

YAKIMA VALLEY COMMUNITY FOUNDATION

Financial Statements

For the Year Ended December 31, 2018

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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 24, 2019

YAKIMA VALLEY COMMUNITY FOUNDATION

Statement of Financial Position

December 31, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 419,455	\$ 319,748
Grants receivable, current (Note 5)	<u>250,000</u>	<u>115,000</u>
Total Current Assets	669,455	434,748
Investments (Notes 3 and 4)	59,711,757	65,168,798
Grants receivable, net of current (Note 5)		250,000
Property and equipment, net of accumulated depreciation (Note 6)	<u>30,384</u>	<u>50,953</u>
Total Assets	<u>\$ 60,411,596</u>	<u>\$ 65,904,499</u>
Liabilities and Net Assets		
Grants and other payables (Note 7)	<u>\$ 50,653</u>	<u>\$ 31,000</u>
Total Current Liabilities	50,653	31,000
Agency funds (Note 8)	3,424,494	3,188,148
Liabilities under split interest agreement (Note 9)	<u>1,930,493</u>	<u>2,170,189</u>
Total Liabilities	5,405,640	5,389,337
Net Assets:		
Without donor restrictions-		
Undesignated	52,658,717	58,028,259
Designated by Board of Directors for endowment (Note 11)	<u>1,538,927</u>	<u>1,677,702</u>
Total without donor restrictions	54,197,644	59,705,961
With donor restrictions (Note 10)	<u>808,312</u>	<u>809,201</u>
Total Net Assets	<u>55,005,956</u>	<u>60,515,162</u>
Total Liabilities and Net Assets	<u>\$ 60,411,596</u>	<u>\$ 65,904,499</u>

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenue and Support:				
Contributions	\$ 1,295,787	\$ 204,153	\$ 1,499,940	\$ 575,525
Grants				500,000
Administrative fees	506,946		506,946	474,006
Other revenue	506,511		506,511	235,470
Releases	205,042	(205,042)		
Return on investments, net (Note 4)	(2,974,677)		(2,974,677)	7,985,942
Total Revenue and Support	(460,391)	(889)	(461,280)	9,770,943
Less fees charged to internal funds	(468,378)		(468,378)	(439,121)
Total Revenue and Support Net of Fees Charged to Internal Funds	(928,769)	(889)	(929,658)	9,331,822
Operating Expenses:				
Program	3,691,473		3,691,473	2,706,143
Management and general	778,237		778,237	587,046
Fundraising	109,838		109,838	85,066
Total Operating Expenses	4,579,548		4,579,548	3,378,255
Change in Net Assets	(5,508,317)	(889)	(5,509,206)	5,953,567
Net assets, beginning of year	59,705,961	809,201	60,515,162	54,561,595
Net Assets, End of Year	\$ 54,197,644	\$ 808,312	\$ 55,005,956	\$ 60,515,162

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	Program	Management and General	Fundraising	2018 Total	2017 Total
Grants made (Note 3)	\$ 3,226,676	\$ -	\$ -	\$ 3,226,676	\$ 2,347,914
Salaries and benefits	253,836	317,295	63,459	634,590	473,612
Professional services	119,646	335,008	23,929	478,583	306,873
Occupancy	26,619	33,274	6,655	66,548	65,440
Marketing	11,944	14,930	2,986	29,860	35,058
Depreciation	9,409	11,762	2,352	23,523	33,551
Education and training	7,993	9,991	1,998	19,982	39,632
Travel, lodging and mileage	7,627	9,534	1,907	19,068	4,957
Meals and entertainment	4,533	12,692	907	18,132	3,618
Utilities and telephone	6,025	7,532	1,506	15,063	14,591
Insurance	3,073	8,605	615	12,293	12,876
Dues and memberships	4,312	5,390	1,078	10,780	13,096
Computer and technology	2,497	3,121	624	6,242	11,282
Office supplies	2,186	2,733	547	5,466	3,942
Equipment rentals and maintenance	1,974	2,468	494	4,936	6,850
Postage and printing	1,125	1,406	281	2,812	3,203
Miscellaneous	1,998	2,496	500	4,994	1,760
Total Functional Expenses	\$ 3,691,473	\$ 778,237	\$ 109,838	\$ 4,579,548	\$ 3,378,255

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (5,509,206)	\$ 5,953,567
Adjustments to reconcile changes in net assets to net cash used in operating activities-		
Depreciation	23,523	33,551
Realized and unrealized loss (gain) on investments	4,202,442	(8,080,139)
Changes in operating assets and liabilities:		
Grants receivable	115,000	(250,000)
Prepaid expense		350
Grants and other payables	19,653	(34,363)
Agency funds	236,346	415,676
Liabilities under split interest agreement	(239,696)	206,474
Net Cash Used in Operating Activities	(1,151,938)	(1,754,884)
Cash Flows From Investing Activities:		
Purchase of investments	(15,042,175)	(7,896,617)
Proceeds from sale of investments	16,296,774	9,882,317
Purchase of equipment	(2,954)	(1,727)
Net Cash Provided by Investing Activities	1,251,645	1,983,973
Net Change in Cash and Cash Equivalents	99,707	229,089
Cash and cash equivalents, beginning of year	319,748	90,659
Cash and Cash Equivalents, End of Year	\$ 419,455	\$ 319,748

See accompanying notes.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2018

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 \$60 million of community assets. These community assets produced approximately \$3.2 million dollars of grants in 2018. 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 two 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, 2018 and 2017, the Community Foundation received contributions of \$109,194 and \$121,701 and incurred expenses related to Investing in Children of \$46,244 and \$104,949, respectively.

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

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2018

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. 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.

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, 2018**

Note 2 - Continued

Concentrations - During the year ended December 31, 2018, the Community Foundation received two contributions that represented 57% of the Community Foundation's total contributions. There were no grant revenue concentrations for the year ended December 31, 2018. At December 31, 2018, there was one grant that represented 100% of the grants receivable balance. During the year ended December 31, 2017, the Community Foundation received one grant that represented 100% of grant revenue. At December 31, 2017, there were two grants that represented 100% of the grants receivable balance. There were no contribution concentrations for the year ended December 31, 2017.

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, 2018

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, 2018 or 2017.

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 \$16,074 and \$27,657 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

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.

Comparative Amounts for 2017 - 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, 2017, from which the summarized information was derived.

Subsequent Events - Subsequent events have been evaluated through April 24, 2019 the date the financial statements were available to be issued.

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.

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2018

Note 3 - Continued

The Community Foundation's program funds consist of 85 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.

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.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2018**

Note 3 - Continued

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

	<u>2018</u>	<u>2017</u>
Yakima grants	\$ 357,313	\$ 235,500
Toppenish grants	<u>160,872</u>	<u>48,416</u>
	<u><u>\$ 518,185</u></u>	<u><u>\$ 283,916</u></u>

The balance of net proceeds remaining at December 31, 2018 and 2017 was \$6,975,278 and \$7,977,664, respectively.

This fund also includes administrative fees charged to the individual funds at the Community Foundation. There were transfers of \$468,378 and \$439,121 for administrative fees to this fund for the years ended December 31, 2018 and 2017, respectively.

Investment balances by fund were as follows at December 31:

	<u>Non- Endowed</u>	<u>Endowed (Note 11)</u>	<u>2018 Total</u>	<u>2017 Total</u>
Scholarship	\$ 216,505	\$ 25,170,051	\$ 25,386,556	\$ 27,832,783
Field of interest	2,465,231	1,047,420	3,512,651	3,720,844
Donor advised	6,177,117	640,693	6,817,810	7,307,916
Designated	34,306	238,777	273,083	157,874
Agency	5,617,800		5,617,800	5,660,329
Health Equity Fund	485,482		485,482	
Founders Fund	<u>17,506,301</u>		<u>17,506,301</u>	<u>20,396,885</u>
Total investments by fund	32,502,742	27,096,941	59,599,683	65,076,631
Cash surrender value of Insurance policy			<u>112,074</u>	<u>92,167</u>
Total Investments	<u><u>\$ 32,502,742</u></u>	<u><u>\$ 27,096,941</u></u>	<u><u>\$ 59,711,757</u></u>	<u><u>\$ 65,168,798</u></u>

Grants for the years ended December 31, 2018 and 2017 were from the following funds:

	<u>2018</u>	<u>2017</u>
Scholarship	\$ 1,201,854	\$ 913,578
Field of interest	133,618	101,447
Donor advised	1,013,419	728,536
Designated	198,000	95,515
Founders Fund	<u>679,785</u>	<u>508,838</u>
	<u><u>\$ 3,226,676</u></u>	<u><u>\$ 2,347,914</u></u>

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2018

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, 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, 2018				2017 Total
	Level 1	Level 2	Level 3	Total	
Marketable securities at fair value-					
Low duration funds	\$ 2,021,714	\$ -	\$ -	\$ 2,021,714	\$ 1,555,248
Large cap equity funds	15,217,559			15,217,559	18,626,921
Mid cap equity funds	4,457,772			4,457,772	5,323,603
Small cap equity funds	1,802,266			1,802,266	2,562,550
International equity funds	11,849,609			11,849,609	14,713,790
Low volatility fund	1,298,000			1,298,000	1,339,495
Bond funds	9,273,560			9,273,560	9,462,414
Total Marketable Securities at Fair Value	\$ 45,920,480	\$ -	\$ -	45,920,480	53,584,021
Nonmarketable securities at net asset value-					
Growth hedge				9,239,328	8,992,359
Low volatility hedge				3,847,525	2,500,251
International hedge				592,350	
Total nonmarketable securities at net asset value				13,679,203	11,492,610
Cash surrender value of life insurance at cost				112,074	92,167
Total Investments				\$ 59,711,757	\$ 65,168,798

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

	2018	2017
Portfolio investment return	\$ (3,269,217)	\$ 8,721,423
Less amounts allocated to agency funds	294,540	(735,481)
Return on Investments, Net	\$ (2,974,677)	\$ 7,985,942

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2018

Note 4 - Continued

The Organization has the following nonmarketable securities (alternative investments) at December 31, 2018:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Growth hedge fund	\$ 9,239,328	\$ -	Quarterly to one year	60 to 90 days
Low volatility hedge fund	3,847,525		Quarterly to one year	45 days
International hedge fund	592,350		Quarterly	90 days
	<u>\$ 13,679,203</u>	<u>\$ -</u>		

A summary of investments in nonmarketable securities is as follows:

Growth Hedge Funds - At December 31, 2018 and 2017, 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, 2018, the Organization was invested in two low volatility hedge funds and one as of December 31, 2017. The first 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. 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, 2018, the Organization was invested in one international hedge fund that focuses on investing on developing economies and less established world markets.

Note 5 - Grants Receivable

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

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2018**

Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Property and equipment	\$ 117,109	\$ 114,155
Leasehold improvements	116,727	116,727
Software	<u>60,427</u>	<u>60,427</u>
	294,263	291,309
Less accumulated depreciation	<u>(263,879)</u>	<u>(240,356)</u>
Property and Equipment, Net	<u>\$ 30,384</u>	<u>\$ 50,953</u>

Depreciation expense was \$23,523 and \$33,551 for the years ended December 31, 2018 and 2017, respectively.

Note 7 - Grants Payable

No grants payable are scheduled to be disbursed at December 31, 2018. As of December 31, 2017, grants payable of \$15,000 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:

	<u>Beginning Balance January 1, 2018</u>	<u>Net Deposits</u>	<u>Investment Return</u>	<u>Ending Balance December 31, 2018</u>
Agency funds	\$ 3,188,148	\$ 488,968	\$ (294,540)	\$ 3,424,494

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 \$258,607 and \$271,701 at December 31, 2018 and 2017, 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, 2018, and 2017, the fair value of the trust of \$2,185,517 and \$2,441,889, respectively, is shown as investments on the statement of financial position. The corresponding liability for payments to beneficiaries was determined to be \$1,930,493 and \$2,170,189 at December 31, 2018 and 2017, respectively.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2018**

Note 10 - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 as follows:

	<u>2018</u>	<u>2016</u>
Split-interest agreement (Note 9)	\$ 258,607	\$ 271,701
Purpose restriction	199,330	
Purpose and time restriction	<u>350,375</u>	<u>537,500</u>
Total Net Assets With Donor Restrictions	<u>\$ 808,312</u>	<u>\$ 809,201</u>

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, 2018

Note 11 - Continued

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

	Without Donor Restrictions			2018 Total	2017 Total
	Funds With Deficiencies	Accumulated Unspent Earnings	Corpus		
Donor-established endowment funds	\$ (14,577)	\$ 70,833	\$ 972,450	\$ 1,028,706	\$ 919,474
Donor-established spendable endowment fund		1,263,339	23,265,969	24,529,308	27,052,394
Board designated quasi-endowment funds		544,093	994,834	1,538,927	1,677,702
Endowment Net Assets	\$ (14,577)	\$ 1,878,265	\$ 25,233,253	\$ 27,096,941	\$ 29,649,570

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

	Without Donor Restrictions			2018 Total	2017 Total
	Funds With Deficiencies	Accumulated Unspent Earnings	Corpus		
Endowment net assets, beginning of year	\$ -	\$ 4,606,516	\$ 25,043,054	\$ 29,649,570	\$ 26,713,068
Endowment investment return, net	(14,577)	(1,538,786)		(1,553,363)	3,808,352
Other income					253
Contributions			190,199	190,199	66,147
Grants made		(1,189,465)		(1,189,465)	(938,250)
Endowment Net Assets, End of Year	\$ (14,577)	\$ 1,878,265	\$ 25,233,253	\$ 27,096,941	\$ 29,649,570

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. Deficiencies of this nature exist in three donor-established endowment funds, which together have an original gift value of \$190,876, a current fair value of \$176,299 and a deficiency of \$14,577 as of December 31, 2018. 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. There were no deficiencies of this nature as of December 31, 2017. The Community Foundation has interpreted PMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

YAKIMA VALLEY COMMUNITY FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2018**

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, 2018 and 2017, 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, 2018 and 2017, the Community Foundation contributed \$24,504 and \$18,269, 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 under the lease are as follows:

For the Year Ending December 31,

2019	\$	43,475
2020		44,760
		<hr/>
	\$	88,235

YAKIMA VALLEY COMMUNITY FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2018

Note 13 - Continued

The Community Foundation paid a total of \$61,707 and \$60,375 in rent for the years ended December 31, 2018 and 2017, 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 both of the years ended December 31, 2018 and 2017, the Community Foundation contributed \$25,000 to the deferred compensation plan.

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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 419,455	\$ 319,748
Grants receivable	250,000	365,000
Investments	<u>59,711,757</u>	<u>65,168,798</u>
Total financial assets	60,381,212	65,853,546
Less grants due in more than one year		(250,000)
Less alternative investments unavailable within one year	(1,295,507)	(2,923,950)
Less agency fund investments	(3,424,494)	(3,188,148)
Less endowment fund investments	(27,096,941)	(29,649,570)
Add back amount expected to be appropriated in following year	<u>1,340,825</u>	<u>1,382,500</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 29,905,095</u>	<u>\$ 31,224,378</u>

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.

Note 15 - Subsequent Event

During 2019, the Foundation received communication from a grantee that it would be returning approximately \$247,000 of funds to the Foundation that had been granted in earlier periods.