that its beneficiary status was revocable and its interest was written off. At December 31, 2017, the net value of the expected future cash receipts of the beneficial trust was \$273,693.

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

**December 31, 2018 and 2017**

**NOTE 9 – FUNDS HELD UNDER AGENCY ENDOWMENT AGREEMENTS**

Activity for the year ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 124,668	\$ 399,401
Additions:		
Contributions and transfers	3,782	3,852
Investment income (loss)	<u>(6,547)</u>	<u>34,209</u>
Total income (loss)	<u>(2,765)</u>	<u>38,061</u>
Deductions		
Grants and transfers	-	(307,425)
Service fees assessed	<u>(1,245)</u>	<u>(5,369)</u>
Total deductions	<u>(1,245)</u>	<u>(312,794)</u>
Ending balance	<u>\$ 120,658</u>	<u>\$ 124,668</u>

**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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Endowment Funds:		
Discretionary	\$ 20,519,583	\$ 22,063,557
Designated	24,807,641	24,258,961
Donor advised	6,695,224	3,384,817
Field of interest	2,219,968	2,462,072
Scholarship	7,034,827	5,609,624
Contributions Receivable	21,480,681	26,101,874
Gift Annuities	(247,478)	(169,659)
Trusts	<u>928,174</u>	<u>1,285,254</u>
Total Net Assets With Donor Restrictions	<u>\$ 83,438,620</u>	<u>\$ 84,996,500</u>



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

**December 31, 2018 and 2017**

**NOTE 10 – DESIGNATIONS OF NET ASSETS WITH DONOR RESTRICTIONS (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 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.

**Underwater Endowment Funds**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar value of the gifts. For the years ended December 31, 2018 and 2017, deficiencies of this nature have an original gift value of \$38,873,826 and \$4,587,995; a current value of \$36,116,511 and \$4,208,392; and deficiencies of \$2,757,315 and \$379,603, respectively. These deficiencies resulted from unfavorable market fluctuations.

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

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 61,301,218	\$ 55,008,961
Endowment investment return:		
Interest and dividends	1,202,140	91,300
Total net gains and losses, net of fees	(5,024,872)	5,126,050
Contributions to endowments	10,196,186	7,457,455
Transfers from endowments	<u>(3,580,077)</u>	<u>(6,382,548)</u>
Endowment net assets, end of year	<u>\$ 64,094,595</u>	<u>\$ 61,301,218</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, 2018 and 2017

**NOTE 10 – DESIGNATIONS OF NET ASSETS WITH DONOR RESTRICTIONS (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 11 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

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

	<u>2018</u>	<u>2017</u>
Undesignated:		
Administrative	\$ 403,676	\$ 237,272
Discretionary	3,986,668	1,558,880
Designated	3,576,793	4,404,377
Donor Advised	172,929,712	185,406,248
Field of Interest	796,253	1,323,915
Scholarship	2,150,556	1,808,726
Total Undesignated	<u>183,843,658</u>	<u>194,739,418</u>
Board Designated:		
Gift Annuity Reserve	369,638	401,171
Operating Reserve	708,086	742,924
Total Board Designated	<u>1,077,724</u>	<u>1,144,095</u>
Total Net Assets Without Donor Restrictions	<u>\$ 184,921,382</u>	<u>\$ 195,883,513</u>

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

**December 31, 2018 and 2017**

**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, 2018 and December 31, 2017, the Foundation's plan contributions were \$63,545 and \$58,819, respectively.

**NOTE 13 – OPERATING LEASE**

The Foundation currently leases its office space under a 73-months operating lease commencing on September 1, 2018 and ending on September 30, 2024. Monthly payments due under the lease began at \$10,737 and increase to \$12,867. Rent expense was \$112,804 and \$97,479 for the years ended December 31, 2018 and 2017, respectively.

Future commitments are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 135,760
2020	145,370
2021	148,238
2022	151,162
2023	154,145
2024	<u>117,311</u>
	<u>\$ 851,986</u>

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

**December 31, 2018 and 2017**

**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, 2018. 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	\$ 3,216,896
Contributions receivable	21,480,681
Impact investments	1,900,000
Investments	241,282,808
Assets held in charitable trusts	2,003,368
Assets held in charitable gift annuities	1,076,818
Other financial assets	94,660
Total financial assets	<u>271,055,231</u>
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:	
Long-term investment of endowment funds	61,030,733
Investments subject to contractual restrictions	5,187,763
Investments in limited liability corporations	2,255,713
Impact investments	1,490,000
Charitable trusts	2,003,368
Gift annuities	1,076,818
Contributions receivable	19,623,801
Life insurance cash surrender value	94,660
Total unavailable assets	<u>92,762,856</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 178,292,375</u>
* Total assets at year-end	\$ 271,160,344
Nonfinancial assets (real property, prepaid expenses)	<u>(105,113)</u>
Total financial assets	<u>\$ 271,055,231</u>

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, 2018, the Foundation holds 133 endowment funds with net assets totaling \$64 million. The Foundation will appropriate for spending in 2019 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, 2018 and 2017**

**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.

	2018			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expense</u>
Grants to the community	\$ 15,543,719	\$ -	\$ -	\$ 15,543,719
Program expenses	533,914	-	-	533,914
Salaries and related expenses	547,397	316,349	387,059	1,250,805
Professional services	15,999	9,246	11,313	36,558
Outreach expenses	74,171	42,865	52,445	169,481
Occupancy	50,810	29,364	35,927	116,101
Equipment lease, tech support, software	54,854	31,701	38,786	125,341
Office and postage	18,231	10,536	12,891	41,658
Professional development	17,521	10,125	12,389	40,035
Insurance	13,871	8,016	9,808	31,695
Telecommunications	6,262	3,619	4,427	14,308
Travel	4,237	2,448	2,996	9,681
Other	2,940	1,699	2,079	6,718
	<u>\$ 16,883,926</u>	<u>\$ 465,968</u>	<u>\$ 570,120</u>	<u>\$ 17,920,014</u>
	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>

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

**December 31, 2018 and 2017**

**NOTE 16 – CONCENTRATIONS**

For the year ended December 31, 2018, 21% of contributions were made by two donors. For the year ended December 31, 2017, 77% of contributions were made by one donor.

**NOTE 17 – RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2018 and December 31, 2017, the Foundation recognized \$37,150 and \$2,112,203, respectively, in contributions from members of the Board of Directors. In addition, the Rood Family Foundation recognized \$250,000 in contributions from members of its Board of Directors. These contributions make up 100% of contributions to the Rood Family Foundation.

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 23, 2019, which is the date the consolidated financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**Charitable Gift Annuity Certificate of Exemption No. 152845  
Presentation for WA State Office of the Insurance Commissioner**

**December 31, 2018 and 2017**

	2018					2017				
	CFSWW	Supporting Organization of the CFSWW	Rood Family Foundation	Eliminations	Consolidated	CFSWW	Supporting Organization of the CFSWW	Rood Family Foundation	Eliminations	Consolidated
<b>ASSETS</b>										
Cash and cash equivalents	\$ 3,135,436	\$ -	\$ 81,460	\$ -	\$ 3,216,896	\$ 1,229,736	\$ -	\$ 331	\$ -	\$ 1,230,067
Contributions receivable	21,480,681	-	-	-	21,480,681	26,101,874	-	-	-	26,101,874
Other assets	163,273	-	-	-	163,273	99,813	-	-	-	99,813
Investments	241,319,308	-	-	-	241,319,308	251,692,601	-	-	-	251,692,601
Impact investments	1,900,000	-	-	-	1,900,000	400,000	-	-	-	400,000
Assets held in charitable trusts	2,003,368	-	-	-	2,003,368	2,215,411	-	-	-	2,215,411
Assets held in charitable gift annuities	1,076,818	-	-	-	1,076,818	1,254,817	-	-	-	1,254,817
Beneficial interest in remainder trust	-	-	-	-	-	273,693	-	-	-	273,693
<b>Total Assets</b>	<b>\$ 271,078,884</b>	<b>\$ -</b>	<b>\$ 81,460</b>	<b>\$ -</b>	<b>\$ 271,160,344</b>	<b>\$ 283,267,945</b>	<b>\$ -</b>	<b>\$ 331</b>	<b>\$ -</b>	<b>\$ 283,268,276</b>
<b>LIABILITIES</b>										
Accounts and other payables	\$ 649,832	\$ -	\$ -	\$ -	\$ 649,832	\$ 36,441	\$ -	\$ 500	\$ (500)	\$ 36,441
Liabilities for charitable trusts	1,075,195	-	-	-	1,075,195	1,203,849	-	-	-	1,203,849
Liabilities for charitable gift annuities	954,657	-	-	-	954,657	1,023,305	-	-	-	1,023,305
Funds held under agency endowment agreements	120,658	-	-	-	120,658	124,668	-	-	-	124,668
<b>Total Liabilities</b>	<b>2,800,342</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,800,342</b>	<b>2,388,263</b>	<b>-</b>	<b>500</b>	<b>(500)</b>	<b>2,388,263</b>
<b>NET ASSETS</b>										
<b>Without Donor Restrictions</b>										
Undesignated	183,762,198	-	81,460	-	183,843,658	194,739,087	-	(169)	500	194,739,418
Board designated for gift annuity reserve	369,638	-	-	-	369,638	401,171	-	-	-	401,171
Board designated for operating reserve	708,086	-	-	-	708,086	742,924	-	-	-	742,924
<b>Total Without Donor Restrictions</b>	<b>184,839,922</b>	<b>-</b>	<b>81,460</b>	<b>-</b>	<b>184,921,382</b>	<b>195,883,182</b>	<b>-</b>	<b>(169)</b>	<b>500</b>	<b>195,883,513</b>
<b>With Donor Restrictions</b>	<b>83,438,620</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,438,620</b>	<b>84,996,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>84,996,500</b>
<b>Total Net Assets</b>	<b>268,278,542</b>	<b>-</b>	<b>81,460</b>	<b>-</b>	<b>268,360,002</b>	<b>280,879,682</b>	<b>-</b>	<b>(169)</b>	<b>500</b>	<b>280,880,013</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 271,078,884</b>	<b>\$ -</b>	<b>\$ 81,460</b>	<b>\$ -</b>	<b>\$ 271,160,344</b>	<b>\$ 283,267,945</b>	<b>\$ -</b>	<b>\$ 331</b>	<b>\$ -</b>	<b>\$ 283,268,276</b>

The accompanying independent auditor's report should be read with the supplementary information.



## **OTHER INFORMATION**

**COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON**

**BOARD OF DIRECTORS**

Mark Matthias, Chair  
Randy Grove, J.D., LL.M., Vice Chair  
Steve Hansen, Treasurer  
Marty Forsmann, Secretary

Twyla Barnes, Ed. D.  
Kim Capeloto  
Jody Campbell  
John Deeder  
Vanessa Gaston  
Inna Liu  
George Middleton  
Kirk Raboin

**EXECUTIVE MANAGEMENT AND STAFF**

Jennifer Rhoads, President  
Janie Spurgeon, Executive Vice President and Chief Development Officer  
Shona Carter, Vice President of Programs  
Pam Cabanatuan, Controller  
Anne Digenis, Senior Philanthropic Advisor  
Maury Harris, Senior Communications Officer  
Esra Khalil, Program Officer  
Maka Chee, Program Officer  
Deanna Green, Scholarship Manager and Program Associate  
Ursula Arlauskas, Development Associate  
Chrissy Trammell, Operations Assistant  
Richard Melching, Strategic Advisor

**CONTACT INFORMATION**

610 Esther Street, Suite 201  
Vancouver, WA 98660  
Phone (360) 694-2550  
pam@cfsww.org