

WHATCOM COMMUNITY FOUNDATION

Consolidated Financial Statements

For the Year Ended June 30, 2022

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Independent Auditor's Report

**To the Board of Directors and Audit Committee
Whatcom Community Foundation
Bellingham, Washington**

Opinion

We have audited the accompanying consolidated financial statements of Whatcom Community Foundation and subsidiary (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.



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Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Report on Summarized Comparative Information

The consolidated financial statements of the Foundation for the year ended June 30, 2021, before the restatement described in Note 17, were audited by other auditors, whose report dated September 22, 2021, expressed an unmodified audit opinion on those audited financial statements. As part of our audit of the June 30, 2022, consolidated financial statements, we also audited the adjustment described in Note 17 that was applied to restate the 2021 financial statements. In our opinion, such adjustments were appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the Foundation other than with respect to the adjustments and, accordingly we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived other than the adjustment described in Note 17.

Clark Nuber PS

Certified Public Accountants
September 28, 2022

WHATCOM COMMUNITY FOUNDATION

Consolidated Statement of Financial Position
 June 30, 2022
 (With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Cash	\$ 16,372,761	\$ 6,357,734
Restricted cash	170,000	170,000
Accounts receivable	110,236	230,959
Grants receivable		330,000
Notes receivable	100,000	100,000
Prepaid expenses and other assets	1,634	
Investments	36,261,029	28,548,986
Restricted investments	2,201,043	1,748,880
Beneficial interest in charitable lead annuity trust	6,237,333	8,108,183
Land held for sale		440,000
Fixed assets, net of depreciation	<u>10,546,243</u>	<u>10,552,255</u>
Total Assets	<u>\$ 72,000,279</u>	<u>\$ 56,586,997</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 142,114	\$ 291,472
Grant and scholarship awards payable	1,084,350	1,430,842
Guarantee liability	104,312	104,312
Payroll Protection Program loan		126,040
Funds held for others	<u>3,823,030</u>	<u>4,536,938</u>
Total Liabilities	5,153,806	6,489,604
Net Assets:		
Without donor restrictions-		
Operating	47,993,524	28,978,014
Board-designated	<u>1,961,932</u>	<u>2,334,481</u>
Total without donor restrictions	49,955,456	31,312,495
With donor restrictions	<u>16,891,017</u>	<u>18,784,898</u>
Total Net Assets	<u>66,846,473</u>	<u>50,097,393</u>
Total Liabilities and Net Assets	<u>\$ 72,000,279</u>	<u>\$ 56,586,997</u>

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

Consolidated Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Operating Revenue and Support:				
Contributions	\$ 5,093,431	\$ 87,450	\$ 5,180,881	\$ 3,961,811
Bequests	23,500,634		23,500,634	
In-kind contributions	580,701		580,701	486,552
Grant income	1,635,397		1,635,397	1,926,173
Program and other income	42,497	649,254	691,751	710,591
Paycheck Protection Program loan forgiveness	126,040		126,040	
Management fee	49,850		49,850	47,007
Loss on sale of land and equipment	(35,679)		(35,679)	
Total Operating Revenue and Support	30,992,871	736,704	31,729,575	7,132,134
Net Assets Released From Restrictions	2,777,839	(2,777,839)		
Total Revenue and Net Assets Releases	33,770,710	(2,041,135)	31,729,575	7,132,134
Operating Expenses:				
Program	8,730,901		8,730,901	6,825,448
Management and general	913,268		913,268	587,407
Fundraising	133,386		133,386	311,042
Total Operating Expenses	9,777,555		9,777,555	7,723,897
Nonoperating Gains and Losses:				
Investment return	(5,350,194)	97	(5,350,097)	5,855,786
Change in value of beneficial interest in trust		147,157	147,157	180,507
Total Nonoperating Gains and Losses	(5,350,194)	147,254	(5,202,940)	6,036,293
Change in Net Assets	18,642,961	(1,893,881)	16,749,080	5,444,530
Net assets, beginning of year	31,312,495	18,784,898	50,097,393	44,652,863
Net Assets, End of Year	\$ 49,955,456	\$ 16,891,017	\$ 66,846,473	\$ 50,097,393

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2022 Total</u>	<u>2021 Total</u>
Awards granted	\$ 7,704,380	\$ -	\$ -	\$ 7,704,380	\$ 5,509,747
Salaries, benefits and taxes	427,369	454,646	82,125	964,140	923,531
Program services	360,562			360,562	576,521
Consultants	152,267	129,227	9,818	291,312	456,440
Property taxes and equipment maintenance	21,778	150,993	4,185	176,956	53,505
Professional services	9,626	39,466	1,850	50,942	43,506
Development and communications	11,438		26,687	38,125	41,865
Depreciation	8,588	9,136	1,650	19,374	18,525
Other	34,893	129,800	7,071	171,764	100,257
	<u><u>\$ 8,730,901</u></u>	<u><u>\$ 913,268</u></u>	<u><u>\$ 133,386</u></u>	<u><u>\$ 9,777,555</u></u>	<u><u>\$ 7,723,897</u></u>

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 16,749,080	\$ 5,444,530
Adjustments to reconcile changes in net assets to net cash provided by operating activities-		
Depreciation	19,374	18,525
Realized and unrealized loss (gain) on investments	6,012,549	(5,421,684)
Change in present value discount of beneficial interest in trust	(147,157)	(180,458)
Contribution of land	(550,000)	(440,000)
Loss on sale of land	32,500	
Paycheck Protection Program loan forgiveness	(126,040)	
Changes in operating assets and liabilities:		
Accounts receivable	120,723	241,471
Grants receivable	330,000	420,000
Prepaid expenses and other assets	(1,634)	1,994
Beneficial interest in charitable lead annuity trust	2,018,007	2,018,007
Accounts payable and accrued expenses	(149,358)	(72,726)
Grant and scholarship awards payable	(346,492)	(157,259)
Guarantee liability		(1,682)
Funds held for others	(713,908)	893,121
Net Cash Provided by Operating Activities	<u>23,247,644</u>	<u>2,763,839</u>
Cash Flows From Investing Activities:		
Proceeds from the sale of land	957,500	
Proceeds from sale of investments	7,693,887	5,353,091
Purchase of investments	(21,870,642)	(6,061,519)
Purchases of fixed assets	(13,362)	(3,016)
Net Cash Used in Investing Activities	<u>(13,232,617)</u>	<u>(711,444)</u>
Cash Flows From Financing Activities:		
Proceeds from Paycheck Protection Program loan		126,040
Net Cash Provided by Financing Activities		<u>126,040</u>
Net Change in Cash and Restricted Cash	10,015,027	2,178,435
Cash and restricted cash, beginning of year	6,527,734	4,349,299
Cash and Restricted Cash, End of Year	<u>\$ 16,542,761</u>	<u>\$ 6,527,734</u>
Cash consists of the following at June 30:		
Cash	\$ 16,372,761	\$ 6,357,734
Restricted cash	170,000	170,000
Total Cash	<u>\$ 16,542,761</u>	<u>\$ 6,527,734</u>
Supplemental Disclosure:		
Donated land	\$ 550,000	\$ 440,000

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 1 - Organization

Whatcom Community Foundation (the Community Foundation) is a non-profit corporation incorporated in Washington in 1996 to strengthen and enhance communities of Whatcom County, Washington so that everyone who lives there thrives. With the generous support of individuals, businesses, and other funders, the Community Foundation grants to a wide range of organizations with innovative community building programs in economic and community development, food and agriculture, education, arts and culture, health and wellness, affordable housing, nonprofit capacity building, disaster preparedness, relief and recovery, and the environment. The Community Foundation's mission is to cultivate neighborliness, lift community voices, and invest in equity and hope.

The Community Foundation is active in impact investing, putting financial assets to work beyond grantmaking (e.g., loan guarantees, equity investments, etc.) in alignment with its vision and mission. The Threshold Fund, a revolving loan fund for permanently affordable owner-occupied housing, reduces the cost of construction capital. Telegraph Townhomes, a partnership between Habitat for Humanity of Whatcom County and Kulshan Community Land Trust, is the inaugural project for the fund. New homeowners moved into the first eight units in fall 2021. In addition to affordable and workforce housing, the Community Foundation's impact investing is focused on strengthening the local food system and expanding economic opportunity through small businesses, particularly businesses owned by Black, Indigenous and people of color and people in rural communities of Whatcom County.

The Community Foundation's Nonprofit Capacity Building Initiative offers several programs, including Board Match, matching community members to serve as board members for local organizations by providing basic training and opportunities for engagement. Three Executive Director Roundtables supported by the Community Foundation provided 19 nonprofit leaders (unaudited) with opportunities to learn, share best practices, and enhance leadership skills each month with the help of a professional coach and facilitator.

The Community Foundation's Whatcom Scholarship Program awarded scholarships to 115 and 81 students across Whatcom County totaling \$349,200 and \$185,900 in 2022 and 2021, respectively. The Community Foundation is also developing a pilot Child Savings Account (CSA) program in collaboration with Mercy Housing Northwest for launch in fall 2022. CSAs are early "scholarship" awards that research shows improve maternal health, child social/emotional development and educational attainment.

In response to COVID-19 and the catastrophic flooding in Whatcom County in November 2021, the Community Foundation granted \$2.9 million in relief and recovery funding during 2022.

Supporting Organization - On November 19, 2019, Lakeland Foundation (Lakeland) became a type 1 supporting organization of the Community Foundation. Lakeland's purpose is to support the Jansen Art Center, and other local charitable causes.

Lakeland and the Community Foundation have entered into a management agreement, effective January 1, 2020, where the Community Foundation has agreed to provide services which include: grantmaking, financial management, administrative services, and Board of Director's support.

Fiscal Sponsorships - The Community Foundation is the fiscal sponsor of four organizations. Each of the sponsored organizations are considered programs of the Community Foundation, and contributions received for the sponsored organizations are recognized as donor-restricted contributions in the consolidated statement of activities.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 1 - Organization

The Millworks LLC - The consolidated financial statements include The Millworks LLC (the LLC), a limited liability company formed in the State of Washington in April 2019, wholly owned by the Community Foundation. The Community Foundation formed the LLC and signed a memorandum of understanding in January 2021 with Mercy Housing Northwest for the intent to develop an affordable family housing development at the Port of Bellingham's Waterfront District Development Site, a strategic partner of the Foundation. See Note 3.

Principles of Consolidation - These consolidated financial statements include the accounts of the Community Foundation, Lakeland, and the LLC (collectively, the Foundation). Inter-organization transactions and balances have been eliminated in consolidation.

Note 2 - Summary of Significant Accounting Policies

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

Financial Statement Presentation - The Foundation's consolidated 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 Foundation to present its net assets, revenues, gains and losses based on the existence or absence of donor-imposed restrictions. The Foundation has presented an unclassified consolidated statement of financial position which sequences assets according to their nearness of conversion to cash and sequences liabilities according to the nearness of their maturity and resulting use of cash.

Nonoperating Activities - The Foundation considers return on investments and the change in value of beneficial interest in trust to be nonoperating activities.

Cash - Cash includes cash in a bank and money market funds, except money market funds held as investments.

Restricted Cash and Investments - The Foundation guarantees debt for three non-profit organizations in Whatcom County. Restricted cash and investments are collateral for these guarantees. See Note 8.

Receivables - Receivables are stated at the amount management expects to receive. The Foundation maintains an allowance for potential losses based upon management's periodic review of the Foundation's experience related to pledges and other collections. Receivables written off are charged against the allowance. At June 30, 2022 and 2021, management determined that no allowance for potential receivable losses was necessary. All receivables are expected to be collected within one year.

Beneficial Interest in Charitable Lead Annuity Trust - The Foundation is a beneficiary of a charitable lead annuity trust. The beneficial interest is recorded at the net present value of expected future payments to be received on the consolidated statement of financial position.

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.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 2 - Continued

Investments are made according to the Investment Policy adopted by the Foundation's Board of Directors. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate benchmarks and indices.

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 consolidated statement of financial position.

Fixed Assets Capitalization and Depreciation - The Foundation capitalizes assets with a cost greater than \$2,500 and an estimated useful life of more than one year. Purchased fixed assets are recorded at cost and donated fixed assets are recorded at fair value on the date received.

Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the related assets or, for leasehold improvements, over the term of the lease as follows:

Furniture	7 years
Office Equipment	5 years
Leasehold Improvements	Lesser of lease term or 10 years

Funds Held for Others - In accordance with U.S. GAAP, when a not-for-profit organization, such as a foundation, accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor, the foundation must account for the transfer of such assets as if it is holding the funds as an agent of the donor. These funds, identified as funds held for others, are included in the Foundation's assets with an offsetting liability on the consolidated statement of financial position. The liability is valued at the fair value of the agency funds, estimated by the Foundation. Activities related to the agency funds do not affect the change in net assets of the Foundation. See Note 10.

Net Assets - The Foundation presents its net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to 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. Net assets with donor restrictions include the charitable lead annuity trust, Lakeland, and the net assets of fiscal sponsorships.

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 consolidated statement of activities as net assets released from restrictions.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 2 - Continued

The Foundation's Fund Agreements grant the Foundation's Board of Directors variance power over assets received, which allows the Board of Directors to modify any restriction or condition on the distribution of funds for any charitable purpose. Consequently, all contributions are classified as net assets without donor restrictions if they are made under these Fund Agreements or are available to the Foundation with no restriction as to when or which purpose the funds are available for expenditure.

Contribution and Grant Revenue - Contributions and grants are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on discounted cash flows. Contributions of assets other than cash are recorded at their estimated fair value on the date received.

Conditional promises to give are recognized as revenue when the donor-imposed conditions upon which they depend have been substantially met. Conditional grants for which conditions had not yet been met totaled \$372,458 and \$0 at June 30, 2022 and 2021, respectively. Revenue will be recognized in future periods as donor-imposed conditions are met.

Bequests - The Foundation receives bequests from time to time. It is the policy of the Foundation to record the bequest when it has cleared probate and all related fees have been determined.

In-Kind Contributions - The Foundation receives donations of land from time to time. Such gifts are recorded as donated land and revenue at the time received and a reduction of land when sold. Land is valued based on the fair market value of the property at the time of the donation. The Foundation received land valued at \$550,000 and \$440,000 during the years ended June 30, 2022 and 2021, respectively. Both parcels of land were sold during 2022. The remaining in-kind contributions include donations of printing and use of space, which were used in the Foundation's operations and Chromebooks, which were donated to individuals in the community.

Grants and Scholarship Payable and Expenses - Grants and scholarships over \$50,000 are approved by the Board of Directors in accordance with the Foundation's operating guidelines. Conditional grants and scholarships are recognized only when the conditions on which they depend are met and the grant or scholarship award becomes unconditional. There were no conditional grants at June 30, 2022 or 2021.

Conditional scholarships for which payment is conditional upon student enrollment amounted to \$95,900 and \$110,117 as of June 30, 2022 and 2021, respectively. These scholarships will be recognized as a liability upon student enrollment.

Concentration of Market and Credit Risk - The Foundation maintains cash balances at several financial institutions, focusing on those that are local or regional, and/or aligned with the Foundation's mission. On occasion, the Foundation may have cash balances at a financial institution in excess of federally insured limits, based on management's confidence level in the institution.

For the year ended June 30, 2022, 76% of grant and contribution revenue was from one donor. For the year ended June 30, 2021, the Foundation did not have any concentrations in grant and contribution revenue.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 2 - Continued

Income Taxes - The Community Foundation and its supporting organization qualify as tax-exempt organizations, under Section 501(c)(3) of the Internal Revenue Code (the Code), and are not subject to federal or state income taxes, except on unrelated business income. In addition, the Community Foundation and its supporting organization qualify for the charitable contribution deduction under Section 170(b)(a)(A) of the Code and have been classified as organizations that are not private foundations as defined in Section 509(a) of the Code. The Community Foundation is subject to federal income tax only on "unrelated business taxable income" as defined in Section 512 of the Code. Unrelated business income tax, if any, is immaterial and no tax provision has been made in the accompanying consolidated financial statements.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from the estimated amounts.

Functional Allocation of Expenses - Functional expenses are those expenses incurred by the Foundation in the accomplishment of its stated mission. They can further be categorized as follows:

Program Services - Including grants awarded, impact investments, service to other nonprofits, philanthropic leadership, and civic leadership;

Development and Fundraising - Including establishing and maintaining relationships with donors; and

Management and General - Including expenses that benefit the Foundation as an entity and the management and accounting for funds.

The cost of providing the various program and supporting services has been summarized on a functional basis in the consolidated statement of activities and statement of functional expenses. These statements include expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries, benefits and taxes, equipment maintenance, depreciation, and other are allocated on the basis of estimates of time and effort.

Financial Statement Reclassifications - Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances as previously reported other than those reported in Note 17.

Prior-Year Comparative Information - These consolidated financial statements include certain prior-year summarized comparative 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 Foundation's consolidated financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Subsequent Events - Management of the Foundation has evaluated subsequent events through September 28, 2022, the date these consolidated financial statements were available to be issued.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 3 - The Millworks LLC

As described in Note 1, the LLC is wholly owned by the Foundation. As an LLC, the liability of the member is generally limited to amounts invested. The LLC was formed for the purpose of serving as the development entity for a new mixed-use demonstration project that will include a local food campus, workforce housing, an early learning center and community partner meeting rooms and office space. The LLC currently has a joint option agreement with Mercy Housing Northwest (the Foundation's development partner in the project) and the Port of Bellingham (the Port) for a three-acre parcel on the Bellingham, Washington waterfront where the project will be developed in conjunction with Mercy Housing Northwest. The LLC is the entity that will ultimately own all or part of the site and any relevant agreements for its development. There was no activity for the LLC for the years ended June 30, 2022 and 2021, as all costs associated with the project were paid for by the Foundation. Mercy Housing Northwest will begin construction of phase 1, 83 permanently affordable rental units and a 6-classroom early learning and childcare center, in early 2023. Planning and design for phase 2 are underway, including the local food campus and other elements.

Note 4 - Investments and Fair Value Measurements

Fair Value Measurements - Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

Level 1 - Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 - Unobservable inputs where there is little or no market data, which require the Foundation to develop its own assumptions.

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment only and should not be considered analogous to risk.

Investments are valued as follows:

Mutual Funds - Valued at the closing price reported on the active market on which the securities are traded;

Certificates of Deposit - held with banks, recorded at cost plus accrued interest;

Private Equity - closely-held private or restricted stock is recorded at initial investment amount (cost) and is reviewed no less than annually to identify impairment.

There were no changes in the valuation methodologies used by the Foundation for the years ended June 30, 2022 or 2021.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

Note 4 - Continued

Investments consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Mutual funds	\$ 37,599,389	\$ 29,334,269
Certificates of deposit	222,691	323,605
Private equity	<u>639,992</u>	<u>639,992</u>
	<u>\$ 38,462,072</u>	<u>\$ 30,297,866</u>

Investments are recorded as follows on the consolidated statement of financial position at June 30:

	<u>2022</u>	<u>2021</u>
Investments	\$ 36,261,029	\$ 28,548,986
Restricted investments	<u>2,201,043</u>	<u>1,748,880</u>
	<u>\$ 38,462,072</u>	<u>\$ 30,297,866</u>

Investment return consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 662,452	\$ 434,102
Realized and unrealized (loss) gain on investments	<u>(6,012,549)</u>	<u>5,421,684</u>
Total Investment Return	<u>\$ (5,350,097)</u>	<u>\$ 5,855,786</u>

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

Note 4 - Continued

Fair values of the Foundation's investments measured on a recurring basis are as follows at June 30:

	2022			Total
	Level 1	Level 2	Level 3	
Investments at Fair Value:				
Mutual funds	\$ 37,599,389	\$ -	\$ -	\$ 37,599,389
Private equity			639,992	639,992
Total Investments at Fair Value	<u>\$ 37,599,389</u>	<u>\$ -</u>	<u>\$ 639,992</u>	38,239,381
Investments at cost				<u>222,691</u>
Total Investments				<u>\$ 38,462,072</u>

There were no purchases or sales for the Level 3 private investments during the years ended June 30, 2022 or 2021.

Note 5 - Notes Receivable

The Foundation holds one note receivable, which is recorded at cost. The note bears interest at a rate of 5.5% and matures August 1, 2025. No allowance for the note is deemed necessary at June 30, 2022.

Note 6 - Beneficial Interest in Charitable Lead Annuity Trust

During the year ended June 30, 2015, the Foundation became a beneficiary of a Charitable Lead Annuity Trust (CLAT) from which the Foundation will receive annual payments of \$2,018,007 beginning on December 31, 2015, through March 17, 2025. The Foundation's beneficial interest is recorded at the net present value (discounted at 1.8%) of the future distributions of \$6,237,333 and \$8,108,183 at June 30, 2022 and 2021, respectively, and is included on the consolidated statement of financial position and included as a component of net assets with donor restrictions.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 7 - Fixed Assets

Fixed assets consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 10,500,000	\$ 10,500,000
Furniture	13,821	13,821
Office equipment	46,892	45,113
Leasehold improvements	<u>112,661</u>	<u>112,661</u>
	10,673,374	10,671,595
Less accumulated depreciation	<u>(127,131)</u>	<u>(119,340)</u>
Fixed Assets, Net	<u><u>\$ 10,546,243</u></u>	<u><u>\$ 10,552,255</u></u>

Note 8 - Loan Guarantees

At June 30, 2022 and 2021, the Foundation has pledged funds totaling \$70,000, at banks to guarantee loans for two small Whatcom County businesses as part of the Foundation's Community Mission Investment Initiative. These funds have been reported as restricted cash on the consolidated statement of financial position. U.S. GAAP requires that the Foundation record a liability for the fair value of the guarantee (i.e., the benefit provided to the borrower) at the date the guarantee is made. Management has determined that the fair value of the guarantee was not material to the consolidated financial statements; therefore, no guarantee liability has been recorded in these consolidated financial statements related to this guarantee.

At June 30, 2022 and 2021, the Foundation has pledged investments totaling \$1,561,051, as collateral to guarantee a line of credit for a Whatcom County LLC formed by two Whatcom County nonprofit organizations to aid in a housing development program. These investments are recorded as restricted investments on the consolidated statement of financial position at June 30, 2022 and 2021. The terms of the underlying loans mature in April and September 2023. The Foundation has pledged funds totaling \$100,000 at June 30, 2022 and 2021, as collateral for the same organization for a secondary loan maturing April 2023. The fair value of the guarantees are valued at \$104,312 and are recorded as a liability on the consolidated statement of financial position at June 30, 2022 and 2021.

The Foundation evaluates guarantees quarterly for impairment, no adjustment was required at June 30, 2022 or 2021.

Subsequent to year end, the Foundation increased their loan guarantees for the Whatcom County LLC by \$829,120. No amounts are considered necessary to accrue as of June 30, 2022.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

Note 9 - Grants and Scholarship Awards Payable

Included in grants and scholarship awards payable are the following unconditional grants payable at June 30:

	<u>2022</u>	<u>2021</u>
Amounts due in-		
Less than one year	\$ 868,850	\$ 1,089,283
Two to five years	185,500	304,059
Thereafter	<u>30,000</u>	<u>37,500</u>
Total Grants and Scholarship Awards Payable	<u><u>\$ 1,084,350</u></u>	<u><u>\$ 1,430,842</u></u>

The discount for present value was immaterial at June 30, 2022 and 2021.

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

Note 10 - Funds Held for Others

Funds held for others (Agency Funds) as of June 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Mount Baker Theatre Endowment Fund	\$ 1,537,823	\$ 1,875,274
Pioneer Meadows Montessori School Endowment	888,740	1,069,776
Bellingham Public Library Endowment	262,806	317,161
Whatcom County Library Foundation Endowment Fund	208,971	243,126
Nooksack Salmon Enhancement Endowment	152,270	183,804
Ferndale Band Boosters Endowment Fund	145,103	175,184
Bellingham Public Schools Foundation Agency Endowment	179,963	158,457
Lydia Place Endowment Fund	78,031	94,191
Bellingham Symphony Endowment Fund	42,860	51,733
Master Gardener Foundation of Whatcom County Endowment	42,137	38,552
Bellingham Chamber Chorale Endowment for Choral Arts	29,168	33,981
Bellingham Festival of Music Endowment Fund	25,325	28,859
Bruce Wolf Endowment Fund	22,082	26,575
Law Advocates Agency Endowment Fund	24,354	25,862
Explorations Academy Endowment	18,956	22,260
Whatcom Literacy Council Endowment	16,596	20,025
Northwest Youth Services Endowment Fund	14,849	17,924
Agape Home for Women and Children Endowment Fund	14,177	17,113
Lighthouse Mission Endowment Fund	13,678	16,511
Brigid Collins Endowment Fund	14,350	16,258
Compass Health Endowment	12,844	14,931
Eric Braun Memorial Endowment for Cedar Tree Montessori	12,013	14,478
Bellingham Parks and Recreation Endowment	9,272	11,187
Whatcom Land Trust Endowment	7,377	8,905
Ferndale Double Dome Fund	5,474	6,334
Bellingham Festival of Music Education and Outreach Endowment	2,157	1,934
Whatcom County Library Foundation Endowment Fund for-		
Blaine Library	1,905	23,819
Deming Library	3,022	6,764
Everson Library	1,375	2,771
Ferndale Library	20,742	2,377
Island Library	2,043	2,245
Lynden Library	2,141	2,149
North Fork Library	1,394	1,621
Point Roberts Library	5,810	1,599
South Whatcom Library	1,847	1,599
Sumas Library	1,375	1,599
	<u>\$ 3,823,030</u>	<u>\$ 4,536,938</u>

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

Note 11 - Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Operating net assets		
Administrative	\$ 1,902,743	\$ 887,351
Designated	344,018	576,448
Donor advised	2,877,778	2,851,804
Field of interest	683,682	675,610
Mission investments	482,906	369,248
Scholarship	451,832	592,774
WCF grantmaking	317,868	96,371
Sustainable Whatcom funds	339,978	(298,194)
Project	117,653	136,591
Donor established endowment funds	<u>40,475,066</u>	<u>23,090,011</u>
	47,993,524	28,978,014
Board designated net assets		
Quasi-endowments	1,660,662	2,033,548
Operating reserve	<u>301,270</u>	<u>300,933</u>
	1,961,932	2,334,481
	<u>\$ 49,955,456</u>	<u>\$ 31,312,495</u>

Note 12 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for future periods or for specific programs. They consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Subject to the passage of time-		
Beneficial interest in charitable lead annuity trust	\$ 6,237,380	\$ 8,108,231
Subject to expenditure for specific purpose-		
Hovander Homestead Park Beautification Fund	9,778	
Programs and fiscal sponsorships	107,756	57,926
Lakeland Foundation	<u>10,536,103</u>	<u>10,618,741</u>
	<u>\$ 16,891,017</u>	<u>\$ 18,784,898</u>

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

Note 13 - Endowments

The Foundation’s endowment consists of 119 funds established for a variety of purposes. Its endowment includes donor-established endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments).

As discussed in Note 2, due to the variance power the 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 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.

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 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 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 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 Foundation; and
- The investment policies of the Foundation.

Endowment net assets are as follows as of and for the years ended June 30:

	Board Designated Quasi- Endowments	Donor Established Endowments		2022 Total	2021 Total
		Accumulated Earnings	Endowment Corpus		
Donor established endowment funds	\$ -	\$ 156,831	\$ 40,318,235	\$ 40,475,066	\$ 23,090,011
Board designated quasi-endowment funds	1,660,662			1,660,662	2,033,548
Endowment Net Assets	\$ 1,660,662	\$ 156,831	\$ 40,318,235	\$ 42,135,728	\$ 25,123,559

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

Note 13 - Continued

Changes to endowment net assets are as follows for the years ended June 30:

	Board Designated Quasi- Endowments	Donor Established Endowments		2022 Total	2021 Total
		Accumulated Earnings	Endowment Corpus		
Endowment net assets, beginning of year	\$ 2,033,548	\$ 8,321,943	\$ 14,768,068	\$ 25,123,559	\$ 19,458,454
Endowment investment return	(238,986)	(5,058,157)		(5,297,143)	5,662,748
Endowment contributions			25,550,167	25,550,167	1,117,045
Appropriation of endowment for expenditure	(133,900)	(3,106,955)		(3,240,855)	(851,920)
Transfers to/from endowment					(262,768)
Endowment Net Assets, End of Year	\$ 1,660,662	\$ 156,831	\$ 40,318,235	\$ 42,135,728	\$ 25,123,559

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 28 donor-established endowment funds, which together had an original gift value of \$24,411,787, a current fair value of \$22,841,904 and a deficiency of \$1,569,883 at June 30, 2022. These deficiencies resulted from unfavorable market fluctuations the occurred during the year. There were no funds with deficiencies at June 30, 2021.

Return Objectives and Risk Parameters - The 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 funds while maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve a long-term rate of growth sufficient to offset normal inflation, administrative fees, and management fees (if any), plus reasonable, regular distributions within prudent risk constraints. Investment risk is measured in terms of the total endowment; investment assets and allocation between asset classes and strategies are managed to not expose the endowment to unacceptable levels of risk. The distribution portion of endowed funds, as determined by the Foundation's spending policy, may be used for grantmaking or community impact investing, subject to the Foundation's impact investing policy.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the 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). Endowment assets are invested in a well-diversified asset mix, which includes equity, fixed income securities, and cash equivalents.

Spending Policy - The Foundation has a policy of appropriating a percentage (typically 4%) of each endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. Due to the COVID-19 crisis in 2021 and 2022, the Board authorized a one-time spending rate increase that ranged from 4% to 20% based on the fund type that reduces over time and is expected to return to 4% in 2023. No appropriations are made until a fund has been established for 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature, and duration of the endowment funds, and the possible effects of inflation.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 14 - Operating Lease

The Foundation entered into a 10-year lease for office space commencing in November 2014. Total rent expense for the years ended June 30, 2022 and 2021, was \$21,879 and \$22,251, respectively, including in-kind rent of \$9,951 and \$9,656, respectively. Total minimum rent payments are approximately \$31,000 over the remaining lease term.

Note 15 - Pension Plan

The Foundation sponsors a defined contribution retirement plan for employees. Employer contributions equal 10% of each eligible employee's compensation and vest immediately. Pension contributions for the years ended June 30, 2022 and 2021, were \$65,878 and \$60,211, respectively.

Note 16 - Liquidity and Availability of Resources

The Foundation manages its cash to meet general expenditures and grants following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets; and
- Maintaining sufficient reserves to provide reasonable assurance that obligations under donor-established endowments and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

General expenditures include management and general expenses, fundraising expenses, and some program expenses.

Liquid financial assets available for use at June 30:

	<u>2022</u>	<u>2021</u>
Cash (unrestricted)	\$ 16,372,761	\$ 6,357,734
Investments (unrestricted)	36,261,029	28,548,986
Receivables to be collected within one year	<u>110,236</u>	<u>560,959</u>
Less financial assets unavailable for general expenditures due to designations-		
Donor-established endowment funds	(40,475,066)	(23,090,011)
Board designated quasi-endowment funds	<u>(1,660,662)</u>	<u>(2,033,548)</u>
Total Financial Assets Available for Expenditures Within One Year	<u>\$ 10,608,298</u>	<u>\$ 10,344,120</u>

Administrative fees provide an ongoing source of income for general operations and programs. Fees are assessed to funds monthly, based on fund balance and/or activity. Administrative fees of \$817,477 and \$655,571 were charged to funds for the years ended June 30, 2022 and 2021.

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)**

Note 16 - Continued

The table above reflects the Foundation’s consolidated financial assets. While most of the Foundation funds are subject to its variance power, the majority of these funds have specific recommendations identified by the donors, which the Foundation intends to honors. In stewarding these assets, the Foundation invests the assets with the objective of meeting donors’ recommendations as well as their grantmaking time horizons.

Note 17 - Prior Period Adjustments

During the June 30, 2022 audit, management determined net assets associated with Fund Agreements granting the Board of Directors with variance power over any restriction or condition should be recorded as nets asset without donor restrictions. Additionally, it was determined the prior year’s conditional scholarships were incorrectly presented. Corrections of both errors resulted in a prior period restatement of the consolidated financial statements for the year ended June 30, 2021. The impacts of those errors are summarized as follows:

	2021		
	As Previously Reported	Restatements	As Restated
Impacted Lines - Statement of Financial Position:			
Grant and scholarships awards payable	\$ 1,387,859	\$ 42,983	\$ 1,430,842
Net assets without donor restrictions - operating	198,821	28,779,193	28,978,014
Net assets with donor restrictions	47,607,074	(28,822,176)	18,784,898
Total net assets	50,140,376	(42,983)	50,097,393
Impacted Lines - Statement of Activities:			
Program expenses	6,782,465	42,983	6,825,448
Total expenses	7,680,914	42,983	7,723,897
Net assets, end of year	50,140,376	(42,983)	50,097,393
Impacted Lines - Statement of Functional Expenses:			
Awards granted	5,466,764	42,983	5,509,747
Total expenses	7,680,914	42,983	7,723,897