

**YAKIMA VALLEY COMMUNITY FOUNDATION**

Financial Statements

For the Year Ended December 31, 2019

## Table of Contents

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	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 21

## **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, 2019, 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Community Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, consisting of administrative fees and fees charged to internal funds on page 4 is not a required part of the financial statements and is included for the purpose of additional analysis consistent with industry practice. 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 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 financial statements as a whole.

*Clark Nuber PS*

Certified Public Accountants  
April 22, 2020

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Statement of Financial Position**

**December 31, 2019**

**(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 692,910	\$ 419,455
Grants receivable		250,000
Interest receivable	73,418	
Loan receivable, current portion (Notes 3 and 5)	<u>1,446,392</u>	
<b>Total Current Assets</b>	<b>2,212,720</b>	<b>669,455</b>
Investments (Notes 3 and 4)	65,378,609	59,711,757
Loan receivable, net of current portion (Notes 3 and 5)	1,553,608	
Property and equipment, net of accumulated depreciation (Note 6)	<u>11,915</u>	<u>30,384</u>
<b>Total Assets</b>	<b><u>\$ 69,156,852</u></b>	<b><u>\$ 60,411,596</u></b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 26,499	\$ 50,653
Grants payable, current portion (Note 7)	<u>410,090</u>	
<b>Total Current Liabilities</b>	<b>436,589</b>	<b>50,653</b>
Grants payable, net of current portion (Note 7)	314,440	
Agency funds (Note 8)	3,958,807	3,424,494
Liabilities under split interest agreement (Note 9)	<u>2,190,862</u>	<u>1,930,493</u>
<b>Total Liabilities</b>	<b>6,900,698</b>	<b>5,405,640</b>
<b>Net Assets:</b>		
Without donor restrictions-		
Undesignated	59,934,648	52,658,717
Designated by Board of Directors for endowment (Note 11)	<u>1,517,120</u>	<u>1,538,927</u>
Total without donor restrictions	61,451,768	54,197,644
With donor restrictions (Note 10)	<u>804,386</u>	<u>808,312</u>
<b>Total Net Assets</b>	<b><u>62,256,154</u></b>	<b><u>55,005,956</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 69,156,852</u></b>	<b><u>\$ 60,411,596</u></b>

See accompanying notes.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>Revenue and Support:</b>				
Contributions	\$ 1,589,314	\$ 260,060	\$ 1,849,374	\$ 1,499,940
Administrative fees	514,861		514,861	506,946
Other revenue	1,161		1,161	506,511
Releases	263,986	(263,986)		
Return on investments, net (Note 4)	10,105,364		10,105,364	(2,974,677)
<b>Total Revenue and Support</b>	<b>12,474,686</b>	<b>(3,926)</b>	<b>12,470,760</b>	<b>(461,280)</b>
Less fees charged to internal funds	(474,435)		(474,435)	(468,378)
<b>Total Revenue and Support Net of Fees Charged to Internal Funds</b>	<b>12,000,251</b>	<b>(3,926)</b>	<b>11,996,325</b>	<b>(929,658)</b>
<b>Operating Expenses:</b>				
Program	4,089,579		4,089,579	3,691,473
Management and general	560,489		560,489	778,237
Fundraising	96,059		96,059	109,838
<b>Total Operating Expenses</b>	<b>4,746,127</b>		<b>4,746,127</b>	<b>4,579,548</b>
<b>Change in Net Assets</b>	<b>7,254,124</b>	<b>(3,926)</b>	<b>7,250,198</b>	<b>(5,509,206)</b>
Net assets, beginning of year	54,197,644	808,312	55,005,956	60,515,162
<b>Net Assets, End of Year</b>	<b>\$ 61,451,768</b>	<b>\$ 804,386</b>	<b>\$ 62,256,154</b>	<b>\$ 55,005,956</b>

See accompanying notes.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Statement of Functional Expenses  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

	Program			Management and General	Fundraising	2019 Total	2018 Total
	Grantmaking	Fiscal Sponsorships	Total Program				
Grants made	\$ 3,476,375	\$ -	\$ 3,476,375	\$ -	\$ -	\$ 3,476,375	\$ 3,226,676
Salaries and benefits	257,261	12,559	269,820	324,536	64,907	659,263	634,590
Professional services	38,355	148,062	186,417	107,393	7,671	301,481	478,583
Occupancy	28,906	28,023	56,929	36,133	7,227	100,289	66,548
Marketing	20,958	4,579	25,537	26,198	5,240	56,975	29,860
Depreciation	7,673		7,673	9,593	1,918	19,184	23,523
Insurance	3,334	5,000	8,334	9,336	667	18,337	12,293
Education and training	5,297	3,868	9,165	6,621	1,324	17,110	19,982
Computer and technology	5,647	799	6,446	7,058	1,412	14,916	6,242
Utilities and telephone	5,882		5,882	7,353	1,471	14,706	15,063
Travel, lodging and mileage	3,018	6,055	9,073	3,772	754	13,599	19,068
Dues and memberships	5,291		5,291	6,614	1,323	13,228	10,780
Meals and entertainment	2,866	613	3,479	8,024	573	12,076	18,132
Miscellaneous	2,926	4,655	7,581	3,658	732	11,971	4,994
Office supplies	1,174	6,911	8,085	1,467	294	9,846	5,466
Equipment rentals and maintenance	1,623		1,623	2,029	405	4,057	4,936
Postage and printing	564	1,305	1,869	704	141	2,714	2,812
<b>Total Functional Expenses</b>	<b>\$ 3,867,150</b>	<b>\$ 222,429</b>	<b>\$ 4,089,579</b>	<b>\$ 560,489</b>	<b>\$ 96,059</b>	<b>\$ 4,746,127</b>	<b>\$ 4,579,548</b>

See accompanying notes.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Statement of Cash Flows  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 7,250,198	\$ (5,509,206)
Adjustments to reconcile changes in net assets to net cash used in operating activities-		
Depreciation	19,184	23,523
Realized and unrealized (gain) loss on investments	(10,115,587)	4,202,442
Changes in operating assets and liabilities:		
Grants receivable	250,000	115,000
Interest receivable	(73,418)	
Accounts payable	(24,154)	19,653
Grants payable	724,530	
Agency funds	534,313	236,346
Liabilities under split interest agreement	260,369	(239,696)
<b>Net Cash Used in Operating Activities</b>	<b>(1,174,565)</b>	<b>(1,151,938)</b>
<b>Cash Flows From Investing Activities:</b>		
Loan receivable funded	(3,000,000)	
Purchase of investments	(7,786,483)	(15,042,175)
Proceeds from sale of investments	12,235,218	16,296,774
Purchase of equipment	(715)	(2,954)
<b>Net Cash Provided by Investing Activities</b>	<b>1,448,020</b>	<b>1,251,645</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>273,455</b>	<b>99,707</b>
Cash and cash equivalents, beginning of year	419,455	319,748
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 692,910</b>	<b>\$ 419,455</b>

See accompanying notes.

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### 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 \$69 million of community assets. These community assets produced approximately \$3.5 million dollars of grants in 2019. 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** - The Community Foundation has entered into agreements to serve as fiscal sponsors for three programs where costs incurred and revenue generated related to the programs are recognized in the financial statements of the Community Foundation.

During the year ended December 31, 2015, the Community Foundation entered into an agreement to serve as fiscal sponsor for Investing in Children. For the years ended December 31, 2019 and 2018, the Community Foundation received contributions of \$35,332 and \$109,194 and incurred expenses related to Investing in Children of \$2,618 and \$46,244, respectively.

During the year ended December 31, 2018, the Community Foundation entered into an agreement to serve as fiscal sponsor for the Ttáwaɣt Collaborative. For the years ended December 31, 2019 and 2018, the Community Foundation received contributions of \$95,525 and \$154,000 and incurred expenses related to Ttáwaɣt of \$196,610 and \$14,570, respectively.

During the year ended December 31, 2019, the Community Foundation entered into an agreement to serve as fiscal sponsor for Yakama Yakima El Censo 2020. For the year ended December 31, 2019 the Community Foundation received contributions of \$124,630 and incurred expenses related to Yakima Counts of \$23,201.

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### 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.

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. The most significant estimates and assumptions relate to the valuation of investments. 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 at December 31, 2018, 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.

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.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

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**Note 2 - Continued**

Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. There were no conditional contributions at December 31, 2019 or 2018.

**Loan Receivable** - The loan receivable is stated at the amount management expects to collect of the outstanding balance. An allowance for credit losses, if required, is based on management's assessment of the current status of a loan that is anticipated to be partially or fully uncollectible. Management determined that no allowance was needed at December 31, 2019.

**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 their 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.

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### Note 2 - Continued

**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, 2019 or 2018.

**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. Grant expenses are directly allocated to program. All other expenditures 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 \$45,230 and \$16,074 for the years ended December 31, 2019 and 2018, 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 the federal government. 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, 2019 and 2018.

**Other Income** - The Community Foundation was the beneficiary of a financial settlement of \$486,467 during the year ended December 31, 2018. These funds are considered restricted to be used in furtherance of the Foundation's long-standing commitment to serving the health needs of indigent individuals in the Yakima and Toppenish regions. See further description of Health Equity Fund at Note 3.

**Concentrations** - During the year ended December 31, 2019, the Community Foundation received three contributions that represented 58% of the Community Foundation's total contributions. During the year ended December 31, 2018, the Community Foundation received two contributions that represented 57% of the Community Foundation's total contributions. At December 31, 2018, there was one grant that represented 100% of the grants receivable balance. At December 31, 2019, there were two mutual funds that represented 26% of the investments balance. At December 31, 2018, there was one mutual fund that represented 14% of the investments balance.

**Comparative Amounts for 2018** - 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, 2018, from which the summarized information was derived.

**Subsequent Events** - Subsequent events have been evaluated through April 22, 2020, the date the financial statements were available to be issued.

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### 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, substantially 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 93 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.

Health Equity Fund - During the year ended December 31, 2018, the Community Foundation received proceeds as the beneficiary of a legal settlement to form the Health Equity Fund. The legal settlement requires the Community Foundation to grant the funds to organizations that serve indigent individuals in obtaining access to health care and health coverage in the Yakima and Toppenish regions.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

**Note 3 - Continued**

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.

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>2019</u>	<u>2018</u>
Yakima grants	\$ 227,560	\$ 357,313
Toppenish grants	<u>105,200</u>	<u>160,872</u>
	<u><b>\$ 332,760</b></u>	<u><b>\$ 518,185</b></u>

The balance of net proceeds remaining at December 31, 2019 and 2018 was \$8,071,527 and \$6,975,278, respectively.

This fund also includes administrative fees charged to the individual funds at the Community Foundation. There were transfers of \$474,435 and \$468,378 for administrative fees to this fund for the years ended December 31, 2019 and 2018, respectively.

Investment balances by fund were as follows at December 31:

	<u>Non- Endowed</u>	<u>Endowed (Note 11)</u>	<u>2019 Total</u>	<u>2018 Total</u>
Scholarship	\$ 270,995	\$ 28,543,034	\$ 28,814,029	\$ 25,386,556
Field of interest	2,746,157	1,062,008	3,808,165	3,512,651
Donor advised	7,510,002	868,564	8,378,566	6,817,810
Designated	150,425	281,313	431,738	273,083
Agency	6,399,694		6,399,694	5,617,800
Health Equity Fund	377,180		377,180	485,482
Founders Fund	<u>20,056,009</u>		<u>20,056,009</u>	<u>17,506,301</u>
Total investments by fund	37,510,462	30,754,919	68,265,381	59,599,683
Cash surrender value of Insurance policy			<u>113,228</u>	<u>112,074</u>
<b>Total Investments and Loan Receivable</b>	<u><b>\$ 37,510,462</b></u>	<u><b>\$ 30,754,919</b></u>	<u><b>\$ 68,378,609</b></u>	<u><b>\$ 59,711,757</b></u>

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### Note 3 - Continued

Grants for the years ended December 31 were from the following funds:

	<u>2019</u>	<u>2018</u>
Scholarship	\$ 935,116	\$ 1,201,854
Field of interest	1,299,124	133,618
Donor advised	638,287	1,013,419
Designated	246,338	198,000
Founders Fund	<u>357,510</u>	<u>679,785</u>
	<u><u>\$ 3,476,375</u></u>	<u><u>\$ 3,226,676</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.

Nonmarketable securities are valued at net asset value (NAV) per share, or its equivalent, as a practical expedient, as reported by the investment manager unless specific evidence indicates the NAV should be adjusted.

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, 2019  
(With Comparative Totals for 2018)**

**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, 2019				2018 Total
	Level 1	Level 2	Level 3	Total	
Marketable securities at fair value-					
Low duration funds	\$ 503,331	\$ -	\$ -	\$ 503,331	\$ 2,021,714
Large cap equity funds	19,269,805			19,269,805	15,217,559
Mid cap equity funds	5,314,304			5,314,304	4,457,772
Small cap equity funds	2,365,832			2,365,832	1,802,266
International equity funds	14,398,392			14,398,392	11,849,609
Low volatility fund	1,368,895			1,368,895	1,298,000
Bond funds	6,282,087			6,282,087	9,273,560
<b>Total Marketable Securities at Fair Value</b>	<b>\$ 49,502,646</b>	<b>\$ -</b>	<b>\$ -</b>	49,502,646	45,920,480
Nonmarketable securities at net asset value-					
Growth hedge				10,206,875	9,239,328
Low volatility hedge				4,957,816	3,847,525
International hedge				598,044	592,350
Total nonmarketable securities at net asset value				15,762,735	13,679,203
Cash surrender value of life insurance at cost				113,228	112,074
<b>Total Investments</b>				<b>\$ 65,378,609</b>	<b>\$ 59,711,757</b>

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

	2019	2018
Portfolio investment return	\$ 11,086,897	\$ (3,269,217)
Less amounts allocated to agency funds	(981,533)	294,540
<b>Return on Investments, Net</b>	<b>\$ 10,105,364</b>	<b>\$ (2,974,677)</b>

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### Note 4 - Continued

The Organization has the following nonmarketable securities (alternative investments) at December 31, 2019:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Growth hedge fund	\$ 10,206,875	\$ -	Quarterly to one year	60 to 90 days
Low volatility hedge fund	4,957,816		Quarterly to semi-annual	45 days
International hedge fund	<u>598,044</u>	<u>                    </u>	Quarterly	90 days
	<u><u>\$ 15,762,735</u></u>	<u><u>\$ -</u></u>		

A summary of investments in nonmarketable securities is as follows:

Growth Hedge Funds - At December 31, 2019 and 2018, 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."

Low Volatility Hedge Fund - At December 31, 2019 and 2018, the Organization was invested in two low volatility hedge funds. The first fund's investments consist 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. The second fund focuses on the financial services industry and invests predominantly in banks and thrifts, mortgage companies, and in companies that provide services to financial institutions or derive a significant portion of their revenues from financial activities.

International Hedge Funds - At December 31, 2019 and 2018, the Organization was invested in one international hedge fund that focuses on investing in developing economies and less established world markets.

#### Note 5 - Loan Receivable

On September 16, 2019, the Community Foundation provided a loan to the YMCA of Yakima to provide short-term bridge financing for the construction of aquatic facilities. The loan accrues interest at 4.5% and requires quarterly interest and principle payments beginning January 1, 2020 through maturity on October 1, 2021. The loan is secured by receivables of the organization and real property.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

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**Note 5 - Continued**

The loan receivable is expected to be received as follows:

For the Year Ending December 31,

2020	\$ 1,446,392
2021	<u>1,553,608</u>
	<u><u>\$ 3,000,000</u></u>

**Note 6 - Property and Equipment**

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Property and equipment	\$ 116,961	\$ 117,109
Leasehold improvements	116,727	116,727
Software	<u>60,427</u>	<u>60,427</u>
	294,115	294,263
Less accumulated depreciation	<u>(282,200)</u>	<u>(263,879)</u>
<b>Property and Equipment, Net</b>	<u><u>\$ 11,915</u></u>	<u><u>\$ 30,384</u></u>

Depreciation expense was \$19,184 and \$23,523 for the years ended December 31, 2019 and 2018, respectively.

**Note 7 - Grants Payable**

Unconditional grants are payable as follows:

For the Year Ending December 31,

2020	\$ 410,090
2021	<u>314,440</u>
	<u><u>\$ 724,530</u></u>

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

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**Note 8 - Agency Funds**

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

	Beginning Balance January 1, 2019	Net Deposits	Investment Return	Ending Balance December 31, 2019
Agency funds	\$ 3,424,494	\$ (447,220)	\$ 981,533	\$ 3,958,807

**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, 2016, 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 \$245,264 and \$258,607 at December 31, 2019 and 2018, 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, 2019, and 2018, the fair value of the trust of \$2,436,126 and \$2,185,517, respectively, is shown as investments on the statement of financial position. The corresponding liability for payments to beneficiaries was determined to be \$2,190,862 and \$1,930,493 at December 31, 2019 and 2018, respectively.

**Note 10 - Net Assets With Donor Restrictions**

Net assets with donor restrictions at December 31 as follows:

	2019	2018
Split-interest agreement (Note 9)	\$ 245,264	\$ 258,607
Purpose restriction	559,122	199,330
Purpose and time restriction		350,375
<b>Total Net Assets With Donor Restrictions</b>	<b>\$ 804,386</b>	<b>\$ 808,312</b>

**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.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

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**Note 11 - Continued**

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.

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

	Without Donor Restrictions			2019 Total	2018 Total
	Funds With Deficiencies	Accumulated Unspent Earnings	Corpus		
Donor-established endowment funds	\$ -	\$ 235,100	\$ 1,182,281	\$ 1,417,381	\$ 1,028,706
Donor-established spendable endowment fund		4,554,448	23,265,970	27,820,418	24,529,308
Board designated quasi-endowment funds		717,428	799,692	1,517,120	1,538,927
<b>Endowment Net Assets</b>	<b>\$ -</b>	<b>\$ 5,506,976</b>	<b>\$ 25,247,943</b>	<b>\$ 30,754,919</b>	<b>\$ 27,096,941</b>

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

**Note 11 - Continued**

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

	Without Donor Restrictions			2019 Total	2018 Total
	Funds With Deficiencies	Accumulated Unspent Earnings	Corpus		
Endowment net assets, beginning of year	\$ (14,577)	\$ 1,878,265	\$ 25,233,253	\$ 27,096,941	\$ 29,649,570
Endowment investment return, net	14,577	4,608,412		4,622,989	(1,553,363)
Contributions			14,690	14,690	190,199
Grants made		(979,701)		(979,701)	(1,189,465)
<b>Endowment Net Assets, End of Year</b>	<b>\$ -</b>	<b>\$ 5,506,976</b>	<b>\$ 25,247,943</b>	<b>\$ 30,754,919</b>	<b>\$ 27,096,941</b>

**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, 2019. As of December 31, 2018, deficiencies of this nature existed in three donor-established endowment funds, which together had an original gift value of \$190,876, a fair value of \$176,299 and a deficiency of \$14,577. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The Community Foundation has interpreted PMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

**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.

## YAKIMA VALLEY COMMUNITY FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

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#### Note 11 - Continued

**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, 2019 and 2018, 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, 2019 and 2018, the Community Foundation contributed \$24,158 and \$24,504, respectively, to the Plan.

#### 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 due under the lease total \$44,760 and are due during the year ending December 31, 2020.

The Community Foundation paid a total of \$69,709 and \$61,707 in rent for the years ended December 31, 2019 and 2018, respectively.

**Employment Contract** - On August 15, 2013, the Community Foundation amended an employment contract with the Chief Executive Officer that extended the term to September 5, 2018. The amended contract specified the employee's annual compensation and established a deferred compensation plan under IRS Section 457(f) that began in 2014. For the year ended December 31, 2019, there were no contributions to the deferred compensation plan. For the year ended December 31, 2018, the Community Foundation contributed \$25,000 to the deferred compensation plan. The plan was terminated as of December 31, 2018.

**YAKIMA VALLEY COMMUNITY FOUNDATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2019  
(With Comparative Totals for 2018)**

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**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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 692,910	\$ 419,455
Interest receivable	73,418	
Loan receivable	3,000,000	
Grants receivable		250,000
Investments	<u>65,378,609</u>	<u>59,711,757</u>
 Total financial assets	 69,144,937	 60,381,212
 Less loans receivable due in more than one year	 (1,553,608)	
Less alternative investments unavailable within one year	(1,478,255)	(1,295,507)
Less agency fund investments	(3,958,807)	(3,424,494)
Less endowment fund investments	(30,754,919)	(27,096,941)
Add back amount expected to be appropriated in following year	<u>1,408,604</u>	<u>1,340,825</u>
 <b>Financial Assets Available to Meet Cash Needs for Expenditures Within One Year</b>	 <b><u>\$ 32,807,952</u></b>	 <b><u>\$ 29,905,095</u></b>

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%. Although the Foundation does not intend to spend from the board-designated endowments in excess of the annual spending rate approval, 75% 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.