

**BLUE MOUNTAIN  
COMMUNITY FOUNDATION**

**Financial Statements**

**June 30, 2018**

I N D E X

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# CORDELL, NEHER & COMPANY, PLLC

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Blue Mountain Community Foundation  
Walla Walla, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of Blue Mountain Community Foundation, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Mountain Community Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Cordell, Fisher & Company, PLLC*

Wenatchee, Washington  
November 27, 2018

Blue Mountain Community Foundation  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2018 and 2017

ASSETS		
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,329,089	\$ 1,340,675
Investments [Notes 4, 5 & 6]	48,024,465	43,206,549
Receivables	2,002	1,927
Prepaid expenses	8,985	5,841
Furniture and equipment, net of accumulated depreciation of \$24,674 and \$24,768, respectively	4,600	6,815
<b>TOTAL ASSETS</b>	<b>\$ 49,369,141</b>	<b>\$ 44,561,807</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Grants and scholarships payable	\$ 607,458	\$ 570,644
Other liabilities	5,847	9,196
Deferred revenues	68,333	55,956
Funds held on behalf of others [Notes 4 & 5]	8,311,665	7,758,503
Split-interest agreements [Notes 4 & 6]	822,506	836,836
Total liabilities	9,815,809	9,231,135
<b>NET ASSETS [Note 3]</b>		
Unrestricted		
Administrative	364,592	325,631
Donor advised	210,207	164,076
Sustaining endowment	1,051,941	912,862
Discretionary	306,771	296,855
Total unrestricted	1,933,511	1,699,424
Temporarily restricted		
Sustaining endowment	91,718	90,410
Discretionary	670,854	662,774
Field of interest	7,144,830	6,946,719
Fiscal sponsorship	741	1,862
Donor advised	2,122,384	2,081,941
Scholarship	14,238,808	11,006,793
Designated	12,478,137	12,017,637
Split-interest [Note 6]	872,349	823,112
Total temporarily restricted	37,619,821	33,631,248
Total net assets	39,553,332	35,330,672
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,369,141</b>	<b>\$ 44,561,807</b>

Blue Mountain Community Foundation  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2018 and 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Gross contributions [Note 3]	\$ 240,878	\$ 4,818,427	\$ 5,059,305
Less: agency fund contributions [Note 5]	-	(1,247,117)	(1,247,117)
Net contributions	240,878	3,571,310	3,812,188
Investment activity			
Interest and dividends	46,085	1,159,167	1,205,252
Gain (loss) on sale of securities	10,051	544,388	554,439
Unrealized gain (loss) on securities	54,645	1,737,629	1,792,274
Foundation administrative fee revenue	452,899	-	452,899
Manager and administrative fees charged	(18,567)	(545,060)	(563,627)
Gross investment activity	545,113	2,896,124	3,441,237
Less agency fund net investment activity [Note 5]	-	(564,044)	(564,044)
Net investment activity	545,113	2,332,080	2,877,193
Other income (expense)			
Change in value of split-interest agreements [Note 6]	-	(84,739)	(84,739)
Farm income	-	63,456	63,456
Other income (expense)	2,933	(17,094)	(14,161)
Gross other income (expense)	2,933	(38,377)	(35,444)
Less agency fund activity [Note 5]	-	3	3
Net other income (expense)	2,933	(38,374)	(35,441)
Net assets released from restriction	1,821,846	(1,821,846)	-
Total support and revenue	2,610,770	4,043,170	6,653,940
<b>EXPENSES</b>			
Gross grants and scholarships	3,212,886	-	3,212,886
Less: agency fund grants [Note 5]	(1,257,996)	-	(1,257,996)
Net grants and scholarships	1,954,890	-	1,954,890
Operating expenses [Notes 8 & 9]	476,390	-	476,390
Total expenses	2,431,280	-	2,431,280
<b>CHANGE IN NET ASSETS</b>	<b>\$ 179,490</b>	<b>\$ 4,043,170</b>	<b>\$ 4,222,660</b>

Blue Mountain Community Foundation  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended June 30, 2018 and 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Gross contributions [Note 3]	\$ 194,974	\$ 4,419,546	\$ 4,614,520
Less: agency fund contributions [Note 5]	-	(119,175)	(119,175)
Net contributions	194,974	4,300,371	4,495,345
Investment activity			
Interest and dividends	28,951	848,461	877,412
Gain (loss) on sale of securities	12,786	453,281	466,067
Unrealized gain (loss) on securities	115,810	3,654,442	3,770,252
Foundation administrative fee revenue	392,111	-	392,111
Manager and administrative fees charged	(16,307)	(477,977)	(494,284)
Gross investment activity	533,351	4,478,207	5,011,558
Less agency fund net investment activity [Note 5]	-	(868,095)	(868,095)
Net investment activity	533,351	3,610,112	4,143,463
Other income (expense)			
Change in value of split-interest agreements [Note 6]	-	(118,826)	(118,826)
Farm income	-	94,478	94,478
Other income (expense)	(306)	(18,308)	(18,614)
Gross other income (expense)	(306)	(42,656)	(42,962)
Less agency fund activity [Note 5]	-	-	-
Net other income (expense)	(306)	(42,656)	(42,962)
Net assets released from restriction	1,445,135	(1,445,135)	-
Total support and revenue	2,173,154	6,422,692	8,595,846
<b>EXPENSES</b>			
Gross grants and scholarships	1,977,460	-	1,977,460
Less: agency fund grants [Note 5]	(345,256)	-	(345,256)
Net grants and scholarships	1,632,204	-	1,632,204
Operating expenses [Notes 8 & 9]	407,850	-	407,850
Total expenses	2,040,054	-	2,040,054
<b>CHANGE IN NET ASSETS</b>	<b>\$ 133,100</b>	<b>\$ 6,422,692</b>	<b>\$ 6,555,792</b>

Blue Mountain Community Foundation  
 STATEMENTS OF CHANGES IN NET ASSETS  
 For the Years Ended June 30, 2018 and 2017

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
BALANCE AT JULY 1, 2016	\$ 1,528,883	\$ 27,245,997	\$ 28,774,880
Change in net assets	133,100	6,422,692	6,555,792
Transfers between funds	<u>37,441</u>	<u>(37,441)</u>	<u>-</u>
BALANCE AT JUNE 30, 2017	1,699,424	33,631,248	35,330,672
Change in net assets	179,490	4,043,170	4,222,660
Transfers between funds	<u>54,597</u>	<u>(54,597)</u>	<u>-</u>
BALANCE AT JUNE 30, 2018	<u>\$ 1,933,511</u>	<u>\$ 37,619,821</u>	<u>\$ 39,553,332</u>

Blue Mountain Community Foundation  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions, grants, fees and other income	\$ 4,326,684	\$ 5,463,996
Cash paid to award recipients, suppliers and employees	(3,061,440)	(2,456,485)
Net cash paid to agencies	(10,879)	(226,081)
Interest and dividends received	1,205,252	877,412
	<u>2,459,617</u>	<u>3,658,842</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	564,464	3,830,718
Purchase of investments	(3,035,667)	(7,400,435)
Purchase of equipment	-	(2,851)
	<u>(2,471,203)</u>	<u>(3,572,568)</u>
Net cash used by investing activities		
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(11,586)	86,274
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,340,675</u>	<u>1,254,401</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,329,089</u>	<u>\$ 1,340,675</u>

Blue Mountain Community Foundation  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2018 and 2017

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	2018	2017
RECONCILIATION OF THE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 4,222,660	\$ 6,555,792
Nonoperating (income) expense		
(Gain) loss on sale of securities	(554,439)	(466,067)
Unrealized (gain) loss on securities	(1,792,274)	(3,770,252)
Change in value of split-interest agreements	84,739	118,826
Noncash expenses		
Depreciation	2,215	1,958
(Increase) decrease in operating assets		
Receivables	(75)	444,720
Prepaid expenses	(3,144)	2,145
Increase (decrease) in operating liabilities		
Grants and scholarships payable	36,814	165,483
Other liabilities	(3,349)	2,028
Deferred revenues	12,377	55,956
Funds held on behalf of others	553,162	642,014
Split-interest agreements	(99,069)	(93,761)
	\$ 2,459,617	\$ 3,658,842

## NOTE 1 - ORGANIZATION

Blue Mountain Community Foundation (the Foundation), a nonprofit organization, was established in 1984 as the Blue Mountain Area Foundation. The Foundation helps donors invest for a healthy community. The Foundation's vision is to grow the Foundation into a more sustainable, more connected network of philanthropists making \$2.5 million in grants and scholarships per year with reportable outcomes on the health of area communities through the guidance and engagement of community leaders.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this method of accounting, support and revenue is recognized when earned and expenses are recognized when goods or services are received, whether or not paid.

### B. Financial statement presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the Foundation are classified and reported as follows:

**Unrestricted** net assets bear no donor limitations. The use of these funds is determined by the Foundation's Board of Trustees.

**Temporarily restricted** net assets represent assets whose use by the Foundation is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted or permanently restricted net assets and reported in the statements of activities as net assets released from restrictions.

**Permanently restricted** net assets represent assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. At this time, the Foundation does not have any permanently restricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts and highly liquid investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents with brokers or in investment pools are considered to be investments.

D. Bequests receivable

Bequests are recorded as contribution revenue when the Foundation is notified of its beneficiary status, the bequest becomes irrevocable, and the Foundation's interest can be estimated. If the value of the Foundation's interest cannot be estimated, contribution revenue is recognized when distributions are received. There were no bequests expected to be received within one year or less as of June 30, 2018 and 2017, where the Foundation's interest can be estimated.

E. Investments

Investments are recorded at fair value and are generally held in custodial investment accounts administered by certain financial institutions. See Note 4 for information on fair value measurements.

Investments are made according to the investment policy adopted by the Board of Trustees. The policy provides guidelines for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside parties are contracted by the Foundation for the purpose of providing investment management and consulting.

The Foundation, in most cases, pools its endowment funds in order to obtain greater investment leverage and for more efficient administration. The allocation of income, realized and unrealized gains or losses from pooled investments, is calculated based on the average monthly percent share of each fund's balance in the pool.

Investments 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 statements of financial position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

F. Furniture and equipment

The Foundation capitalizes all furniture and equipment in excess of \$1,500. Purchases are recorded at cost and donated property is recorded at fair value at the time it is received. Assets are depreciated by the straight-line method over estimated useful lives of three to ten years. Depreciation expense was \$2,215 and \$1,958 for the years ended June 30, 2018 and 2017, respectively.

G. Donated investments

Donated investments are recorded at market value on the date acquired and are typically converted to cash immediately thereafter.

H. In-kind contributions

The Foundation recognizes revenue for certain services received at the fair value of those services. When received, the fair value of the donated services is reflected in revenues and included in operating expenses.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition.

I. Grants

Grants are approved by the Board of Trustees of the Foundation in accordance with their respective bylaws and guidelines. Typically grants and distributions are recorded in the financial statements when approved. However, grants approved by the Board of Trustees that are payable upon the performance of specified conditions by the grantee are not reflected in grants payable in the financial statements until such time as those conditions are satisfied.

The Board of Trustees has endorsed a "total return" concept with respect to the fund investments and grants. In compliance with that approach, the Board of Trustees reviews and establishes a "spending policy rate". The rate for the years ended June 30, 2018 and 2017 was 4.5 percent. To calculate the amount available for grants, the rate was multiplied by the endowment fund balance's twelve-quarter rolling average.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

J. Fundraising and promotion

Fundraising and promotion costs are expensed as incurred. For the years ended June 30, 2018 and 2017, the Foundation recognized fundraising and promotion expenses of \$114,620 and \$95,693, respectively.

K. Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2018 and 2017, the Foundation recognized advertising expenses of \$4,870 and \$4,770, respectively.

L. Transfers between funds

Transfers between funds represents amounts that have been gifted (granted) from one fund to another due to donor requests or for reimbursements of expenditures.

M. Federal tax status

The Foundation operates as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC); therefore, no provision for Federal income tax is presented. The Foundation has also been classified as a publicly supported organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the IRC.

The Foundation has adopted the provisions of FASB ASC 740-10. Management has evaluated the Foundation's tax positions and concluded the Foundation has taken no uncertain tax positions requiring adjustment to the financial statements to comply with these provisions. With few exceptions, the Foundation is no longer subject to income tax examinations by U.S. Federal tax authorities for the years before 2014, which is the standard statute of limitations look-back period.

N. Concentrations of credit risk

Management anticipates no material effect to the Foundation's financial position as a result of cash, mutual funds, and investments held in banks in excess of the available federally insured amounts.

O. Concentration of agency funds

For the years ended June 30, 2018 and 2017, approximately 40% and 53%, respectively of the Foundations agency funds are from six organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

P. Statements of cash flows

Cash receipts resulting from the sale of donated financial assets that were converted nearly immediately into cash are classified as operating cash flows.

Q. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CONTRIBUTIONS AND BEQUESTS

Donations, gifts, and bequests are recorded as contributions to the appropriate program funds at fair value. These contributions are maintained in the funds until expended as grants, in accordance with the Board of Trustees' authorization.

A description of each of the Foundation fund types follows:

Administrative - The administrative fund is the operational account of the Foundation. Administrative fee revenue is booked to this fund as are interest income, outright gifts, and grants received from sustaining endowment funds.

Agency - An agency fund may be established by a charity at the Foundation for the charity's own benefit or the benefit of a related entity. That is, the donor and the beneficiary organization are the same entity.

Designated - Designated funds benefit one or more charitable organizations identified by the donor at the time of the creation of the fund. The beneficiaries receive a distribution from the fund at least annually.

NOTE 3 - CONTRIBUTIONS AND BEQUESTS - continued

Discretionary - Discretionary funds broadly support the well-being and vitality of the Blue Mountain area and its residents. Grants from these funds are made to qualified organizations through the Foundation's discretionary grantmaking program.

Donor Advised - These are funds that meet the legal definition of a donor advised fund, which includes three characteristics:

- It must be separately identified with reference to the contribution of a donor or donors.
- It must be owned and controlled by a sponsoring organization.
- The donor or a person appointed by the donor must have, or reasonably expect to have, the privilege of providing advice with respect to the fund's investments or distributions.

Field of Interest - Donors who feel strongly about a particular cause or a particular geographical area, but do not wish to take an active role in grantmaking through a donor advised fund, may choose to establish a field of interest fund. This type of fund allows the founder to identify and support a charitable purpose (e.g., alleviation of poverty, historic preservation, etc.), a category of interest (e.g., arts, education, human services, etc.) and/or a geographic area that he/she feels passionate about supporting. Grants are made through the Foundation's discretionary grantmaking program.

Fiscal Sponsorship - Fiscal sponsorships are funds set up to provide fiscal and program sponsorships for charitable projects for organizations without an IRS determination letter and community groups planning a specific short-term project that is clearly charitable in nature. Program sponsorship services include the provision of non-profit status to the project (thus making contributions tax-deductible), acknowledging and managing contributions and the authorization and payment of grants and expenses from the fund. Program sponsor services do not include administrative or fundraising support or financial support from the Foundation.

Scholarship - Scholarship funds are established by donors who wish to support the educational pursuits of individuals. The Foundation administers each fund within the tax laws regarding scholarship grants, publicizes the scholarship's availability and chooses scholarship recipients. The Foundation also can establish selection criteria. In some cases, outside committees recommend scholarship recipients to the Board of Trustees.

#### NOTE 3 - CONTRIBUTIONS AND BEQUESTS - continued

Split-Interest - Split-Interest gifts are any type of instrument where the Foundation and a beneficiary benefit from the gift assets. Specifically, the Foundation is trustee of several Charitable Remainder Trusts (CRT). CRTs are gifts that benefit the donor or another party chosen by the donor for a limited period of time, with the remainder to become a fund at the Foundation after a certain time or triggering event. The Foundation administers each CRT according to its governing agreement, issues distributions to beneficiaries on a set schedule and files an annual tax return for each CRT.

Sustaining Endowment - Sustaining endowment funds are those from which grants solely benefit the Foundation's operations.

Bequests are recorded as contribution revenue when the Foundation is notified of its beneficiary status, the bequest becomes irrevocable, and the Foundation's interest can be estimated. If the value of the Foundation's interest cannot be estimated, contribution revenue is recognized when distributions are received.

#### NOTE 4 - FAIR VALUE MEASUREMENTS

GAAP requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

GAAP uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Financial assets and liabilities classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. All of the Foundation's Level 1 assets have been valued using a market approach. A market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Foundation does not have any financial liabilities classified as Level 1.

Financial assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. The Foundation does not have any financial assets and liabilities classified as Level 2.

NOTE 4 - FAIR VALUE MEASUREMENTS - continued

Financial assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable. The Foundation's Level 3 financial assets and liabilities were valued as follows:

- a. Alternative assets - these financial assets are valued at net asset value (NAV) and are calculated in accordance with GAAP by independent third party firms. They are principally invested in hedge funds of funds for which quoted market prices are not available. See page 20 for further information on the Foundation's investments valued at NAV.
- b. Real estate - this financial asset is valued using the market approach based on comparable assets as provided by a third party custodian and other methods management considers appropriate based upon economic conditions.
- c. Funds held on behalf of others - this financial liability is valued using the market approach and calculated by determining the sum of the average percentage share of each agency's fund balance, or net asset value, in the Foundation's pooled investments.
- d. Split-interest agreements - this financial liability is valued using the income approach and calculated by determining the sum of each CRTs present value of its future cash flows. The present value of each CRT is determined using a risk free rate and life expectancy (evaluated each year) and the anticipated cash flow. The risk free rate is generally calculated using the U.S. Treasury rates for a similar period of time. The life expectancy is generally determined using the Internal Revenue Service's mortality tables (or other tables) for the appropriate terms of the agreement. Cash flows are generally based on the appropriate percentage of the fair value of the trust assets held at the Foundation's fiscal year end.

Quantitative information about the Foundation's split-interest agreements at June 30, 2018 and 2017 is as follows:

<u>Valuation techniques</u>	<u>Unobservable input</u>	<u>Range (Weighted average)</u>
Discounted cash flow	Discount rates	5% to 7%
	Life expectancy	5 to 17 years

There were no transfers between Level 1, 2 and 3 financial assets and liabilities and no changes in valuation techniques during the years ended June 30, 2018 and 2017.

Blue Mountain Community Foundation  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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NOTE 4 - FAIR VALUE MEASUREMENTS - continued

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 and 2017, were as follows:

	Fair Value Measurements at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
<b>Equities</b>				
US large/mid cap funds	\$ 22,424,259	\$ -	\$ -	\$ 22,424,259
US small cap funds	3,129,616	-	-	3,129,616
International funds	11,683,582	-	-	11,683,582
World allocation funds	105,544	-	-	105,544
<b>Fixed income</b>				
Bond funds	4,846,677	-	-	4,846,677
Certificates of deposit	51,566	-	-	51,566
<b>Alternative assets</b>				
Absolute return funds	-	-	70,697	70,697
Diversifying strategies	285,803	-	-	285,803
<b>Cash and cash equivalents</b>				
Money market funds	701,333	-	-	701,333
Real estate	-	-	1,245,770	1,245,770
Real asset funds	3,479,618	-	-	3,479,618
<b>Total investments</b>	<b>\$ 46,707,998</b>	<b>\$ -</b>	<b>\$ 1,316,467</b>	<b>\$ 48,024,465</b>
<b>Liabilities</b>				
Funds held on behalf of others	\$ -	\$ -	\$ 8,311,665	\$ 8,311,665
Split-interest agreements	\$ -	\$ -	\$ 822,506	\$ 822,506

Blue Mountain Community Foundation  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018 and 2017

NOTE 4 - FAIR VALUE MEASUREMENTS - continued

	Fair Value Measurements at June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
<b>Equities</b>				
US large/mid cap funds	\$ 20,000,588	\$ -	\$ -	\$ 20,000,588
US small cap funds	2,748,506	-	-	2,748,506
International funds	10,164,321	-	-	10,164,321
World allocation funds	-	-	-	-
<b>Fixed income</b>				
Bond funds	4,545,525	-	-	4,545,525
Certificates of deposit	53,172	-	-	53,172
<b>Alternative assets</b>				
Absolute return funds	-	-	387,200	387,200
Diversifying strategies	302,324	-	-	302,324
<b>Cash and cash equivalents</b>				
Money market funds	520,411	-	-	520,411
Real estate	-	-	1,245,770	1,245,770
Real asset funds	3,238,732	-	-	3,238,732
<b>Total investments</b>	<b>\$ 41,573,579</b>	<b>\$ -</b>	<b>\$ 1,632,970</b>	<b>\$ 43,206,549</b>
<b>Liabilities</b>				
Funds held on behalf of others	\$ -	\$ -	\$ 7,758,503	\$ 7,758,503
Split-interest agreements	\$ -	\$ -	\$ 836,836	\$ 836,836

There were no assets or liabilities measured on a non-recurring basis as of June 30, 2018 and 2017.

NOTE 4 - FAIR VALUE MEASUREMENTS - continued

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) for the years ended June 30, 2018 and 2017, were as follows:

	Reconciliation of level 3 assets and liabilities for the years ended June 30, 2018 and 2017		
	<u>Non-marketable investments</u>	<u>Funds held on behalf of others</u>	<u>Split-interest agreements</u>
Balance at July 1, 2016	\$ 4,279,474	\$ 7,116,489	\$ 811,771
Receipts	-	119,175	-
Interest and dividends	-	170,879	-
Total realized and unrealized gain (loss)	199,036	782,328	-
Actuarial adjustment	-	-	118,826
Other income	-	-	-
Purchases	-	-	-
Sales	-	-	-
Distributions	(2,845,540)	(345,256)	(93,761)
Fees	-	(85,112)	-
Balance at June 30, 2017	1,632,970	7,758,503	836,836
Receipts	-	1,247,117	-
Interest and dividends	-	209,226	-
Total realized and unrealized gain (loss)	(26,521)	445,300	-
Actuarial adjustment	-	-	84,739
Other income	-	(3)	-
Purchases	-	-	-
Sales	-	-	-
Distributions	(289,982)	(1,257,996)	(99,069)
Fees	-	(90,482)	-
Balance at June 30, 2018	<u>\$ 1,316,467</u>	<u>\$ 8,311,665</u>	<u>\$ 822,506</u>

NOTE 4 - FAIR VALUE MEASUREMENTS - continued

ASC Topic 820 requires additional disclosures for investments valued at net asset value to enable users of financial statements to understand the nature and risks of those investments. At June 30, 2018 and 2017, the Foundation's investments valued at net asset value were as follows:

	<u>Fair value at June 30, 2018</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Absolute return funds	<u>\$ 70,697</u>	<u>\$ -</u>	Semi-annual	Compulsory
	<u>Fair value at June 30, 2017</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Absolute return funds	<u>\$ 387,200</u>	<u>\$ -</u>	Semi-annual	Compulsory

Absolute return funds seek to achieve consistent, positive returns, while attempting to reduce risk and volatility, by placing capital with a variety of experienced portfolio managers who operate mainly as hedge funds. The portfolio managers will employ a variety of trading styles or strategies and may acquire positions in convertible and fixed income arbitrage, merger or risk arbitrage and other event-driven investing, distressed and other high yield debt, long/short equity, multi-strategy and other market-neutral strategies (i.e., strategies where returns are not necessarily correlated to traditional stock and bond indices). Portfolio managers may acquire positions in a wide variety of securities and other financial instruments, including, but not limited to, common stocks, debt securities, convertible securities, commodities, futures and options.

In April 2016, the Foundation received notice from their absolute return fund manager that the fund elected to suspend voluntary redemptions and to begin liquidation of the fund. Effective June 30, 2016, the fund began a compulsory redemption process. Liquidation proceeds will be paid to the shareholders pro rata in proportion to their shareholder balances as of the date of such distribution. In addition, effective June 30, 2016, the fund manager ceased charging management and incentive fees on any remaining shareholder balances. During the liquidation process, remaining shareholder balances will be subject to market fluctuations until the shareholder is completely withdrawn from the fund.

#### NOTE 5 - FUNDS HELD ON BEHALF OF OTHERS

A not-for-profit organization may establish a fund at the Foundation with its own resources and specify itself as the beneficiary of that fund. The Foundation refers to such funds as agency funds. In accordance with GAAP, the Foundation accounts for the transfer of such assets as a liability.

At June 30, 2018 and 2017, the Foundation has agency funds with a combined fair value of \$8,311,665 and \$7,758,503, respectively. All financial activity for the years then ended related to these funds is segregated on the statements of activities and has been included in the funds held on behalf of others liability on the statements of financial position.

#### NOTE 6 - SPLIT-INTEREST AGREEMENTS

Under the Foundation's CRT program, a donor establishes and funds a trust with specified distributions to be made to the donor and/or other beneficiaries over the trust's term. The Foundation will receive the amounts remaining in the CRT at the end of the trust's stated term.

Upon formation of an irrevocable CRT when the Foundation is the trustee, the fair value of the trust assets received are recorded as an asset, the net present value of the actuarially determined charitable interest is recorded as a contribution, and the difference is recorded as a liability. Subsequently, changes in the fair value and changes in the estimated liability are recognized in the statements of activities.

Included in investments at June 30, 2018 and 2017, are CRT's with a fair value of \$1,694,855 and \$1,659,948, respectively, and a corresponding liability of \$822,506 and \$836,836, respectively.

NOTE 7 - ENDOWMENTS

The Foundation's endowment funds consist of funds established for a variety of purposes. The Foundation considers a fund that was established to provide ongoing support for charitable purposes to be an endowment fund. Its endowment funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). As required by GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In the absence of donor restrictions, the Foundation follows the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA). UPMIFA abolishes the historic dollar value and allows the Foundation to spend as much of an endowment fund as it determines to be prudent, regardless of whether the fund value is below its historic dollar value.

As of June 30, 2018 and 2017, endowment net assets consisted of the following:

	Endowment net assets at June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 36,747,472	\$ -	\$ 36,747,472
Board designated quasi-endowment funds	1,358,712	-	-	1,358,712
Endowment net assets	<u>\$ 1,358,712</u>	<u>\$ 36,747,472</u>	<u>\$ -</u>	<u>\$ 38,106,184</u>

	Endowment net assets at June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 32,808,136	\$ -	\$ 32,808,136
Board designated quasi-endowment funds	1,209,717	-	-	1,209,717
Endowment net assets	<u>\$ 1,209,717</u>	<u>\$ 32,808,136</u>	<u>\$ -</u>	<u>\$ 34,017,853</u>

Blue Mountain Community Foundation  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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NOTE 7 - ENDOWMENTS - continued

Changes to endowment net assets for the years ended June 30, 2018 and 2017, were as follows:

	Changes to endowment net assets for the years ended June 30, 2018 and 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ 1,016,646	\$ 26,495,738	\$ -	\$ 27,512,384
Endowment investment return				
Interest and dividends, net of fees	10,716	252,734	-	263,450
Realized and unrealized gain (loss)	115,192	3,163,699	-	3,278,891
Other investment income	-	136,977	-	136,977
Total endowment investment return	125,908	3,553,410	-	3,679,318
Contributions	41,250	4,296,328	-	4,337,578
Appropriated for expenditure	(35,624)	(1,461,442)	-	(1,497,066)
Net transfers to (from) endowments	61,537	(75,898)	-	(14,361)
Endowment net assets, June 30, 2017	1,209,717	32,808,136	-	34,017,853
Endowment investment return				
Interest and dividends, net of fees	19,254	462,673	-	481,927
Realized and unrealized gain (loss)	59,181	1,733,420	-	1,792,601
Other investment income	-	63,456	-	63,456
Total endowment investment return	78,435	2,259,549	-	2,337,984
Contributions	76,300	3,571,311	-	3,647,611
Appropriated for expenditure	(29,569)	(1,836,928)	-	(1,866,497)
Net transfers to (from) endowments	23,829	(54,596)	-	(30,767)
Endowment net assets, June 30, 2018	<u>\$ 1,358,712</u>	<u>\$ 36,747,472</u>	<u>\$ -</u>	<u>\$ 38,106,184</u>

#### NOTE 7 - ENDOWMENTS - continued

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 while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that, over time, will provide a real rate of return equal to the spending rate while assuming a reasonable level of investment risk. The Foundation expects its endowment funds, on average over the next ten years, to provide a model return of approximately 6.5 percent annually. Actual returns in any given year may vary from these amounts.

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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's spending policy for distributions was 4.5 percent for the years ended June 30, 2018 and 2017. The spending budget is calculated based on a twelve-quarter rolling average of the market value of the endowed portion of each fund, ending June 30 of the current fiscal year. Accordingly, over the long term, the Foundation expects their spending policy to allow its endowment funds to grow at a rate equal to inflation. This is consistent with the Foundation's objective to maintain the purchasing power of its endowment assets held in perpetuity. The complete spending policy is available on the Foundation's website.

#### NOTE 8 - OPERATING LEASES

In February 2013, the Foundation relocated and signed a five year operating lease agreement which commenced May 1, 2013. In October 2017, the Foundation renewed the five year operating lease agreement which commenced May 1, 2018 and currently requires monthly base rent payments of \$1,679.

In addition to base rent, the Foundation is responsible for a proportionate share of the building's operating expenses estimated on the basis of leased square footage during the lease term. Currently the proportionate share of operating expenses is \$543 per month with annual escalations limited to the lower of actual expenses or 4 percent.

NOTE 8 - OPERATING LEASES - continued

Rent expense was \$26,432 and \$25,768 for the years ending June 30, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 26,792
2020	27,596
2021	28,424
2022	29,277
2023	25,004

NOTE 9 - RETIREMENT PLAN

The Foundation adopted a 403(b) retirement plan in June 2003. Eligible employees may contribute to the plan by requesting amounts be withheld from their salary and remitted to the plan by the Foundation. The Foundation contributes 5 percent of an eligible employee's compensation to the plan. Foundation contributions were \$12,880 and \$10,092 for 2018 and 2017, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

Blue Mountain Community Foundation serves a small geographic area in which trustee relationships can overlap vendor and grantee relationships of the Foundation. The Foundation may purchase services from businesses and receive grants from or make grants to various agencies in the area in which Foundation trustees or employees have an ownership, are board members or have other relationships. The Foundation takes conflicts of interest seriously and trustees disclose any vendor or grantee relationships. Further, trustees recuse themselves from voting on issues regarding related parties.

NOTE 11 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through November 27, 2018 the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, other than noted below.

In August 2018, the Foundation received its final distribution of redeemed shares of absolute return funds and this account was closed.

## SUPPLEMENTARY INFORMATION

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# CORDELL, NEHER & COMPANY, PLLC

*Certified Public Accountants*

## PRINCIPALS

Timothy M. Dilley, CPA

Kristine S. Loomis, CPA, CVA

Steven M. Neher, CPA

Sean M. Patton, CPA

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## OF COUNSEL

Judy S. Conner, CPA

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees  
Blue Mountain Community Foundation  
Walla Walla, Washington

We have audited the financial statements of Blue Mountain Community Foundation as of and for the years ended June 30, 2018 and 2017, and our report thereon dated November 27, 2018, which contained an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information on pages 27, 28 and 29 is presented for 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.

*Cordell, Neher & Company, PLLC*

Wenatchee, Washington  
November 27, 2018

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Blue Mountain Community Foundation  
 SCHEDULES OF OPERATING EXPENSES  
 For the Years Ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
OPERATING EXPENSES		
Salaries	\$ 257,602	\$ 214,326
Employee benefits and payroll taxes	67,336	62,804
Occupancy	28,153	27,411
Professional and consulting fees	23,520	22,320
Computer	20,871	18,752
Public relations	14,644	8,136
Travel	10,851	7,096
Dues and subscriptions	8,247	5,662
Printing and publications	8,141	7,209
Small equipment purchases and repairs	5,946	6,640
Insurance	5,772	5,724
Meeting expense	4,976	1,808
Advertising	4,870	4,770
Telecommunications	3,730	2,135
Office supplies	3,163	2,605
Postage	3,026	2,851
Depreciation	2,215	1,958
Conference fees	1,655	4,672
Recruitment	1,130	378
Miscellaneous	542	593
	<u>          </u>	<u>          </u>
Total operating expenses	<u>\$ 476,390</u>	<u>\$ 407,850</u>

Blue Mountain Community Foundation  
SCHEDULE OF FUND TYPES  
For the Year Ended June 30, 2018

	<u>Administrative</u>	<u>Sustaining Endowments</u>	<u>Discretionary</u>	<u>Field of Interest</u>
NUMBER OF FUNDS	1	14	8	37
SUPPORT AND REVENUE				
Contributions	\$ 15,580	\$ 51,300	\$ 25,000	\$ 250,968
Investment activity				
Interest and dividends	6,710	29,234	20,894	175,221
Gain (loss) on sale of securities	11	9,861	19,091	79,608
Unrealized gain (loss) on securities	938	41,093	28,046	251,075
Total investment activity	7,659	80,188	68,031	505,904
Other income (expense)				
Change in value of split-interest agreements	-	-	-	-
Administrative fee revenue	452,899	-	-	-
Other income (expense)	2,949	(15)	(1)	(1,664)
Total other income (expense)	455,848	(15)	(1)	(1,664)
Total support and revenue	479,087	131,473	93,030	755,208
GIFTS (GRANTS) BETWEEN FUNDS	36,268	23,192	(2,893)	(6,844)
EXPENSES				
Grants and scholarships	-	420	57,127	467,829
Other expenses				
Administrative and investment management fees	4	13,858	15,014	82,424
Operating expenses	476,390	-	-	-
Total other expenses	476,394	13,858	15,014	82,424
Total expenses	476,394	14,278	72,141	550,253
CHANGE IN FUND BALANCE	38,961	140,387	17,996	198,111
BEGINNING FUND BALANCE	325,631	1,003,272	959,629	6,946,719
ENDING FUND BALANCE	<u>\$ 364,592</u>	<u>\$ 1,143,659</u>	<u>\$ 977,625</u>	<u>\$ 7,144,830</u>

Blue Mountain Community Foundation  
SCHEDULE OF FUND TYPES  
For the Year Ended June 30, 2018

Fiscal Sponsorship	Donor Advised	Scholarship	Designated	Agency	Split-Interest
2	27	72	89	77	5
\$ 12,750	\$ 321,036	\$ 2,821,845	\$ 313,709	\$ 1,247,117	\$ -
22	63,756	362,306	304,523	209,226	33,360
-	15,956	214,894	114,407	55,312	45,299
-	92,249	472,307	458,581	389,988	57,997
22	171,961	1,049,507	877,511	654,526	136,656
-	-	-	-	-	(84,739)
-	-	-	-	-	-
(13,057)	(1)	31,427	31,670	(3)	(2,010)
(13,057)	(1)	31,427	31,670	(3)	(86,749)
(285)	492,996	3,902,779	1,222,890	1,901,640	49,907
(198)	(5,500)	400	(44,425)	-	-
-	373,913	489,745	565,856	1,257,996	-
638	27,009	181,419	152,109	90,482	670
-	-	-	-	-	-
638	27,009	181,419	152,109	90,482	670
638	400,922	671,164	717,965	1,348,478	670
(1,121)	86,574	3,232,015	460,500	553,162	49,237
1,862	2,246,017	11,006,793	12,017,637	7,758,503	823,112
\$ 741	\$ 2,332,591	\$ 14,238,808	\$ 12,478,137	\$ 8,311,665	\$ 872,349