

YAKIMA VALLEY COMMUNITY FOUNDATION

Financial Statements

For the Year Ended December 31, 2017

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Independent Auditor's Report

**To the Board of Directors
Yakima Valley Community Foundation
Yakima, Washington**

We have audited the accompanying financial statements of Yakima Valley Community Foundation (the Community Foundation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation as of December 31, 2017, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Community Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2017. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Community Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 26, 2017. As part of our audit of the 2017 financial statements, we also audited the restatements described in Note 2 that were applied to retroactively apply the requirements of ASU 2016-14 to the 2016 financial statements. In our opinion, such restatements are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2016-14.

Clark Nuber P S

Certified Public Accountants
May 16, 2018

YAKIMA VALLEY COMMUNITY FOUNDATION

Statement of Financial Position

December 31, 2017

(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 319,748	\$ 90,659
Grants receivable, current (Note 5)	115,000	
Prepaid expense		350
Total Current Assets	434,748	91,009
Investments (Notes 3 and 4)	65,168,798	59,074,359
Grants receivable, net of current (Note 5)	250,000	115,000
Property and equipment, net of accumulated depreciation (Note 6)	50,953	82,777
Total Assets	<u>\$ 65,904,499</u>	<u>\$ 59,363,145</u>
Liabilities and Net Assets		
Grants and other payables (Note 7)	\$ 31,000	\$ 65,363
Total Current Liabilities	31,000	65,363
Agency funds (Note 8)	3,188,148	2,772,472
Liabilities under split interest agreement (Note 9)	2,170,189	1,963,715
Total Liabilities	5,389,337	4,801,550
Net Assets:		
Without donor restrictions		
Undesignated	58,028,259	52,538,224
Designated by Board of Directors for endowment (Note 11)	1,677,702	1,508,820
With donor restrictions (Note 10)	809,201	514,551
Total Net Assets	<u>60,515,162</u>	<u>54,561,595</u>
Total Liabilities and Net Assets	<u>\$ 65,904,499</u>	<u>\$ 59,363,145</u>

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Without Donor Restrictions	With Donor Restrictions	2017 Total	2016 Total
Revenue and Support:				
Contributions	\$ 570,458	\$ 5,067	\$ 575,525	\$ 1,110,643
Grants		500,000	500,000	230,000
Administrative fees	474,006		474,006	422,506
Other revenue	235,470		235,470	
Releases	210,417	(210,417)		
Return on investments, net (Note 4)	7,985,942		7,985,942	4,684,172
Total Revenue and Support	9,476,293	294,650	9,770,943	6,447,321
Less fees charged to internal funds (Note 3)	(439,121)		(439,121)	(400,696)
Total Revenue and Support Net of Fees Charged to Internal Funds	9,037,172	294,650	9,331,822	6,046,625
Operating Expenses:				
Program	2,706,143		2,706,143	4,662,309
Management and general	587,046		587,046	612,667
Fundraising	85,066		85,066	79,553
Total Operating Expenses	3,378,255		3,378,255	5,354,529
Change in Net Assets	5,658,917	294,650	5,953,567	692,096
Net assets, beginning of year	54,047,044	514,551	54,561,595	53,869,499
Net Assets, End of Year	\$ 59,705,961	\$ 809,201	\$ 60,515,162	\$ 54,561,595

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Program	Management and General	Fundraising	2017 Total	2016 Total
Grants made (Note 3)	\$ 2,347,914	\$ -	\$ -	\$ 2,347,914	\$ 4,207,018
Salaries and benefits	189,445	236,806	47,361	473,612	568,078
Professional services	76,718	214,811	15,344	306,873	339,610
Occupancy	26,176	32,720	6,544	65,440	70,020
Education and training	9,908	27,742	1,982	39,632	24,547
Marketing	14,023	17,529	3,506	35,058	34,443
Depreciation	13,421	16,775	3,355	33,551	34,777
Utilities and telephone	5,836	7,296	1,459	14,591	15,920
Dues and memberships	5,238	6,548	1,310	13,096	11,114
Insurance	3,219	9,013	644	12,876	13,639
Computer and technology	4,513	5,641	1,128	11,282	9,614
Equipment rentals and maintenance	2,740	3,425	685	6,850	6,398
Travel, lodging and mileage	1,983	2,478	496	4,957	11,261
Office supplies	1,577	1,971	394	3,942	2,572
Meals and entertainment	1,447	1,809	362	3,618	2,854
Postage and printing	1,281	1,602	320	3,203	1,386
Miscellaneous	704	880	176	1,760	1,278
Total Functional Expenses	\$ 2,706,143	\$ 587,046	\$ 85,066	\$ 3,378,255	\$ 5,354,529

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 5,953,567	\$ 692,096
Adjustments to reconcile changes in net assets to net cash used in operating activities-		
Depreciation	33,551	34,777
Realized and unrealized gain on investments	(8,080,139)	(4,265,686)
Changes in operating assets and liabilities:		
Grants receivable	(250,000)	355,319
Prepaid expense	350	450
Grants and other payables	(34,363)	(146,637)
Agency funds	415,676	(16,788)
Liabilities under split interest agreement	206,474	1,963,715
Net Cash Used in Operating Activities	(1,754,884)	(1,382,754)
Cash Flows From Investing Activities:		
Purchase of investments	(7,896,617)	(14,114,157)
Proceeds from sale of investments	9,882,317	15,483,137
Purchase of equipment	(1,727)	(4,972)
Net Cash Provided by Investing Activities	1,983,973	1,364,008
Net Change in Cash and Cash Equivalents	229,089	(18,746)
Cash and cash equivalents, beginning of year	90,659	109,405
Cash and Cash Equivalents, End of Year	\$ 319,748	\$ 90,659

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 1 - Nature of the Organization

Yakima Valley Community Foundation (the Community Foundation) is a nonprofit organization that was incorporated in November of 2003, under the laws of the State of Washington, and commenced operations in 2005. The Community Foundation was initially formed as a result of the acquisition of medical centers located in Yakima and Toppenish, Washington, by a for-profit corporation, Health Management Associates, Inc., (HMA) from a nonprofit hospital, Providence Health System (Providence). Upon the sale, all assets of the Providence Central Washington Health Foundation were transferred to the Community Foundation. Additionally, the net proceeds from the sale of the medical centers were required to be held and administered by a nonprofit corporation. The Community Foundation was formed as a nonprofit community foundation in order to fulfill that purpose and benefit the local community.

The Community Foundation is governed by a 15 member Board of Directors, broadly based in and representative of the community. The Chief Executive Officer of the Community Foundation, together with other paid staff, manage day to day operations. The Community Foundation is chartered to build community philanthropy and improve the cultural, economic, social, health and educational quality of life for residents of the Yakima Valley. The Community Foundation believes that a deep tradition of giving in the Yakima Valley supports the Valley's history of adapting and working together to identify and address its challenges and build thriving communities. The Community Foundation adds value to these gifts by investing these community assets and using the earnings to make grants to health, education, the arts and humanities, community development, social programs and other initiatives that increase the community's ability to thrive.

The Community Foundation is the steward for approximately \$66 million of community assets. These community assets produced approximately \$2.3 million dollars of grants in 2017. Earnings on community assets are invested back in the community in the form of grants. Spending on grants and operational expenses are controlled so that assets remain at work for the community in perpetuity.

The Community Foundation actively solicits funds from donors to support organizations at work in the community. It also seeks relationships with philanthropic partners to attract and deploy significant capital for the betterment of the Yakima Valley. These re-granting partners, such as Philanthropy Northwest, the Seattle Foundation and the Bill & Melinda Gates Foundation, provide direct funding for community investment.

Fiscal Sponsorship - During the year ended December 31, 2015, the Community Foundation entered into an agreement to serve as fiscal sponsor for Investing in Children.

Investing in Children operates as a program of the Community Foundation and therefore costs incurred and revenue generated related to the program are recognized in the financial statements of the Community Foundation, which acts as the fiscal sponsor with variance power over the assets. During the years ended December 31, 2017 and 2016, the Community Foundation received contributions of \$121,701 and \$117,585 and incurred expenses related to Investing in Children of \$104,949 and \$118,337, respectively.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The accompanying financial statements are prepared using the accrual basis of accounting.

Financial Statement Presentation - The Community Foundation's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). These principles require the Community Foundation to present its net assets, revenues, gains and losses based on the existence or absence of donor-imposed restrictions.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 2 - Continued

Accordingly, the net assets of the Community Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. 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. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Use of Estimates - The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash in bank accounts and highly liquid investments with maturities of three months or less at date of acquisition. Cash and cash equivalents on deposit with brokers or in investment pools are considered to be investments. The Community Foundation maintains cash and cash equivalents on deposit at various institutions that at times may exceed the insured limits by the Federal Deposit Insurance Corporation. This exposes the Community Foundation to potential risk of loss in the event the institution becomes insolvent.

Grants and Pledges Receivable - Grants receivable include multi-year grants from philanthropic partners to be used for capacity building and regranting in the Yakima Valley. Pledges receivable relate to contributions received from donors when setting up funds at the Community Foundation. Grants and pledges receivable are stated at the amount management expects to receive. Management provides an allowance for probable uncollectible amounts through a charge to grant or contribution revenue and a credit to the allowance account based on its assessment of the current status of individual accounts. Balances that are deemed uncollectible are written off through a charge to the allowance and a credit to grants or pledges receivable. There were no pledges receivable at December 31, 2017 and 2016.

Unconditional promises to give are recognized as revenue in the period the pledge is received. Pledges receivable over periods in excess of one year are recorded at present value. Amortization of discounts is included in contribution revenue.

Concentrations - During the year ended December 31, 2017, the Community Foundation received two grants that represented 100% of grant revenue; there were no contribution concentrations for the year ended December 31, 2017. At December 31, 2017, there were two grants that represented 100% of the grants receivable balance. During the year ended December 31, 2016, the Community Foundation received one grant that represented 100% of grant revenue and two contributions that represented 60% of the Community Foundation's total contributions for 2016. At December 31, 2016, there was one grant that represented 100% of the grant receivable balance.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 2 - Continued

Investments - Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. Investments in securities traded on organized securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter markets are valued at the last reported bid price.

Securities are generally held in custodial investment accounts administered by certain financial institutions. Investments are made according to the investment objectives and policies adopted by the Community Foundation's Board of Directors. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside parties are contracted by the Community Foundation for the purpose of providing investment management and consulting. Investment performance and asset allocation information is available to the public and can be viewed at the Community Foundation's website.

Investment securities, in general, are exposed to various risks, including interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably probable that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Capitalization and Depreciation - The Community Foundation capitalizes assets with a cost greater than \$1,000 and an estimated useful life of more than one year. Purchased property and equipment are recorded at cost and donated property and equipment are recorded at fair value on the date received. Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets as follows:

Property and equipment	5 - 10 years
Software	3 years

Leasehold improvements are depreciated over the lesser of the lease term or the useful life of the asset.

Agency Funds - U.S. GAAP specifically requires that when a nonprofit organization establishes a fund at a community organization with its own funds and specifies itself or its affiliate as the beneficiary of that designated fund, the community organization must account for the transfer of such assets as if it is holding the funds as an agent of the donor. Accordingly, the funds are included in the Community Foundation's assets with an offsetting liability. The liability shown on the statement of financial position has been established at the fair value of the funds as estimated by the Community Foundation based on its proportional share of the investment portfolio. Activities related to these agency funds do not affect the change in net assets on the statement of activities and changes in net assets. These funds are further described in Notes 3 and 8.

Grants - Grants are approved by the Board of Directors of the Community Foundation in accordance with its respective bylaws and guidelines. Unconditional grants and distributions are recorded in the financial statements when approved and communicated to the grantee. Grants approved by the Board of Directors that are payable upon the performance of specified conditions by the grantee are not reflected in grants payable in the financial statements until such time as those conditions are satisfied. No conditional grants payable existed at December 31, 2017 or 2016.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 2 - Continued

Functional Allocation of Expenses - The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that require allocation are allocated on the basis of estimates of time and effort of the Community Foundation staff.

Advertising - Advertising costs are expensed as incurred and were \$27,657 and \$21,824 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes - The Community Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. It is further classified as an organization that is not a private foundation as defined in Section 509(a) of the Code. It files income tax returns with federal and several state governments. The Community Foundation is subject to federal income tax only on "unrelated business taxable income" as defined in Section 512 of the Internal Revenue Code. There was no federal unrelated business income tax expense for the years ended December 31, 2017 and 2016.

New Accounting Pronouncement - During the year ended December 31, 2017, the Community Foundation elected to early adopt the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for calendar years ending 2018. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 14).

The accompanying summarized information from the 2016 financial statements has been restated to conform to the 2017 presentation and disclosure requirements of ASU 2016-14.

Comparative Amounts for 2016 - For comparative purposes, the financial statements include certain prior-year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Community Foundation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the December 31, 2016, financial statements to conform to the December 31, 2017 presentation. The reclassifications have no effect on the previously reported change in net assets or net assets.

Subsequent Events - Subsequent events have been evaluated through May 16, 2018, the date the financial statements were available to be issued.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 3 - Contributions, Donations, Gifts and Bequests

The Community Foundation's corporate bylaws and contribution documents grant it "variance power" that in effect gives it control over all grant disbursements. Consequently, all contributions are classified as without donor restrictions if they are available to the Community Foundation with no restriction as to when the funds are available for expenditure.

Donations, gifts, and bequests are recorded as contributions to the appropriate program funds at fair value. These contributions are maintained in the funds until expended as grants, in accordance with the Board of Directors' authorization.

The Community Foundation's program funds consist of 75 funds established by donors and other internally established funds for a variety of purposes. The spending expectations of each donor are different and can include spending at a certain rate within a specified time period or at a rate that the funds can be maintained in perpetuity. Some funds have no spending policy, but rely on donor recommendations as to spending.

A description of each of the Community Foundation's fund categories follows:

Scholarship - Grants used exclusively for tuition at postsecondary educational institutions that normally maintain a regular faculty and curriculum, as described in Internal Revenue Code Section 170(b)(1)(A)(ii), and for fees, books, supplies and equipment required for courses at such institutions, or for room and board expenses.

Included in scholarship funds is the Mary Monroe Davis educational fund (Davis Fund) held by the Community Foundation. An annual grant is made to the scholarship program that is administered by the Yakima Rotary Trust, which provides academic scholarships to residents of Yakima County, Washington to enable them to attend a private or public college or university. The Yakima Rotary Trust scholarship program is subject to an annual agreed upon procedures review by an independent CPA and is available to the public at the Community Foundation's website.

Field of Interest - Funds designated by donors for use in specific fields of interest or specific geographic areas within the Yakima Valley.

Donor Advised - Grants for which donors have reserved the right to make nonbinding recommendations to the Board regarding grant distributions and conditions related to the grants.

Designated - Funds designated by the donors for support of specific charitable organizations.

Agency - Funds that are managed by the Community Foundation for the benefit of another organization or beneficiary. In accordance with U.S. GAAP, these funds are classified as agency funds and are part of long term liabilities on the statement of financial position.

Founders Fund - As part of the purchase of the medical centers in Yakima and Toppenish from Providence Health Systems, a for-profit health system made a contribution of \$10 million over ten years ending in 2013 to the Community Foundation. In addition, the net proceeds from the sale of the hospital (net proceeds) were transferred to the Community Foundation to form the Founders Fund.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 3 - Continued

As required by RCW 70.45.070(8), the portion of the fund considered net proceeds must be granted for charitable health purposes consistent with providing health care to the disadvantaged, the uninsured, the underinsured and providing benefits to promote improved health in Yakima County.

Distributions from this fund for the years ended December 31 were as follows:

	<u>2017</u>	<u>2016</u>
Yakima grants	\$ 235,500	\$ 219,844
Toppenish grants	<u>48,416</u>	<u>37,081</u>
	<u>\$ 283,916</u>	<u>\$ 256,925</u>

The balance of net proceeds remaining at December 31, 2017 and 2016 was \$7,977,664 and \$7,262,635, respectively.

This fund also includes administrative fees charged to the individual funds at the Community Foundation. There were transfers of \$439,121 and \$400,696 for administrative fees to this fund for the years ended December 31, 2017 and 2016, respectively.

Investment balances by fund were as follows at December 31:

	<u>Non- Endowed</u>	<u>Endowed (Note 11)</u>	<u>2017 Total</u>	<u>2016 Total</u>
Scholarship	\$ 93,268	\$ 27,739,515	\$ 27,832,783	\$ 25,091,991
Field of interest	2,589,775	1,131,069	3,720,844	3,349,288
Donor advised	6,609,122	698,794	7,307,916	6,854,645
Designated	77,682	80,192	157,874	431,277
Agency	5,660,329		5,660,329	4,948,748
Founders Fund	<u>20,396,885</u>		<u>20,396,885</u>	<u>18,294,630</u>
Total investments by fund	35,427,061	29,649,570	65,076,631	58,970,579
Cash surrender value of Insurance policy			<u>92,167</u>	<u>103,780</u>
Total Investments	<u>\$ 35,427,061</u>	<u>\$ 29,649,570</u>	<u>\$ 65,168,798</u>	<u>\$ 59,074,359</u>

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 3 - Continued

Grants for the years ended December 31, 2017 and 2016 were from the following funds:

	<u>2017</u>	<u>2016</u>
Scholarship	\$ 913,578	\$ 849,152
Field of interest	101,447	48,737
Donor advised	728,536	2,595,063
Designated	95,515	117,873
Founders Fund	<u>508,838</u>	<u>596,193</u>
	<u><u>\$ 2,347,914</u></u>	<u><u>\$ 4,207,018</u></u>

Note 4 - Investments and Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets measured at fair value:

Marketable Equity and Debt Securities - Valued at the closing price reported on the active market on which the securities are traded.

The valuation methodologies used by the Community Foundation may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Community Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 4 - Continued

Fair values of the Community Foundation's assets and liabilities measured on a recurring basis, were as follows:

	Fair Value Measurements as of December 31, 2017				2016 Total
	Level 1	Level 2	Level 3	Total	
Marketable securities at fair value-					
Low duration funds	\$ 1,555,248	\$ -	\$ -	\$ 1,555,248	\$ 1,336,556
Large cap equity funds	18,626,921			18,626,921	16,880,834
Mid cap equity funds	5,323,603			5,323,603	5,004,988
Small cap equity funds	2,562,550			2,562,550	2,737,674
International equity funds	14,713,790			14,713,790	11,015,120
Low volatility fund	1,339,495			1,339,495	1,250,496
Bond funds	9,462,414			9,462,414	9,106,890
Total Marketable Securities at Fair Value	\$ 53,584,021	\$ -	\$ -	53,584,021	47,332,558
Nonmarketable securities at net asset value-					
Low volatility hedge				2,500,251	2,395,232
Growth hedge				8,992,359	9,242,789
Total nonmarketable securities at net asset value				11,492,610	11,638,021
Cash surrender value of life insurance at cost				92,167	103,780
Total Investments				\$ 65,168,798	\$ 59,074,359

The Organization has the following nonmarketable securities (alternative investments) at December 31, 2017:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Low volatility hedge fund	\$ 2,500,251	\$ -	Quarterly	45 days
Growth hedge fund	8,992,359		Quarterly to 3 years	60 to 90 days
	\$ 11,492,610	\$ -		

A summary of investments in nonmarketable securities is as follows:

Low Volatility Hedge Fund - At December 31, 2017 and 2016, the Organization was invested in one low volatility hedge fund. The fund's investments consisted of a broad mix of securities focused on the short end of the yield curve, including asset-backed securities, mortgage-backed securities, corporate bonds, emerging market debt, and other non-U.S. securities.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 4 - Continued

Growth Hedge Funds - At December 31, 2017 and 2016, the Organization was invested in three growth hedge funds. The first fund typically employs macro and event investment strategies, tactical arbitrage strategies, and investment strategies relating to commercial and residential mortgages, mortgage related securities and interest rates. The second fund invests in distressed/stressed debt, distressed or turnaround equities, post-bankruptcy equities, spin-offs, broken merger and acquisition deals, and other event-driven credit opportunities. The third fund is a multi-manager, multi-strategy "fund-of-funds" formed to invest predominantly in limited partnerships and similar pooled investment vehicles referred to as "Portfolio Funds."

Return on investments for the years ended December 31 was as follows:

	<u>2017</u>	<u>2016</u>
Portfolio investment return	\$ 8,721,423	\$ 4,950,854
Less amounts allocated to agency funds	<u>(735,481)</u>	<u>(266,682)</u>
Total Return on Investments	<u>\$ 7,985,942</u>	<u>\$ 4,684,172</u>

Note 5 - Grants Receivable

At December 31, 2017, there were two grants outstanding that are receivable in 2018 and 2019, respectively. At December 31, 2016, there was one grant outstanding that is receivable in 2018.

Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Property and equipment	\$ 114,155	\$ 112,428
Leasehold improvements	116,727	116,727
Software	<u>60,427</u>	<u>60,427</u>
	291,309	289,582
Less accumulated depreciation	<u>(240,356)</u>	<u>(206,805)</u>
Property and Equipment, Net	<u>\$ 50,953</u>	<u>\$ 82,777</u>

Depreciation expense was \$33,551 and \$34,777 for the years ended December 31, 2017 and 2016, respectively.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 7 - Grants Payable

Grants payable of \$15,000 are scheduled to be disbursed within one year at December 31, 2017. As of December 31, 2016, grants payable of \$65,000 were scheduled to be disbursed within one year. Grants payable are included in grants and other payables on the statement of financial position.

Note 8 - Agency Funds

Agency funds include the following balances and activity for the year ended December 31:

	Beginning Balance January 1, 2017	Net Deposits	Investment Return	Ending Balance December 31, 2017
Agency funds	\$ 2,772,472	\$ 38,864	\$ 376,812	\$ 3,188,148

Note 9 - Liabilities Under Split Interest Agreement

The Community Foundation is a 15% beneficiary of a charitable lead annuity trust administered by the Community Foundation. The trust provides for periodic distributions to designated beneficiaries with an initial distribution of \$160,016 on December 31, 2017, followed by quarterly distributions of \$29,860 and final distribution of \$18,489 due on August 29, 2035. The Community Foundation's interest in the trust of \$271,701 and \$284,551 at December 31, 2017 and 2016, respectively, is recorded at the net present value (discounted at 1.9%) of future annuity distributions using the applicable federal discount rate at the date of the gift and is included as a component of net assets with donor restrictions. As of December 31, 2017, and 2016, the fair value of the trust of \$2,436,824 and \$2,248,266, respectively, is shown as investments on the statement of financial position. The corresponding liability for payments to beneficiaries was determined to be \$2,170,189 and \$1,963,715 at December 31, 2017 and 2016, respectively.

Note 10 - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 as follows:

	<u>2017</u>	<u>2016</u>
Split-interest agreement (Note 9)	\$ 271,701	\$ 284,551
Purpose restriction		115,000
Purpose and time restriction	537,500	115,000
Total Net Assets With Donor Restrictions	<u>\$ 809,201</u>	<u>\$ 514,551</u>

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 11 - Endowments

As discussed in Note 3, due to the variance power the Community Foundation has over donated funds, all endowments are classified for accounting purposes as “funds without donor restrictions” and managed in accordance with the donors’ intent at the discretion of the Board of Directors.

The Community Foundation’s endowment consists of numerous funds established for a variety of purposes.

Donor-Established Endowment Funds - Funds established by donors with the intent of maintaining the original donations (corpus) in perpetuity by utilizing established spending policies.

Donor-Established Spendable Endowment Fund - Mary Monroe Davis educational fund established with the intent of maintaining the corpus in perpetuity by utilizing established spending policies, but with the ability to spend corpus in order to meet the intended purpose of the fund.

Board Designated Quasi-Endowment Funds - Funds without donor restrictions designated by the Board with the intent of maintaining the corpus in perpetuity by utilizing established spending policies.

The Community Foundation follows the principles outlined in the Washington State Prudent Management of Institutional Funds Act (PMIFA) for all of its donor-established and board designated funds even though they are legally funds without donor restrictions.

In accordance with PMIFA, the Community Foundation considers the following factors in making a determination to appropriate or accumulate donor-established endowment funds:

- The duration and preservation of the fund;
- The purposes of the Community Foundation and the endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Community Foundation; and
- The investment policies of the Community Foundation.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements
For the Year Ended December 31, 2017

Note 11 - Continued

As of December 31, endowment net assets consisted of the following:

	Without Donor Restrictions			
	Accumulated Unspent Earnings	Corpus	2017 Total	2016 Total
Donor-established endowment funds	\$ 137,223	\$ 782,251	\$ 919,474	\$ 806,499
Donor-established spendable endowment fund	3,786,425	23,265,969	27,052,394	24,397,749
Board designated quasi- endowment funds	<u>682,868</u>	<u>994,834</u>	<u>1,677,702</u>	<u>1,508,820</u>
Endowment Net Assets	<u>\$ 4,606,516</u>	<u>\$ 25,043,054</u>	<u>\$ 29,649,570</u>	<u>\$ 26,713,068</u>

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

	Without Donor Restrictions			
	Accumulated Unspent Earnings	Corpus	2017 Total	2016 Total
Endowment net assets, beginning of year	\$ 1,736,161	\$ 24,976,907	\$ 26,713,068	\$ 24,939,465
Total endowment investment return	3,808,352		3,808,352	2,151,882
Other income	253		253	470,318
Contributions		66,147	66,147	37,443
Grants made	<u>(938,250)</u>		<u>(938,250)</u>	<u>(886,040)</u>
Endowment Net Assets, End of Year	<u>\$ 4,606,516</u>	<u>\$ 25,043,054</u>	<u>\$ 29,649,570</u>	<u>\$ 26,713,068</u>

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor-established endowment funds may fall below the total amount of the gifts made to the endowment by the donor. There were no deficiencies of this nature as of December 31, 2017 and 2016.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 11 - Continued

Return Objectives and Risk Parameters - The Community Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Community Foundation has been instructed to hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that, over time, will provide a real rate of return equal to the spending rate while assuming a reasonable level of investment risk. The Community Foundation expects its endowment funds, over time, to provide an average real rate of return of approximately 8 percent. Actual returns in any given year may vary from these amounts.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Community Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Community Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Community Foundation reviews its spending policy annually. For the years ended December 31, 2017 and 2016, the Community Foundation appropriated 4 percent of the earnings on investment assets based generally upon the average fair value over the prior 12 to 16 quarters, depending on the fund, through the calendar year end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Community Foundation considered the long-term expected return on investment assets. Accordingly, over the long-term, the Community Foundation expects the spending policy to allow net assets to grow at a rate equal to inflation. This is consistent with the Community Foundation's objective to maintain the purchasing power of investment assets held in perpetuity.

Note 12 - Retirement Plan

The Community Foundation contributes to a 401(k) retirement plan (the Plan). All employees may participate in the Plan. The Community Foundation contributes up to 5% of the eligible employee's salary to the Plan. Employees are 100% vested. During the years ended December 31, 2017 and 2016, the Community Foundation contributed \$18,269 and \$21,416, respectively, to the Plan.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 13 - Commitments and Contingencies

Leases - The Community Foundation has a noncancelable operating lease for office space which expires in December 2020.

Future minimum lease payments under the lease are as follows:

For the Year Ending December 31,

2018	\$ 42,189
2019	43,475
2020	<u>44,760</u>
	<u><u>\$ 130,424</u></u>

The Community Foundation paid a total of \$60,375 and \$64,952 in rent for the years ended December 31, 2017 and 2016, respectively.

Employment Contract - On August 15, 2013, the Community Foundation amended an employment contract with the Chief Executive Officer that extends the term to September 5, 2018. The amended contract specifies the employee's annual compensation and established a deferred compensation plan under IRS Section 457(f) that began in 2014. During the year ended December 31, 2017, the Community Foundation contributed \$25,000 to the deferred compensation plan for the balance due on December 31, 2017. During the year ended December 31, 2016, the Community Foundation contributed \$25,000 to the deferred compensation plan for the balances due on December 31, 2016. The amounts were fully vested and distributed on December 31, 2017 and December 31, 2016, respectively.

Note 14 - Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 319,748	\$ 90,659
Grants receivable	365,000	115,000
Investments	<u>65,168,798</u>	<u>59,074,359</u>
Total financial assets	65,168,798	59,074,359
Less grants due in more than one year	(250,000)	(115,000)
Less endowment fund investments	(29,649,570)	(26,713,068)
Add back: amount expected to be appropriated in following year	<u>1,382,500</u>	<u>938,250</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u><u>\$ 36,651,728</u></u>	<u><u>\$ 33,184,541</u></u>

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 14 - Continued

The Foundation generally uses liquid assets for grant making based on donor recommendations. Endowment funds consist of donor-established endowments and board-designated endowments. As described in Note 11, the Foundation's endowments are subject to an annual spending rate of 4 percent. Although the Foundation does not intend to spend from the board-designated endowments in excess of the annual spending rate approval, 82% of the total investment portfolio is kept in short-term investments and money market funds and could be made available if necessary.

By policy and practice, the Foundation limits the overall investment allocation in illiquid assets (assets that require a settlement period greater than five business days) to not more than 30% of the total portfolio's market value.