



Consolidated Financial Statements
June 30, 2019 and 2018

Innovia Foundation

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses.....	6
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9
Supplementary Information	
Independent Auditor's Report on Supplementary Information	23
Statement of Activities by Fund	24



Independent Auditor's Report

The Board of Directors
Innovia Foundation
Spokane, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Innovia Foundation, which comprise the consolidated statement of financial position as of June 30, 2019 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Innovia Foundation as of June 30, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The consolidated financial statements of Innovia Foundation as of and for the year ended June 30, 2018, were audited by other auditors, whose report dated October 23, 2018, expressed an unmodified opinion on those statements. As discussed in Note 10 to the consolidated financial statements, certain classification errors of split interest agreements and the cash surrender value of life insurance as of June 30, 2018 were discovered by management of Innovia Foundation during the current year. Accordingly, the 2018 financial statements have been restated to correct these errors. The other auditors reported on the 2018 financial statements before the restatement.

As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 10 that were applied to restate the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of the Innovia Foundation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
November 5, 2019

Innovia Foundation
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	Restated 2018
Assets		
Cash and cash equivalents	\$ 352,141	\$ 382,688
Accounts receivable	71,052	410,235
Prepaid expenses and other assets	16,612	32,943
Investments	126,450,329	120,264,031
Assets held under split interest agreements	5,035,636	4,962,580
Beneficial interests in charitable trusts held by others	1,580,067	1,538,697
Cash surrender value of life insurance	2,566,774	2,511,240
Property and equipment, net	1,769,898	1,738,181
Total assets	\$ 137,842,509	\$ 131,840,595
Liabilities and Net Assets		
Accounts payable	\$ 179,913	\$ 208,692
Accrued expenses and other liabilities	350,918	346,291
Grants payable	545,195	549,310
Liabilities under split-interest agreements	2,682,621	2,710,244
Funds held for others	16,726,033	14,693,528
Total liabilities	20,484,680	18,508,065
Net Assets		
Without donor restrictions		
Discretionary	60,068,787	57,740,752
Designated	26,932,855	25,161,198
Area of interest	17,003,655	17,386,847
Scholarship	5,342,882	5,053,134
Administrative	2,191,543	2,060,302
Equipment	117,322	81,523
	111,657,044	107,483,756
With donor restrictions		
Future interests	3,933,082	3,791,033
Supporting organizations	1,767,703	2,057,741
	5,700,785	5,848,774
Total net assets	117,357,829	113,332,530
Total liabilities and net assets	\$ 137,842,509	\$ 131,840,595

Innovia Foundation
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	\$ 9,807,155	\$ -	\$ 9,807,155
Net investment return	5,111,015	7,159	5,118,174
Services fees	1,375,560	-	1,375,560
Other revenue	31,386	108,811	140,197
In-kind contributions	200	-	200
Change in value of split-interest agreements held by Innovia Foundation	-	100,679	100,679
Distributions from and change in value of beneficial interests in assets held by others	-	41,370	41,370
Net assets released from restrictions	406,008	(406,008)	-
Less amounts allocable to agency funds	(2,647,880)	-	(2,647,880)
Total revenue, support, and gains	<u>14,083,444</u>	<u>(147,989)</u>	<u>13,935,455</u>
Expenses			
Program services	<u>8,985,507</u>	<u>-</u>	<u>8,985,507</u>
Supporting services			
Management and general	786,990	-	786,990
Fundraising and development	<u>137,659</u>	<u>-</u>	<u>137,659</u>
Total supporting services	<u>924,649</u>	<u>-</u>	<u>924,649</u>
Total expenses	<u>9,910,156</u>	<u>-</u>	<u>9,910,156</u>
Change in Net Assets	4,173,288	(147,989)	4,025,299
Net Assets, Beginning of Year	<u>107,483,756</u>	<u>5,848,774</u>	<u>113,332,530</u>
Net Assets, End of Year	<u><u>\$ 111,657,044</u></u>	<u><u>\$ 5,700,785</u></u>	<u><u>\$ 117,357,829</u></u>

Innovia Foundation
Consolidated Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	\$ 16,861,789	\$ -	\$ 16,861,789
Net investment return	6,458,470	229,838	6,688,308
Foundation assessments	1,223,900	-	1,223,900
Other revenue	50,342	122,320	172,662
In-kind contributions	75,440	-	75,440
Change in value of split-interest agreements held by Innovia Foundation	-	70,076	70,076
Distributions from and change in value of beneficial interests in assets held by others	-	41,269	41,269
Net assets released from restrictions	3,024,911	(3,024,911)	-
Less amounts allocable to agency funds	(2,212,150)	-	(2,212,150)
Total revenue, support, and gains	25,482,702	(2,561,408)	22,921,294
Expenses			
Program services	9,098,332	-	9,098,332
Supporting services			
Management and general	822,658	-	822,658
Fundraising and development	136,258	-	136,258
Total supporting services	958,916	-	958,916
Total expenses	10,057,248	-	10,057,248
Change in Net Assets	15,425,454	(2,561,408)	12,864,046
Net Assets, Beginning of Year	92,058,302	8,410,182	100,468,484
Net Assets, End of Year	\$ 107,483,756	\$ 5,848,774	\$ 113,332,530

Innovia Foundation
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services						Management and General	Fundraising and Development	Total
	Grant Competitive	Grant Non-Competitive	Philanthropic	Special Projects	Fund Management	Supporting Organizations			
Grants	\$ 1,740,376	\$ 4,690,310	\$ -	\$ -	\$ -	\$ 85,000	\$ 6,515,686	\$ -	\$ 6,515,686
Program expenditures	-	208,352	-	-	-	-	208,352	-	208,352
Salaries	174,451	70,740	162,787	203,735	35,643	-	647,356	289,942	1,024,767
Payroll taxes	13,256	5,375	12,370	15,481	2,708	-	49,190	22,033	77,870
Benefits	30,619	12,416	28,572	35,759	4,087	-	111,453	50,892	177,697
Consulting	-	-	-	-	-	-	-	81,599	81,599
Legal and accounting	-	-	-	-	-	4,022	4,022	114,531	118,553
Office supplies and expenses	6,987	2,833	6,520	8,159	1,428	-	25,927	12,272	41,702
Rent	11,922	4,834	11,125	13,923	2,436	-	44,240	19,815	70,033
Insurance - general	-	-	-	-	-	-	-	8,664	8,664
Insurance - life	-	-	432,134	-	-	-	432,134	-	432,134
Parking and travel	5,274	2,139	4,922	6,160	1,078	-	19,573	8,765	30,983
Repairs and maintenance	-	-	-	-	-	-	-	83,120	83,120
Donor relations	4,485	1,819	4,185	5,238	916	-	16,643	7,454	26,346
Public Information	17,871	7,247	16,676	20,871	3,651	-	66,316	29,701	104,977
Professional development	5,269	2,137	4,917	6,154	1,077	-	19,554	8,757	30,953
Dues and subscriptions	2,861	1,160	2,670	3,342	585	-	10,618	4,755	16,808
Meetings	1,554	630	1,450	1,814	317	-	5,765	2,582	9,126
Bank fees	-	-	-	-	-	-	-	8,912	8,912
Assessments	-	-	-	-	1,350,070	21,047	1,371,117	-	1,371,117
Miscellaneous	-	-	6,350	-	-	-	6,350	9,370	15,720
Other expenses	-	-	-	-	-	3,857	3,857	-	3,857
Depreciation expense	-	-	-	-	-	4,082	4,082	23,826	27,908
Interest expense	-	-	-	-	38,647	-	38,647	-	38,647
	2,014,925	5,009,992	694,678	320,636	1,442,643	118,008	9,600,882	786,990	10,525,531
Less amounts allocated to agency funds	-	-	-	-	615,375	-	615,375	-	615,375
Total expenditures by function	\$ 2,014,925	\$ 5,009,992	\$ 694,678	\$ 320,636	\$ 827,268	\$ 118,008	\$ 8,985,507	\$ 786,990	\$ 9,910,156

Innovia Foundation
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services						Management and General	Fundraising and Development	Total
	Grant Competitive	Grant Non-Competitive	Philanthropic	Special Projects	Fund Management	Supporting Organizations			
Grants	\$ 1,398,976	\$ 5,388,017	\$ -	\$ -	\$ -	\$ 90,000	\$ -	\$ -	\$ 6,876,993
Program expenditures	-	289,785	-	-	-	-	-	-	289,785
Salaries	124,154	44,056	81,798	125,709	34,751	-	258,732	72,986	742,186
Payroll taxes	10,023	3,557	6,603	10,148	2,805	-	20,888	5,892	59,916
Benefits	23,064	8,184	15,196	23,353	2,046	-	48,066	13,559	133,468
Consulting	-	-	-	-	-	-	37,000	-	37,000
Legal and accounting	-	-	-	-	-	2,145	153,939	-	156,084
Office supplies and expenses	4,926	1,748	3,246	4,988	1,379	-	11,016	2,895	30,198
Rent	10,520	3,733	6,931	10,652	2,945	-	21,924	6,184	62,889
Insurance - general	-	-	-	-	-	-	7,997	-	7,997
Insurance - life	-	-	247,566	-	-	-	-	-	247,566
Parking and travel	3,228	1,146	2,127	3,269	904	-	6,726	1,898	19,298
Repairs and maintenance	-	-	-	-	-	-	80,027	-	80,027
Donor relations	497	176	327	503	139	-	1,037	292	2,971
Public Information	43,015	15,264	28,340	43,554	12,040	-	89,643	25,287	257,143
Professional development	5,153	1,828	3,395	5,217	1,442	-	10,739	3,029	30,803
Dues and subscriptions	2,644	938	1,742	2,677	740	-	5,509	1,554	15,804
Meetings	4,562	1,619	3,006	4,620	1,277	-	9,508	2,682	27,274
Bank fees	-	-	-	-	-	-	12,228	-	12,228
Assessments	-	-	-	-	1,230,098	47,722	-	-	1,277,820
Miscellaneous	-	-	10,510	-	-	-	37,273	-	47,783
Other expenses	-	-	-	-	-	3,622	-	-	3,622
Depreciation expense	-	-	-	-	-	27,934	10,406	-	38,340
Interest expense	-	-	-	-	4,410	-	-	-	4,410
	1,630,762	5,760,051	410,787	234,690	1,294,976	171,423	822,658	136,258	10,461,605
Less amounts allocated to agency funds	-	-	-	-	404,357	-	-	-	404,357
Total expenditures by function	\$ 1,630,762	\$ 5,760,051	\$ 410,787	\$ 234,690	\$ 890,619	\$ 171,423	\$ 822,658	\$ 136,258	\$ 10,057,248

Innovia Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 4,025,299	\$ 12,864,046
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation	27,908	38,340
Realized and unrealized gain on investments	(5,019,471)	(4,084,594)
Gain on sale of real estate, TAD	-	(214,763)
Change in value of split-interest agreements held by Innovia	(100,679)	(70,076)
Change in beneficial interests in assets held by others	(41,370)	(41,269)
Cash surrender value of life insurance	(55,534)	(52,583)
Changes in assets and liabilities		
Accounts receivable	339,183	(328,840)
Prepaid expenses and other assets	16,331	(32,943)
Accounts payable	(28,779)	60,745
Accrued expenses and other liabilities	4,627	99,677
Grants payable	(4,115)	101,601
Funds held for others	2,032,505	1,807,793
Net Cash from Operating Activities	<u>1,195,905</u>	<u>10,147,134</u>
Cash Flows from Investing Activities		
Purchases of equipment and equipment	(59,625)	(74,190)
Proceeds from sale of real estate	-	3,202,000
Proceeds from sale of investments	1,418,050	2,822,007
Purchases of investments	<u>(2,584,877)</u>	<u>(15,991,019)</u>
Net Cash used for Investing Activities	<u>(1,226,452)</u>	<u>(10,041,202)</u>
Net Change in Cash and Cash Equivalents	(30,547)	105,932
Cash and Cash Equivalents, Beginning of Year	<u>382,688</u>	<u>276,756</u>
Cash and Cash Equivalents, End of Year	<u>\$ 352,141</u>	<u>\$ 382,688</u>

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Innovia Foundation (the Foundation) incorporated in 1974 under the laws of the State of Washington as a non-profit corporation. As the community foundation for Eastern Washington and North Idaho, the Foundation partners with people who want to make the world better by connecting donor generosity to our region's most pressing causes and collaborating with community partners to drive community transformation. The Foundation's mission is to ignite generosity that transforms lives and communities. The vision is to create vibrant and sustainable communities where every person has the opportunity to thrive. The Foundation's support comes primarily from individual donor contributions and grants.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the accounts of The Henry Treede Supporting Organization/Inland Northwest Community Foundation, The TAD Supporting Organization/Inland Northwest Community Foundation, and The BGC Supporting Organization/Inland Northwest Community Foundation. The supporting organizations make grants to outside organizations. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as "the Foundation."

Fund Types

The Foundation has various funds, organized over a variety of fund types and are classified per management based upon the characteristics of the fund. While the fund attributes may have one or more of the following: specified area of interest, annual spending limitation, donor restrictions, or may be associated with a donor who recommends grant distributions, all are subject to a legal variance power. Under this power, the Foundation, in its sole discretion, has the right to withhold, withdraw, or demand the immediate return of any funds if, in the Foundation's reasonable judgment, the provider is not in compliance with the reporting obligations or cannot use the funds for the intended purpose. The fund types are as follows:

Discretionary – The amounts of the principal balance of this fund represent contributions made to the Foundation without any restriction and may be used for any purpose in accordance with the Articles of Incorporation and By-Laws. In addition, this fund includes donor-advised funds, whereby the donor may recommend specific grants for consideration. The policy of the Foundation is to make grants for charitable purposes based upon a reasonable percentage of the fund's fair market values, and also from contributions made specifically for current distribution (pass-through funds).

Designated – Funds designated by the donors for support of specific charitable organizations. A donor-advised fund allows donors to recommend grant making to any charitable organization, while a designated fund identifies a single organization that is supported through the donor's lifetime and beyond through the application of the Foundation's spending policy, which determines the amount of the annual grant. If the beneficiary organization ceases to exist, loses its tax-exempt status or changes its mission, the Foundation's variance power allows the monies to be re-directed to support an organization with a similar mission.

Area of Interest – Funds designated by donors who want to focus grants toward a specific field of interest or specific geographic area but who do not want to take an active role in grant making. This type of fund allows the donor to identify and support a charitable purpose such as strong and connected neighborhoods, or a category of interest such as arts or a geographic area.

Scholarship – Funds designated by donors who may specify that grants be used for scholarship purposes.

Administrative – To assist the Foundation in its development, certain organizations and individuals have donated funds to defray administrative costs and an administrative endowment fund has been created. The principal of the fund has been invested and the income there from will be used for administrative purposes.

Equipment – Funds reflects the amount of the office equipment and leasehold improvements owned by the Foundation and these are net of depreciation and contracts payable on equipment.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for various services. Allowance for uncollectable accounts receivable is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019 and 2018, no allowance was considered necessary.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying value of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019 and 2018.

Assets Held and Liabilities Under Split-Interest Agreements

Charitable Trusts

The Foundation acts as trustee for various revocable and irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace the Foundation as the beneficiary of the trust, assets are recorded and placed in trust at fair value, with an equal and offsetting liability until such time that distributions are received from the trust in accordance with its terms. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year.

Beneficial Interests in Charitable Trusts Held by Others

The Foundation has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. The Foundation has neither possession nor control over the assets of the trusts. At the date the Foundation receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statements of activities and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Funds Held for Others

In accordance with U.S. GAAP, when a not-for-profit organization, such as a community 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 community 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 agency funds, are included in the Foundation's assets with an offsetting liability on the consolidated statements 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.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statements of activities as net assets released from restrictions.

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

Revenue and Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Service fees are recognized when earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as salaries, benefits, taxes, professional services, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Foundation and supporting organizations are organized as Washington State nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction, and have been determined not to be private foundations. Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation determined that each entity is not subject to unrelated business tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that each entity has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Foundation to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Foundation's mission. Investments are made by diversified investment managers whose performance is monitored by the Foundation and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Foundation and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Change in Accounting Principle

As of July 1, 2018, the Foundation adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Foundation's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Foundation's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses. The Foundation has adopted this standard as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting.

Subsequent Events

We have evaluated subsequent events through November 5, 2019, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

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

Cash and cash equivalents	\$ 352,141
Accounts receivable	52,575
Investments	<u>15,596,928</u>
	<u><u>\$ 16,001,644</u></u>

The Foundation's endowment funds are subject to an annual spending rate of 4 percent. Although the Foundation does not intend to spend from the endowment funds (other than amounts appropriated for annual grantmaking and fee assessments as part of the Board's annual approval and appropriation), these amounts could be made available if necessary.

As part of a liquidity management plan, the Foundation invests cash in short-term investments, CD's and money market funds. Occasionally, the Board designates a portion of any operating surplus to its endowed operating reserve which was \$220,661 as of June 30, 2019 and is included in Administrative fund net assets on the statement of financial position.

Note 3 - Fair Value Measurements

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of investment assets are classified within Level 1 because they comprise open-end mutual funds and equity securities with readily determinable fair values based on daily redemption values. The Foundation invests in public partnerships and pooled investment funds. Those assets and corporate and government obligations (fixed income) are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2. The fair values of beneficial interests in charitable trusts are determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are considered to be Level 3 measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost, at June 30, 2019:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and money market funds (at cost)	\$ 10,706,924	\$ -	\$ -	\$ -
Equity mutual funds	107,240,423	107,240,423		
Fixed income	1,997,821	-	1,997,821	-
Public partnerships	1,492,772	-	1,492,772	-
Pooled investments funds	5,012,389	-	5,012,389	-
	<u>\$ 126,450,329</u>	<u>\$ 107,240,423</u>	<u>\$ 8,502,982</u>	<u>\$ -</u>
Assets held under split-interest agreements				
Cash and money market funds (at cost)	\$ 24,589	\$ -	\$ -	\$ -
Equity mutual funds	5,011,047	5,011,047	-	-
	<u>\$ 5,035,636</u>	<u>\$ 5,011,047</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in Charitable trusts held by others	<u>\$ 1,580,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,580,067</u>
Liabilities				
Funds held for others	<u>\$ 16,726,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,726,033</u>

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost, at June 30, 2018:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investment portfolio				
Cash and money market funds (at cost)	\$ 9,889,357	\$ -	\$ -	\$ -
Equity mutual funds	101,461,624	101,461,624		
Fixed income	2,559,143	-	2,559,143	-
Public partnerships	1,500,000	-	1,500,000	-
Pooled investments funds	4,853,907	-	4,853,907	-
	<u>\$ 120,264,031</u>	<u>\$ 101,461,624</u>	<u>\$ 8,913,050</u>	<u>\$ -</u>
Assets held under split-interest agreements				
Cash and money market funds (at cost)	\$ 28,696	\$ -	\$ -	\$ -
Equity mutual funds	4,933,884	4,933,884	-	-
	<u>\$ 4,962,580</u>	<u>\$ 4,933,884</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in Charitable trusts held by others	<u>\$ 1,538,697</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,538,697</u>
Liabilities				
Funds held for others	<u>\$ 14,693,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,693,528</u>

The following is a reconciliation of the beginning and ending balance of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2019:

	Interest in Charitable Trusts	Funds Held for Others
Balance at June 30, 2018	\$ 1,538,697	\$ 14,693,528
Purchases/contributions of investments	-	1,912,316
Investment return, net	41,370	735,564
Distributions	-	(615,375)
Balance at June 30, 2019	<u>\$ 1,580,067</u>	<u>\$ 16,726,033</u>

The following is a reconciliation of the beginning and ending balance of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	Interest in Charitable Trusts	Funds Held for Others
Balance at June 30, 2017	\$ 1,497,429	\$ 12,885,735
Purchases/contributions of investments	-	1,562,990
Investment return, net	41,268	649,160
Distributions	-	(404,357)
Balance at June 30, 2018	<u>\$ 1,538,697</u>	<u>\$ 14,693,528</u>

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2019 and 2018:

	2019	2018
Land	\$ 1,508,001	\$ 1,508,001
Buildings and improvements	159,203	159,203
Furniture and fixtures	210,394	188,423
	<u>1,877,598</u>	<u>1,855,627</u>
Less accumulated depreciation	<u>107,700</u>	<u>117,446</u>
	<u>\$ 1,769,898</u>	<u>\$ 1,738,181</u>

Note 5 - Leases

Office and storage space is leased under various operating leases expiring at various dates through 2023.

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2020	\$ 69,768
2021	72,228
2022	74,676
2023	<u>77,124</u>
Total minimum lease payments	<u>\$ 293,796</u>

Rent expense for the years ended June 30, 2019 and 2018 totaled \$70,033 and \$62,889, respectively.

Note 6 - Endowment

The Foundation's endowments (the Endowment) consist of funds established for a variety of purposes. Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. However, because of the Foundation's variance power as described in Note 1, all endowments are classified as net assets without donor restrictions.

The Board of Directors has interpreted the Washington Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted 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
- The investment policies of the Foundation

As of June 30, 2019 and 2018, endowment net asset composition by type of fund is as follows:

	2019	2018
Discretionary	\$ 60,068,787	\$ 57,740,752
Designated	26,932,855	25,161,198
Area of interest	17,003,655	17,386,847
Scholarship	5,342,882	5,053,134
	<u>\$ 109,348,179</u>	<u>\$ 105,341,931</u>

Investment and Spending Policies

Investment and spending policies for the Endowment were adopted that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets to provide the necessary capital to fund the spending policy and to cover the costs of managing the Endowment investments. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

An endowment spending-rate formula is used to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the investment committee, is applied to the average fair value of the Endowment investments for the prior 13 quarters to determine the spending amount for the upcoming year. During June 30, 2019 and 2018, the spending rate maximum was 4 percent. In establishing this policy, the investment committee considered the long-term expected return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in Endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Endowment net assets, beginning of year	\$ 105,341,931	\$ 89,967,689
Investment return, net	4,128,815	5,137,099
Contributions	7,843,286	14,984,774
Reclassification from non-endowment funds	288,000	2,853,488
Service fees	(1,375,560)	(1,218,483)
Amounts appropriated for grant expenditure	(6,878,293)	(6,382,636)
Endowment net assets, end of year	<u>\$ 109,348,179</u>	<u>\$ 105,341,931</u>

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to Expenditure for Specified Purpose		
Supporting organizations	\$ 1,767,703	\$ 2,057,741
Subject to the passage of time		
Beneficial interests in charitable trusts held by others	1,580,067	1,538,697
Assets held under split-interest agreements	<u>2,353,015</u>	<u>2,252,336</u>
	<u>\$ 5,700,785</u>	<u>\$ 5,848,774</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows during the year ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions		
Supporting organizations	<u>\$ 406,008</u>	<u>\$ 3,024,911</u>

Note 8 - Employee Benefit Plans

Defined Contribution Plan

The Foundation sponsors a tax-deferred annuity plan (the Plan) qualified under IRC Section 403(b) covering substantially all full-time employees. The plan provides that employees who have attained the age of 21 may voluntarily contribute a portion of earnings to the Plan, up to the maximum contribution allowed by the IRS. Contributions are determined by the Board of Directors and are calculated as a percentage of salaries. As of June 30, 2019 and 2018, the Foundation retirement expense totaled \$91,352 and \$41,298.

Deferred Compensation Agreement

In 2009, the Foundation entered into a non-qualified deferred compensation plan with an employee. Under the terms of the agreement, the employee was allowed to defer a portion of their annual salary for future payout, with interest, on a schedule specified in the agreement. The Foundation has made payments under this plan to the former employee amounting to \$46,516 and \$46,619 as of June 30, 2019 and 2018, respectively. EB notes that this agreement ended June 30, 2017, and will be paid out over 5 years.

In 2017, the Foundation entered into a non-qualified deferred compensation plan with an employee. This agreement allows the employee to defer a portion of their annual salary into a separate retirement account up to the annual elective deferral limit. This account is owned by the employee and is not a liability of the Foundation.

Note 9 - Related Party Transactions

During the years ended June 30, 2019 and 2018, members of the Foundation's Board of Directors contributed a total of \$496,030 and \$236,533, respectively.

Note 10 - Restatement

During 2019, an error was discovered by management with respect to the presentation of investments, future interests in trusts, and cash surrender value of life insurance.

The Foundation restated its previously issued financial statements to appropriately reflect the June 30, 2018 investments, split interest agreements, beneficial interest in charitable trusts held by others, cash surrender value of life insurance, and liabilities under split interest agreements. The restatement has no effect on net assets.

The following is a summary of the effects of the restatement in the Foundation's June 30, 2018 Statement of Financial Position:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of June 30, 2018			
Investments	\$ 122,775,271	\$ (2,511,240)	\$ 120,264,031
Deferred gifts receivable - future interests	3,791,033	(3,791,033)	-
Assets held under split interest agreements	-	4,962,580	4,962,580
Beneficial interests in charitable trusts held by others	-	1,538,697	1,538,697
Cash surrender value of life insurance	-	2,511,240	2,511,240
Total assets	129,130,351	2,710,244	131,840,595
Liabilities under split-interest agreements	-	(2,710,244)	(2,710,244)
Total liabilities	(15,797,821)	(2,710,244)	(18,508,065)
Total liabilities and net assets	(129,130,351)	(2,710,244)	(131,840,595)



Supplementary Information
June 30, 2019

Innovia Foundation



Independent Auditor's Report on Supplementary Information

The Board of Directors
Innovia Foundation
Spokane, Washington

We have audited the financial statements of Innovia Foundation as of and for the year ended June 30, 2019, and our report thereon dated November 5, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 24 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Spokane, Washington
November 5, 2019

Innovia Foundation
Statement of Activities by Fund
June 30, 2019

	Without Donor Restrictions						With Donor Restrictions			
	Administrative Fund	Discretionary Fund	Area of Interest Fund	Designated Fund	Scholarship Fund	Equipment Fund	Future Interests	Supporting Organizations	Eliminations	Total
Revenue, Support, and Gains										
Contributions	\$ 613,354	\$ 5,051,529	\$ 568,765	\$ 3,574,770	\$ 560,538	\$ -	\$ -	\$ -	\$ (561,801)	\$ 9,807,155
Net investment return	246,636	2,236,392	661,168	1,748,234	218,585	-	-	7,159	-	5,118,174
Foundation assessments	1,375,560	-	-	-	-	-	-	-	-	1,375,560
Other revenue	50,407	17,802	1,585	3,149	1,666	-	-	108,811	(43,223)	140,197
In-kind contributions	200	-	-	-	-	-	-	-	-	200
Change in value of split-interest agreements held by Innovia Foundation	-	-	-	-	-	-	100,679	-	-	100,679
Distributions from and change in value of beneficial interests in assets held by others	-	-	-	-	-	-	41,370	-	-	41,370
Net assets released from restrictions and transfers	(59,625)	268,000	(17,140)	146,533	(109,393)	59,625	-	(288,000)	-	-
Less amounts allocable to agency funds	-	-	-	(2,647,880)	-	-	-	-	-	(2,647,880)
Total revenue, support, and gains	2,226,532	7,573,723	1,214,378	2,824,806	671,396	59,625	142,049	(172,030)	(605,024)	13,935,455
Expenses and Losses										
Program services	1,509,618	5,186,144	1,576,731	818,382	381,648	-	-	118,008	(605,024)	8,985,507
Supporting services										
Management and general	448,015	59,543	20,839	234,767	-	23,826	-	-	-	786,990
Fundraising and development	137,659	-	-	-	-	-	-	-	-	137,659
Total supporting services	585,674	59,543	20,839	234,767	-	23,826	-	-	-	924,649
Total expenses	2,095,292	5,245,687	1,597,570	1,053,149	381,648	23,826	-	118,008	(605,024)	9,910,156
Change in Net Assets	131,240	2,328,036	(383,192)	1,771,657	289,748	35,799	142,049	(290,038)	-	4,025,299
Net Assets, Beginning of Year	2,060,302	57,740,752	17,386,847	25,161,198	5,053,134	81,523	3,791,033	2,057,741	-	113,332,530
Net Assets, End of Year	\$ 2,191,542	\$ 60,068,788	\$ 17,003,655	\$ 26,932,855	\$ 5,342,882	\$ 117,322	\$ 3,933,082	\$ 1,767,703	\$ -	\$ 117,357,829