

WHATCOM COMMUNITY FOUNDATION

Consolidated Financial Statements

For the Year Ended June 30, 2023

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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 (collectively, the Foundation), which comprise the consolidated statement of financial position as of June 30, 2023, 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 financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and related ASUs, for the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2022, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Responsibilities of Management for the Financial Statements

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

In preparing the 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 financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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.

Clark Nuber PS

Certified Public Accountants
October 11, 2023

WHATCOM COMMUNITY FOUNDATION

**Consolidated Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)**

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 3,179,257	\$ 16,372,761
Restricted cash	65,000	170,000
Accounts receivable	660,712	110,236
Notes receivable	250,000	100,000
Prepaid expenses and other assets		1,500
Investments	57,763,812	36,261,029
Restricted investments	1,780,328	2,201,043
Beneficial interest in charitable lead annuity trust	4,332,528	6,237,333
Right-of-use assets - operating leases	17,385	
Property and equipment, net of depreciation	<u>10,532,133</u>	<u>10,546,243</u>
Total Assets	<u>\$ 78,581,155</u>	<u>\$ 72,000,145</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 714,414	\$ 141,980
Grant and scholarship awards payable	668,667	1,084,350
Guarantee liability	157,365	104,312
Lease liabilities - operating	17,628	
Funds held for others	<u>3,999,245</u>	<u>3,823,030</u>
Total Liabilities	5,557,319	5,153,672
Net Assets:		
Without donor restrictions-		
Operating	56,055,828	47,923,492
Board-designated	<u>1,916,530</u>	<u>2,031,964</u>
Total without donor restrictions	57,972,358	49,955,456
With donor restrictions	<u>15,051,478</u>	<u>16,891,017</u>
Total Net Assets	<u>73,023,836</u>	<u>66,846,473</u>
Total Liabilities and Net Assets	<u>\$ 78,581,155</u>	<u>\$ 72,000,145</u>

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

**Consolidated Statement of Activities
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Operating Revenue and Support:				
Contributions	\$ 6,465,440	\$ 96,200	\$ 6,561,640	\$ 5,180,881
Bequests				23,500,634
In-kind contributions	1,819,361		1,819,361	580,701
Grant income	857,046		857,046	1,635,397
Program and other income	72,561	1,158,530	1,231,091	691,751
Paycheck Protection Program loan forgiveness				126,040
Management fee	43,673		43,673	49,850
Total Operating Revenue and Support	9,258,081	1,254,730	10,512,811	31,765,254
Net Assets Released From Restrictions	3,208,301	(3,208,301)		
Total Revenue and Net Assets Releases	12,466,382	(1,953,571)	10,512,811	31,765,254
Operating Expenses:				
Program	9,352,306		9,352,306	8,730,901
Management and general	1,129,855		1,129,855	913,268
Fundraising	161,015		161,015	133,386
Total Operating Expenses	10,643,176		10,643,176	9,777,555
Nonoperating Gains and Losses:				
Investment return	6,096,206	114,032	6,210,238	(5,350,097)
Loss on sale of land and equipment	(15,713)		(15,713)	(35,679)
Change in value of beneficial interest in trust	113,203		113,203	147,157
Total Nonoperating Gains and Losses	6,193,696	114,032	6,307,728	(5,238,619)
Change in Net Assets	8,016,902	(1,839,539)	6,177,363	16,749,080
Net assets, beginning of year	49,955,456	16,891,017	66,846,473	50,097,393
Net Assets, End of Year	\$ 57,972,358	\$ 15,051,478	\$ 73,023,836	\$ 66,846,473

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

	Program	Management and General	Fundraising	2023 Total	2022 Total
Awards granted	\$ 8,417,535	\$ -	\$ -	\$ 8,417,535	\$ 8,022,047
Salaries, benefits and taxes	507,397	647,551	92,123	1,247,071	964,140
Consultants	288,112	105,934	5,374	399,420	291,312
Professional services	14,370	73,515	2,609	90,494	50,942
Development and communications	19,464		45,415	64,879	38,125
Property taxes and equipment maintenance	18,309	33,272	3,324	54,905	176,956
Depreciation	6,848	8,738	1,243	16,829	19,374
Other	80,271	260,845	10,927	352,043	214,659
	<u>\$ 9,352,306</u>	<u>\$ 1,129,855</u>	<u>\$ 161,015</u>	<u>\$ 10,643,176</u>	<u>\$ 9,777,555</u>

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

Consolidated Statement of Cash Flows For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 6,177,363	\$ 16,749,080
Adjustments to reconcile changes in net assets to net cash provided by operating activities-		
Depreciation	16,829	19,374
Realized and unrealized (gain) loss on investments	(4,918,931)	6,012,549
Change in present value discount of beneficial interest in trust	(113,203)	(147,157)
Contribution of land	(1,806,910)	(550,000)
Change in guarantee liability	53,053	
Loss on sale of land	15,713	35,679
Paycheck Protection Program loan forgiveness		(126,040)
Changes in operating assets and liabilities:		
Accounts receivable	(550,476)	120,723
Grants receivable		330,000
Prepaid expenses and other assets	1,500	(1,634)
Beneficial interest in charitable lead annuity trust	2,018,008	2,018,007
Accounts payable and accrued expenses	572,434	(149,358)
Grant and scholarship awards payable	(415,683)	(346,492)
Operating lease liabilities, net of right-of-use assets	243	
Funds held for others	176,215	(713,908)
Net Cash Provided by Operating Activities	<u>1,226,155</u>	<u>23,250,823</u>
Cash Flows From Investing Activities:		
Repayment of notes receivable	100,000	
Distributions of notes receivable	(250,000)	
Proceeds from the sale of land	1,790,910	957,500
Proceeds from sale of investments	16,122,034	7,693,887
Purchase of investments	(32,285,171)	(21,870,642)
Purchases of property and equipment	(2,432)	(16,541)
Net Cash Used in Investing Activities	<u>(14,524,659)</u>	<u>(13,235,796)</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	<u>(13,298,504)</u>	<u>10,015,027</u>
Cash, cash equivalents, and restricted cash, beginning of year	16,542,761	6,527,734
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 3,244,257</u>	<u>\$ 16,542,761</u>
Cash Consists of the Following at June 30:		
Cash and cash equivalents	\$ 3,179,257	\$ 16,372,761
Restricted cash	65,000	170,000
Total Cash	<u>\$ 3,244,257</u>	<u>\$ 16,542,761</u>
Supplemental Disclosure:		
Donated land received	\$ 1,806,910	\$ 550,000

See accompanying notes.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 1 - Organization

Whatcom Community Foundation (the Community Foundation) is a nonprofit corporation incorporated in the State of 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. Priority investment areas include: affordable and workforce housing, 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 has significant investments in the form of loans and loan guarantees in multiple permanently affordable housing developments, and is in the design and development stage of the Millworks project, a mixed-use, brownfield redevelopment project in a federally qualified Opportunity Zone that will include impact investing opportunities.

The Community Foundation's Strengthening Nonprofits program includes hosting and/or supporting various avenues for peer engagement, learning, coaching, technical assistance, training, and information sharing. The Community Foundation's Whatcom Scholarship Program awarded scholarships to 82 and 115 students across Whatcom County totaling \$211,900 and \$349,200 in 2023 and 2022, respectively. The Community Foundation has a Child Savings Account (CSA) pilot program underway in collaboration with Mercy Housing Northwest and the Washington Student Achievement Council that launched in fall 2022. CSAs are early "scholarship" awards that research shows improve maternal health, child social/emotional development and educational attainment. The pilot is an essential component in laying the foundation for a countywide, universal, opt-out program intended to create a CSA for every child born in Whatcom County at birth.

More than a year after the catastrophic flooding in Whatcom County in November 2021, the Community Foundation continues to support the work of the Whatcom Long-Term Recovery Group (LTRG) as they work alongside flood survivors to stabilize their lives and build resilience. Fiscal years 2023 and 2022 grants to the LTRG totaled \$497,744 and \$475,081, respectively, for recovery efforts.

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 one organization. The sponsored organization is considered a program of the Community Foundation, and contributions received for the sponsored organization 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, 2023 (With Comparative Totals for 2022)

Note 1 - Continued

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 with 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 were 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, gains and losses on disposal of land and equipment, and the change in value of beneficial interest in trust to be nonoperating activities.

Cash and Cash Equivalents - Cash includes cash in a bank. Cash equivalents consist of money market funds totaling \$2,159,266 and \$14,855,174 as of June 30, 2023 and 2022, respectively.

Restricted Cash and Investments - The Foundation guarantees debt for multiple nonprofit organizations, two and three at June 30, 2023 and 2022, respectively, 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, 2023 and 2022, 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.

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

Note 2 - Continued

Investments - Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. Investments in securities traded on organized securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter markets are valued at the last reported bid price. Securities are generally held in custodial investment accounts administered by certain financial institutions. Certificates of deposit held at banks are reported at original cost plus accrued interest. Private equity investments generally do not have readily determinable fair values and are recorded at cost less impairment, plus or minus changes in fair value as a result of observable price changes that occur in orderly transactions for identical or similar investments of the same issuer.

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.

Property and Equipment 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 property and equipment are recorded at cost and donated property and equipment 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.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 2 - Continued

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.

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 \$1,131,720 and \$372,458 at June 30, 2023 and 2022, respectively. Revenue will be recognized in future periods as donor-imposed conditions are met. Conditional grants at June 30, 2023 include \$565,860 for both 2024 and 2025 for providing youth outdoor learning experiences in the Blaine, Mount Baker, and Nooksack Valley school districts and providing funding and resources to the local hunger relief organizations. Conditional grants at June 30, 2022 include \$372,458 for 2023 for development of programming for the Mt. Baker and Blaine School Districts and providing funding and resources to the local hunger relief organizations.

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.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 2 - Continued

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 \$1,806,910 and \$550,000 during the years ended June 30, 2023 and 2022, respectively. All parcels of land were sold during the year they were received. The remaining in-kind contributions include donations of use of space, which is used in the Foundation's operations, and laptops and Chromebooks, which are donated to individuals in the community.

Grants and Scholarship Payable and Expenses - All scholarships and most grants are approved at the staff level, as authorized by the Board of Directors. 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 outstanding at June 30, 2023 or 2022.

Conditional scholarships for which payment is conditional upon student enrollment amounted to \$128,849 and \$134,916 as of June 30, 2023 and 2022, respectively. These scholarships will be recognized as a liability upon student enrollment.

Leases - Effective July 1, 2022, the Foundation adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASC Topic 842) using the modified retrospective approach with comparative accounting periods continuing to be presented under previous lease guidance (ASC Topic 840). The Foundation has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Foundation accounted for its existing leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Additionally, the Foundation did not elect the practical expedient to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the entity's right-of-use (ROU) assets. As a result of the adoption of the new lease accounting guidance, the Foundation recognized on July 1, 2022 (a) a lease liability of \$29,308, and (b) a right-of-use asset of \$29,308.

The Foundation determines if an arrangement contains a lease at inception. Operating leases are included in ROU assets and lease liabilities in the consolidated statement of financial position. ROU assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Foundation's leases do not provide an implicit rate of return; thus, the Foundation uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The ROU asset also includes prepaid lease payments and unamortized initial direct costs and excludes lease incentives. The Foundation has lease agreements with lease and non-lease components which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability is not recognized for leases with an initial term of 12 months or less.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 2 - Continued

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.

For the year ended June 30, 2023, 47% of grant and contribution revenue was from two donors. For the year ended June 30, 2022, 76% of grant and contribution revenue was from one donor through a bequest.

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. The Millworks LLC is wholly owned by the Community Foundation and is a disregarded entity for tax purposes.

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.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 2 - Continued

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, 2022, from which the summarized information was derived.

Note 3 - The Millworks LLC

As described in Note 1, the LLC is wholly owned by the Community 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 an option agreement with the Port of Bellingham (the Port) for the remaining portion of a three-acre parcel on the Bellingham, Washington waterfront where the project is being developed in conjunction with Mercy Housing Northwest. The LLC is the entity that will ultimately own part of the site and any relevant agreements for its development. There was no activity for the LLC for the year ended June 30, 2023 or 2022, as all costs associated with the project were paid for by the Community Foundation. Mercy Housing Northwest began construction on Phase 1, 83 permanently affordable rental units and a 6-classroom early learning and childcare center, in early 2023. Occupancy of the building is expected by April 2024. Planning and design for Phase 2 continue, including the local food campus and other elements. Phase 2 is anticipated to begin construction in 2025 with occupancy before the end of 2027.

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.

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

Note 4 - Continued

Investments are valued as follows:

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

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

There were no changes in the valuation methodologies used by the Foundation for the years ended June 30, 2023 or 2022.

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

	<u>2023</u>	<u>2022</u>
Investments	\$ 57,763,812	\$ 36,261,029
Restricted investments	<u>1,780,328</u>	<u>2,201,043</u>
	<u>\$ 59,544,140</u>	<u>\$ 38,462,072</u>

Investment return consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 1,291,307	\$ 662,452
Realized and unrealized gain (loss) on investments	<u>4,918,931</u>	<u>(6,012,549)</u>
Total Investment Return	<u>\$ 6,210,238</u>	<u>\$ (5,350,097)</u>

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

	<u>2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at Fair Value:				
Mutual funds	\$ 56,048,518	\$ -	\$ -	\$ 56,048,518
Money market funds	<u>1,715,295</u>			<u>1,715,295</u>
Total Investments at Fair Value	<u>\$ 57,763,813</u>	<u>\$ -</u>	<u>\$ -</u>	57,763,813
Investments at cost-				
Certificates of deposit				1,640,327
Private equity				<u>140,000</u>
Total Investments				<u>\$ 59,544,140</u>

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 4 - Continued

	2022			Total
	Level 1	Level 2	Level 3	
Investments at Fair Value:				
Mutual funds	\$ 36,466,396	\$ -	\$ -	\$ 36,466,396
Money market funds	1,132,993			1,132,993
Total Investments at Fair Value	<u>\$ 37,599,389</u>	<u>\$ -</u>	<u>\$ -</u>	37,599,389
Investments at cost-				
Certificates of deposit				222,691
Private equity				639,992
Total Investments				<u>\$ 38,462,072</u>

Note 5 - Notes Receivable

The Foundation held one note receivable at June 30, 2022, which was recorded at cost. The note bore interest at a rate of 5.5% and was to mature August 1, 2025. The note was repaid in 2023.

During the year ended June 30, 2023, the Foundation entered into two notes receivable, one for \$50,000 bearing interest at 2%, due in monthly payments of \$638 through June 1, 2030, and one line of credit for up to \$1,000,000 with 0% interest, due August 31, 2023 with an outstanding balance of \$200,000 at June 30, 2023.

No allowance for the notes are deemed necessary at June 30, 2023 or 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 \$4,332,528 and \$6,237,333 at June 30, 2023 and 2022, 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, 2023 (With Comparative Totals for 2022)

Note 7 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 10,500,000	\$ 10,500,000
Furniture	13,821	13,821
Office equipment	33,067	46,892
Leasehold improvements	<u>112,661</u>	<u>112,661</u>
	10,659,549	10,673,374
Less accumulated depreciation	<u>(127,416)</u>	<u>(127,131)</u>
Property and Equipment, Net	<u><u>\$ 10,532,133</u></u>	<u><u>\$ 10,546,243</u></u>

Note 8 - Loan Guarantees

At June 30, 2023 and 2022, the Foundation has pledged funds totaling \$65,000 and \$170,000, respectively, at banks to guarantee one loan as of June 30, 2023 and two loans as of June 30, 2022 to 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, 2023 and 2022, the Foundation has pledged investments totaling \$1,640,327 and \$1,561,051, respectively, 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. The investments are recorded as restricted investments on the consolidated statement of financial position at June 30, 2023 and 2022. The funds are pledged through January 2026. The fair value of the guarantees at June 30, 2023 and 2022, are valued at \$157,365 and \$104,312, respectively, and are recorded as a liability on the consolidated statement of financial position at June 30, 2023 and 2022.

The Foundation evaluates guarantees quarterly for impairment, no adjustment was required at June 30, 2023 or 2022.

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

Note 9 - Grants and Scholarship Awards Payable

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

	<u>2023</u>	<u>2022</u>
Amounts due in-		
Less than one year	\$ 580,167	\$ 868,850
Two to five years	66,000	185,500
Thereafter	<u>22,500</u>	<u>30,000</u>
Total Grants and Scholarship Awards Payable	<u>\$ 668,667</u>	<u>\$ 1,084,350</u>

The discount for present value was immaterial at June 30, 2023 and 2022.

WHATCOM COMMUNITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

Note 10 - Funds Held for Others

Funds held for others (agency funds) as of June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Mount Baker Theatre Endowment Fund	\$ 1,658,462	\$ 1,537,823
Pioneer Meadows Montessori School Endowment	953,653	888,740
Whatcom County Library Foundation Endowment Fund	313,059	208,971
Bellingham Public Schools Foundation Agency Endowment	223,994	179,963
Nooksack Salmon Enhancement Endowment	162,998	152,270
Ferndale Band Boosters Endowment Fund	155,354	145,103
Lydia Place Endowment Fund	83,529	78,031
Bellingham Symphony Endowment Fund	45,881	42,860
Master Gardener Foundation of Whatcom County Endowment	45,426	42,137
Explorations Academy Endowment	42,566	18,956
Bellingham Chamber Chorale Endowment for Choral Arts	31,371	29,168
Bellingham Festival of Music Endowment Fund	27,155	25,325
Law Advocates Agency Endowment Fund	26,153	24,354
Bruce Wolf Endowment Fund	23,645	22,082
Whatcom Literacy Council Endowment	20,928	16,596
Brigid Collins Endowment Fund	16,519	14,350
Northwest Youth Services Endowment Fund	15,895	14,849
Agape Home for Women and Children Endowment Fund	15,176	14,177
Lighthouse Mission Endowment Fund	14,642	13,678
Compass Health Endowment	13,773	12,844
Eric Braun Memorial Endowment for Cedar Tree Montessori	12,869	12,013
Bellingham Parks and Recreation Endowment	9,925	9,272
Whatcom Land Trust Endowment	7,897	7,377
Ferndale Double Dome Fund	6,075	5,474
Bellingham Festival of Music Education and Outreach Endowment	2,327	2,157
Bellingham Public Library Endowment		262,806
Whatcom County Library Foundation Endowment Fund for-		
Blaine Library	2,128	1,905
Deming Library	3,385	3,022
Everson Library	1,535	1,375
Ferndale Library	39,613	20,742
Island Library	2,690	2,043
Lynden Library	2,391	2,141
North Fork Library	1,556	1,394
Point Roberts Library	12,458	5,810
South Whatcom Library	2,083	1,847
Sumas Library	2,134	1,375
	<u><u>\$ 3,999,245</u></u>	<u><u>\$ 3,823,030</u></u>

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 11 - Net Assets Without Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Operating net assets-		
Administrative	\$ 729,725	\$ 1,967,786
Designated	441,114	344,018
Donor advised	3,260,984	2,877,778
Field of interest	851,430	683,682
Mission investments	501,330	482,906
Scholarship	341,152	316,737
WCF grantmaking	483,634	317,888
Sustainable Whatcom funds		339,978
Project	150,186	117,653
Donor established endowment funds	<u>49,296,273</u>	<u>40,475,066</u>
	56,055,828	47,923,492
Board designated net assets-		
Quasi-endowments	1,519,951	1,660,662
Operating reserve	<u>396,579</u>	<u>371,302</u>
	<u>1,916,530</u>	<u>2,031,964</u>
Total Net Assets Without Donor Restrictions	<u><u>\$ 57,972,358</u></u>	<u><u>\$ 49,955,456</u></u>

Note 12 - Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Subject to the passage of time-		
Beneficial interest in charitable lead annuity trust	\$ 4,332,528	\$ 6,237,333
Subject to expenditure for specific purpose-		
Hovander Homestead Park Beautification Fund	9,945	9,778
Programs and fiscal sponsorships	127,442	107,803
Lakeland Foundation	<u>10,581,563</u>	<u>10,536,103</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 15,051,478</u></u>	<u><u>\$ 16,891,017</u></u>

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 13 - Endowments

The Foundation's endowment consists of 127 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	<u>Donor-Established Endowments</u>		2023 Total	2022 Total
		Accumulated Earnings	Endowment Corpus		
Donor-established endowment funds	\$ -	\$ 4,894,798	\$ 44,401,475	\$ 49,296,273	\$ 40,475,066
Board designated quasi- endowment funds	1,519,951			1,519,951	1,660,662
Endowment Net Assets	\$ 1,519,951	\$ 4,894,798	\$ 44,401,475	\$ 50,816,224	\$ 42,135,728

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 13 - Continued

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

	Board Designated Quasi Endowments	<u>Donor Established Endowments</u>		2023 Total	2022 Total
		Accumulated Earnings	Endowment Corpus		
Endowment net assets, beginning of year	\$ 1,660,662	\$ 156,831	\$ 40,318,235	\$ 42,135,728	\$ 25,123,559
Endowment investment return	210,973	5,679,586		5,890,559	(5,297,143)
Endowment contributions			4,083,240	4,083,240	25,550,167
Appropriation of endowment for for expenditure	<u>(351,684)</u>	<u>(941,619)</u>		<u>(1,293,303)</u>	<u>(3,240,855)</u>
Endowment Net Assets, End of Year	<u>\$ 1,519,951</u>	<u>\$ 4,894,798</u>	<u>\$ 44,401,475</u>	<u>\$ 50,816,224</u>	<u>\$ 42,135,728</u>

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor-established endowment funds may fall below the total amount of the gifts made to the endowment by the donor. Deficiencies of this nature exist in 12 donor-established endowment funds, which together had an original gift value of \$23,285,216, a current fair value of \$23,262,219, and a deficiency of \$22,997 at June 30, 2023. Deficiencies of this nature existed in 28 donor-established endowment funds with deficiencies, 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 that occurred during the years ended June 30, 2023 and 2022.

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 diversified asset mix, which includes equity, fixed income securities, and cash equivalents.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 13 - Continued

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 2022 and prior years, the board authorized a one-time spending rate increase that ranged from 4% to 20% based on the fund type. The board approved the spending rate to return to 4% for 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.

Note 14 - Leases

The Foundation entered into a 10-year lease for office space commencing in November 2014. Total rent expense for the years ended June 30, 2023 and 2022, was \$34,795 and \$33,893, respectively, including in-kind rent of \$10,251 and \$9,951, respectively.

The components of lease expense for the year ended June 30, 2023 are as follows:

Operating lease costs	\$ 11,923
Short-term and other lease costs	<u>22,872</u>
Total Lease Expenses	<u>\$ 34,795</u>

Supplemental cash flow information related to leases as of June 30, 2023 is as follows:

Weighted-average remaining lease term - operating lease	1.4 years
Weighted-average discount rate - operating lease	2.88%
Cash paid for amounts included in measurement of lease liabilities	\$ 12,301

Future minimum lease payments required under noncancelable leases are as follows:

For the Year Ending June 30,

2024	\$ 13,738
2025	<u>4,734</u>
Less present value discount	<u>(844)</u>
Total Lease Liabilities	<u>\$ 17,628</u>

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

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, 2023 and 2022, were \$66,888 and \$65,878, 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>2023</u>	<u>2022</u>
Cash (unrestricted)	\$ 3,179,257	\$ 16,372,761
Investments (unrestricted)	57,763,812	36,261,029
Receivables to be collected within one year	<u>660,712</u>	<u>110,236</u>
Less financial assets unavailable for general expenditures due to designations-		
Donor-established endowment funds	(49,296,273)	(40,475,066)
Board designated quasi-endowment funds	<u>(1,519,951)</u>	<u>(1,660,662)</u>
Total Financial Assets Available for Expenditures Within One Year	<u><u>\$ 10,787,557</u></u>	<u><u>\$ 10,608,298</u></u>

Administrative fees provide an ongoing source of cash flow for general operations and programs. Fees are assessed to funds monthly, based on fund balance and/or activity. Administrative fees of \$977,117 and \$817,477 were charged to funds for the years ended June 30, 2023 and 2022.

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 honor. In stewarding these assets, the Foundation invests the assets with the objective of meeting donors' recommendations as well as their grantmaking time horizons.

WHATCOM COMMUNITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 17 - Subsequent Events

Management of the Foundation has evaluated subsequent events through October 11, 2023, the date on which these consolidated financial statements were available to be issued.

On July 5, 2023, the Foundation entered into a loan receivable agreement for the lending of up to \$1,000,000. The loan accrues interest at 4% per year and will mature on July 10, 2025.