

**THE COMMUNITY FOUNDATION
OF HARRISONBURG AND
ROCKINGHAM COUNTY**

**CONSOLIDATED
FINANCIAL STATEMENTS**

JUNE 30, 2013



ASSURANCE, TAX & ADVISORY SERVICES

**THE COMMUNITY FOUNDATION OF HARRISONBURG
AND ROCKINGHAM COUNTY**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Community Foundation of Harrisonburg and Rockingham County
Harrisonburg, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Community Foundation of Harrisonburg and Rockingham County and its subsidiaries which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits 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 The Community Foundation of Harrisonburg and Rockingham County and its subsidiaries as of June 30, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Community Foundation of Harrisonburg and Rockingham County as of June 30, 2012 were audited by PBGH, LLP, who merged with Witt Mares, PLC to form PBMares, LLP as of January 1, 2013, and whose report dated October 31, 2012, expressed an unmodified opinion on those statements.

PBMares, LLP

Harrisonburg, Virginia
November 6, 2013

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND
ROCKINGHAM COUNTY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012**

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 1,578,452	\$ 1,021,963
Pledges receivable, net of present value discount	287,875	306,174
Other assets	2,275	-
Investments	16,729,378	14,309,505
Investment in real estate	215,000	-
Beneficial interests in charitable lead trusts	1,212,420	1,441,392
	<hr/>	<hr/>
Total assets	\$ 20,025,400	\$ 17,079,034
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 6,584	\$ 8,255
Income taxes payable	-	44,300
Agency obligations	6,683,840	5,745,911
	<hr/>	<hr/>
Total liabilities	6,690,424	5,798,466
Net Assets		
Unrestricted	11,834,681	9,533,002
Temporarily restricted	1,500,295	1,747,566
	<hr/>	<hr/>
Total net assets	13,334,976	11,280,568
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Total liabilities and net assets	\$ 20,025,400	\$ 17,079,034
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**THE COMMUNITY FOUNDATION OF HARRISONBURG AND
ROCKINGHAM COUNTY**

**CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support:			
Total contributions	\$ 2,983,115	\$ -	\$ 2,983,115
Less amounts received for agency accounts	(712,459)	-	(712,459)
Change in fair value of charitable lead trusts	-	79,027	79,027
Change in present value discount on long-term pledges	-	12,553	12,553
Contributions	2,270,656	91,580	2,362,236
Investment gain, net of expenses	1,651,096	-	1,651,096
Investment gain allocated to agency accounts	(574,273)	-	(574,273)
Investment gain	1,076,823	-	1,076,823
Other income	54,570	-	54,570
Net assets released through expiration of time restrictions	338,851	(338,851)	-
Net other support	393,421	(338,851)	54,570
Total revenue, gains and other support	3,740,900	(247,271)	3,493,629
Expenses:			
Program services:			
Total grants	1,506,737	-	1,506,737
Less grants made from agency accounts	(294,282)	-	(294,282)
Other community support	93,161	-	93,161
Program services	1,305,616	-	1,305,616
General and administrative	93,280	-	93,280
Fundraising	40,325	-	40,325
Total expenses	1,439,221	-	1,439,221
Change in net assets	2,301,679	(247,271)	2,054,408
Net Assets, beginning of year	9,533,002	1,747,566	11,280,568
Net Assets, end of year	\$ 11,834,681	\$ 1,500,295	\$ 13,334,976

See Notes to Consolidated Financial Statements.

**THE COMMUNITY FOUNDATION OF
ROCKINGHAM COUNTY**

**CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support:			
Total contributions	\$ 1,265,277	\$ -	\$ 1,265,277
Less amounts received for agency accounts	(454,569)	-	(454,569)
Change in fair value of charitable lead trusts	-	104,768	104,768
Change in present value discount on long-term pledges	-	13,275	13,275
Contributions	810,708	118,043	928,751
Investment loss, net of expenses	(160,071)	-	(160,071)
Investment loss allocated to agency accounts	90,881	-	90,881
Investment loss	(69,190)	-	(69,190)
Gain on sale of privately held stock	129,072	-	129,072
Other income	51,901	-	51,901
Net assets released through expiration of time restrictions	321,040	(321,040)	-
Net other support	502,013	(321,040)	180,973
Total revenue, gains and other support	1,243,531	(202,997)	1,040,534
Expenses:			
Program services:			
Total grants	1,413,874	-	1,413,874
Less grants made from agency accounts	(232,623)	-	(232,623)
Other community support	83,427	-	83,427
Program services	1,264,678	-	1,264,678
General and administrative	102,650	-	102,650
Fundraising	31,464	-	31,464
Total expenses	1,398,792	-	1,398,792
Other Decrease in Net Assets:			
Provision for tax on unrelated business income	(41,200)	-	(41,200)
Change in net assets	(196,461)	(202,997)	(399,458)
Net Assets, beginning of year	9,729,463	1,950,563	11,680,026
Net Assets, end of year	\$ 9,533,002	\$ 1,747,566	\$ 11,280,568

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND
ROCKINGHAM COUNTY**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013**

	Program	General and Administrative	Fundraising	Total
Grant Disbursements	\$ 1,380,024	\$ -	\$ -	\$ 1,380,024
Fund Expenses	14,804	-	-	14,804
Fund Distributions	111,909	-	-	111,909
Salaries	74,695	38,553	20,092	133,340
Employee Benefits	7,665	3,956	2,062	13,683
Rent	6,050	3,123	1,627	10,800
Utilities	-	971	-	971
Equipment Purchases	-	1,011	-	1,011
IT Services	-	4,886	-	4,886
Marketing media	-	-	15,266	15,266
Annual Appreciation	-	-	-	-
Publications	-	132	-	132
Staff Development	-	1,220	-	1,220
Dues and Membership	-	3,202	-	3,202
Staff Mileage	-	431	-	431
Professional Fees	-	25,149	-	25,149
FIMS Fees	4,751	2,452	1,278	8,481
Insurance Package	-	1,222	-	1,222
Board Expenses	-	188	-	188
Meals	-	639	-	639
License and Permits	-	325	-	325
Print and Photocopy	-	4,622	-	4,622
Postage and Delivery	-	1,552	-	1,552
Taxes	-	(2,688)	-	(2,688)
Supplies	-	1,473	-	1,473
Other	-	861	-	861
	1,599,898	93,280	40,325	1,733,503
Less Agency Fund Activity	(294,282)	-	-	(294,282)
Total functional expenses	\$ 1,305,616	\$ 93,280	\$ 40,325	\$ 1,439,221

See Notes to Consolidated Financial Statements.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND
ROCKINGHAM COUNTY**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012**

	Program	General and Administrative	Fundraising	Total
Grant Disbursements	\$ 1,289,478	\$ -	\$ -	\$ 1,289,478
Fund Expenses	12,604	-	-	12,604
Fund Distributions	111,792	-	-	111,792
Salaries	62,645	43,015	19,018	124,678
Employee Benefits	6,131	4,209	1,861	12,201
Rent	5,175	3,554	1,571	10,300
Utilities	-	912	-	912
Equipment Purchases	-	881	-	881
IT Services	-	5,975	-	5,975
Marketing media	-	-	25	25
Annual Appreciation	5,379	-	5,379	10,758
Publications	-	1,015	2,366	3,381
Dues and Membership	-	1,237	-	1,237
Staff Mileage	-	352	-	352
Professional Fees	-	28,757	-	28,757
FIMS Fees	4,097	2,813	1,244	8,154
Insurance Package	-	782	-	782
Board Expenses	-	535	-	535
Meals	-	570	-	570
License and Permits	-	325	-	325
Print and Photocopy	-	2,811	-	2,811
Postage and Delivery	-	1,465	-	1,465
Taxes	-	66	-	66
Supplies	-	2,117	-	2,117
Other	-	1,259	-	1,259
	1,497,301	102,650	31,464	1,631,415
Less Agency Fund Activity	(232,623)	-	-	(232,623)
Total functional expenses	\$ 1,264,678	\$ 102,650	\$ 31,464	\$ 1,398,792

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND
ROCKINGHAM COUNTY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 2,054,408	\$ (399,458)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Losses (gains) on investments	(1,382,434)	492,485
Gain on privately held stock	-	(129,072)
Gain in fair value of charitable lead trusts	(79,027)	(104,768)
Change in present value allowance on pledges	(12,553)	(13,275)
Non-cash contributions, net of related expense charges	(1,655,896)	(274,388)
Decrease (increase) in:		
Pledges receivable	30,852	30,853
Other assets	(2,275)	28,645
Increase (decrease) in:		
Accounts payable	(1,671)	3,959
Grants payable	-	-
Income taxes payable	(44,300)	41,200
Net cash used in operating activities	(1,092,896)	(323,819)
Cash Flows From Investing Activities		
Annuity payments from charitable lead trusts	307,999	290,186
Proceeds from sale of investments	10,203,361	8,541,952
Purchase of investments	(9,799,904)	(8,470,835)
Net cash provided by investing activities	711,456	361,303
Cash Flows From Financing Activities		
Agency obligations	937,929	83,947
Net cash provided by financing activities	937,929	83,947
Net increase in cash and cash equivalents	556,489	121,431
Cash and Cash Equivalents, beginning of year	1,021,963	900,532
Cash and Cash Equivalents, end of year	\$ 1,578,452	\$ 1,021,963
Supplemental Disclosures of Cash Flow Information		
Cash paid for income taxes	\$ 41,612	\$ -
Investment gains (losses) allocated to agency funds	457,949	(214,510)

See Notes to Consolidated Financial Statements.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Community Foundation of Harrisonburg and Rockingham County (“the Foundation”) is a non-stock corporation and non-private foundation classified by the Internal Revenue Service as tax exempt under Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code. The mission of the Foundation is to promote philanthropy through the establishment and management of charitable funds. Funds are established or bequeathed by individuals and families within the community and disbursed to meet the needs of local charities and non-profits. Funds may also come from other Foundations, nonprofit organizations and corporations. Substantially all contributed funds are pooled and managed by the Foundation.

Basis of accounting: The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, other assets, payables, and other liabilities. Revenues and support are recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The consolidated financial statements present the consolidated financial position and the changes in net assets and cash flows of The Community Foundation of Harrisonburg and Rockingham County and its wholly owned subsidiaries, The Valley Responds, LLC, Showker Memorial Gardens, LLC and TCF Holding, LLC. All significant intra-entity accounts and transactions have been eliminated.

Support and revenue recognition: The Foundation reports contributions received as unrestricted support, except for agency funds received, which are reported as a liability. The bylaws of the Foundation include a Variance Provision and Powers of Modification, giving the Board of Directors the power to vary the use of funds if a restriction expressed by a donor would result in use of funds contrary to the intent originally understood. Based on the Variance Provision, all contributions received by the Foundation are reported as unrestricted support.

Pledges receivable and charitable lead trusts are reported as temporarily restricted support until received or matured. As resources are realized for use by the Foundation, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to give are recognized as revenue when the pledge is received from a donor.

Contributions of donated noncash assets are recorded at their fair values in the period received.

Cash and cash equivalents: The Foundation considers cash in demand deposit, money market accounts and other highly liquid debt instruments purchased with a maturity of three months or less accounts to be cash equivalents. The balances in these accounts at times may exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments in mutual funds and equity securities are stated at fair value as determined by quoted market prices and brokerage firm quotations. Fixed income securities are valued using a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system.

Purchases and sales of securities are recorded on a trade date basis; dividends are recorded as of the ex-dividend date, and interest income is recorded on an accrual basis. Realized and unrealized gains and losses are reflected in the accompanying statement of activities. See Note 4 for additional information about the determination of fair value.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Investment in real estate: The Foundation was gifted real estate property in the current year which is currently held for sale. Real estate was recorded at fair market value on the date of gift based on the appraisal property value.

Beneficial interest in charitable lead trusts: The Foundation is the beneficiary of several charitable lead trusts. The present value of expected future benefits related to these trusts is recognized when the trust is created and the Foundation is named as beneficiary. The present value is updated annually. See Note 4 for additional information about the determination of fair value.

Agency obligations: The Foundation accepts assets from unaffiliated nonprofit organizations that name themselves or their affiliates as the beneficiaries of the funds created. The Foundation maintains variance power and legal ownership of agency funds, and as such, continues to report the funds as assets of the Foundation. However, in accordance with accounting principles generally accepted in the United States of America, a liability has been established for the fair value of the funds and no contribution revenue recognized for the period in which the agency funds are received.

Grants: Grants are recorded as expenses when they are approved by the Board for payment.

Income taxes: The Foundation is exempt from federal income taxes under Section 501(c)(3) and 509(a)(1) of the Internal Revenue Code and has been determined to be an exempt charity which qualifies donations to the organization as charitable contributions for tax purposes. However, the Foundation may be subject to unrelated business tax on certain types of income.

The Foundation adopted the provisions of accounting for uncertainty in income tax positions as required by the Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification; however, management does not believe it is exposed to any such positions as they are defined in this guidance. The Foundation files Form 990, *Return of Organization Exempt from Income Tax*, annually with the United States Department of the Treasury and Form 990T, *Exempt Organization Business Income Tax Return*, when required. Such returns for the tax years ended June 30, 2010 through 2013 remain open to potential examination by taxing authorities.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing support to local charities and non-profits have been summarized on a functional basis in the statement of activities as program expenses. Certain costs have been allocated among the programs and supporting services on the basis of the activity benefited.

Estimates and assumptions: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, gains and other support and expenses. Actual results could differ from those estimates.

Subsequent events: Subsequent events have been evaluated through November 6, 2013, which was the date the financial statements were available to be issued.

Note 2. Cash and cash equivalents

Cash and cash equivalents consisted of the following at June 30, 2013 and 2012:

	2013	2012
Checking and savings accounts	\$ 122,986	\$ 196,766
Money market funds	1,455,466	825,197
	<u>\$ 1,578,452</u>	<u>\$ 1,021,963</u>

Note 3. Pledges Receivable

Pledges receivable as of June 30, 2013 and 2012 were expected to be collected in the following periods:

	2013	2012
One year or less	\$ 30,852	\$ 30,852
Between one and five years	123,408	123,408
More than five years	215,964	246,816
	<u>370,224</u>	<u>401,076</u>
Less present value discount (at a rate of 4.10%)	<u>(82,348)</u>	<u>(94,902)</u>
	<u>\$ 287,876</u>	<u>\$ 306,174</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements and Disclosures

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal years ended June 30, 2013 and 2012 the application of valuation techniques applied to similar assets and liabilities was consistent. The following is a description of the valuation methodologies used for instruments measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Mutual Funds and Equity Securities: Mutual funds and equity securities for which a quoted market price is available on an active market are classified as Level 1 in the fair value hierarchy.

Fixed Income Securities: Corporate and municipal bonds, along with other fixed income securities are priced by a computerized service using comparable sale prices or, for less actively traded issues, by utilizing a yield based matrix system.

Charitable Lead Trusts: Charitable Lead Trusts valued using the present value of expected cash flows. Established discount rates are based on IRS prescribed rates for charitable lead trusts plus a risk premium for unforeseen events which could reduce expected cash flows. Investment assets and rental properties currently fund cash outflows expected to be received on charitable leads. Due to the declining stock market, expected cash flows exceeded the underlying fair value of investment assets for one of the charitable lead trusts. In this instance, the fair value of the investment assets underlying the charitable lead trust were used to approximate fair value instead of expected cash flows. All investments underlying the charitable lead trust were Level 3 assets in the fair value hierarchy.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements and Disclosures (Continued)

The table below presents the balances of investments measured at fair value on a recurring basis.

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Consumer Discretionary	\$ 1,189,439	\$ -	\$ -	\$ 1,189,439
Consumer Staples	945,932	-	-	945,932
Energy	908,469	-	-	908,469
Financial	1,564,066	-	-	1,564,066
Healthcare	1,217,536	-	-	1,217,536
Industrials	1,236,268	-	-	1,236,268
Information Technology	1,423,581	-	-	1,423,581
Materials	496,380	-	-	496,380
Telecom Services	299,701	-	-	299,701
Utilities	74,925	-	-	74,925
Other	9,366	-	-	9,366
Fixed Income Securities				
Corporate Bonds				
Short term	-	357,137	-	357,137
Intermediate term	-	370,797	-	370,797
Long term	-	235,766	-	235,766
Government Bonds				
Short term	-	1,582,533	-	1,582,533
Intermediate term	-	392,969	-	392,969
Long term	-	276,537	-	276,537
Preferred High Yield Bond	-	9,449	-	9,449
Mutual Fund Bonds				
Intermediate term	743,209	-	-	743,209
Long term	762,505	-	-	762,505
Mutual Funds				
Large Cap	2,632,812	-	-	2,632,812
Charitable Lead Trusts	-	-	1,212,420	1,212,420
	<u>\$ 13,504,189</u>	<u>\$ 3,225,188</u>	<u>\$ 1,212,420</u>	<u>\$ 17,941,797</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements and Disclosures (Continued)

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Consumer Discretionary	\$ 1,142,975	\$ -	\$ -	\$ 1,142,975
Consumer Staples	651,368	-	-	651,368
Energy	824,207	-	-	824,207
Financial	1,344,012	-	-	1,344,012
Healthcare	837,105	-	-	837,105
Industrials	1,044,769	-	-	1,044,769
Information Technology	1,501,372	-	-	1,501,372
Materials	546,892	-	-	546,892
Telecom Services	268,286	-	-	268,286
Utilities	119,955	-	-	119,955
Fixed Income Securities				
Corporate Bonds				
Short term		364,654	-	364,654
Intermediate term		377,403	-	377,403
Long term		253,248	-	253,248
Government Bonds				
Short term		1,501,334	-	1,501,334
Intermediate term		499,344	-	499,344
Long term		345,895	-	345,895
Mutual Fund Bonds				
Short term	228,173	-	-	228,173
Long term	700,774	-	-	700,774
Mutual Funds				
Small Cap	392,436	-	-	392,436
Large Cap	1,365,303	-	-	1,365,303
Charitable Lead Trusts	-	-	1,441,392	1,441,392
	<u>\$ 10,967,627</u>	<u>\$ 3,341,878</u>	<u>1,441,392</u>	<u>\$ 15,750,897</u>

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	2013	2012
Balance, July 1	\$ 1,441,392	\$ 1,626,810
Charitable lead trust payments	(307,999)	(290,186)
Change in fair value	79,027	104,768
Balance, June 30	<u>\$ 1,212,420</u>	<u>\$ 1,441,392</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements and Disclosures (Continued)

Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value at June 30, 2013	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Charitable Lead Trusts	\$ 1,212,420	Discounted cash flow	Contractual payments Present value discount rate	Based on contractual payment terms as disclosed in Note 5 4.0%

The following schedule summarizes the investment returns and their classification in the Consolidated Statements of Activities at June 30, 2013 and 2012:

	2013	2012
Dividends	\$ 272,876	\$ 268,753
Interest	106,219	169,256
Net realized and unrealized gains (losses)	1,382,434	(492,485)
Custodial fees	(110,433)	(105,595)
Total investment income	<u>1,651,096</u>	<u>(160,071)</u>
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(116,324)	(123,629)
Net investment loss (gain)	<u>(457,949)</u>	<u>214,510</u>
 Total investment income included in changes in net assets	 <u>\$ 1,076,823</u>	 <u>\$ (69,190)</u>

Note 5. Charitable Lead Trusts

Beneficial interests in charitable lead trusts at June 30, 2013 and 2012, included interests in three trusts: one with a fixed annuity of \$100,000 payable annually for a period of 25 years beginning in December 2003, one with an annuity of \$62,600 for a period of nine years payable in quarterly installments beginning in September 2004 (matured in 2013), and one with variable annuity payments which totaled \$129,756 and \$127,856 for fiscal years 2013 and 2012, respectively, for a period of ten years payable in quarterly installments beginning in September 2010.

The Foundation expects the \$100,000 annual payments to deplete the trust corpus before the end of the 25-year term. Therefore, the fair value of the beneficial interest in this trust was limited to the fair value of the trust assets.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Charitable Lead Trusts (Continued)

The fair value of the beneficial interest in the \$62,600 lead trust was estimated as the present value of expected cash flows discounted at an annual rate of 4% for the year ended June 30, 2012. The lead trust term ended as of June 30, 2013.

The fair value of the beneficial interest in the variable lead trust was estimated as the present value of expected cash flows discounted at an annual rate of 4% for the years ended June 30, 2013 and 2012.

Total beneficial interests in charitable lead trusts include the following at June 30, 2013 and 2012:

	2013	2012
\$100,000 Lead Trust	\$ 384,257	\$ 443,038
\$62,600 Lead Trust	-	75,948
Variable Lead Trust	828,163	922,406
	<u>\$ 1,212,420</u>	<u>\$ 1,441,392</u>

Note 6. Board Designated Quasi-Endowments

Endowment is a commonly used term to refer to resources that have been restricted by the donor or designated by the Board (quasi-endowment) that will be invested to provide future revenue to support the Foundation's activities.

The Foundation's endowment consists of approximately 37 individual funds established for a variety of purposes. Its endowment includes board designated quasi-endowment funds only. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

In accordance with Uniform Prudent Management of Institutional Funds Act as adopted by the Commonwealth of Virginia (UPMIFA-VA), the Foundation considers the following factors in making a determination to appropriate or accumulate board designated endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Foundation and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Foundation;
7. The investment policies of the Foundation.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Board Designated Quasi-Endowments (Continued)

The endowment net assets consist entirely of board designated quasi-endowments, all of which are included in unrestricted net assets. Changes therein during the fiscal years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Endowment Net Assets, Beginning	\$ 5,417,419	\$ 5,693,351
Investment Return		
Interest and dividend income	56,862	168,558
Net appreciation (depreciation) in fair value of investments	389,818	(211,497)
Total investment return (loss)	446,680	(42,939)
Contributions	694,228	197,742
Appropriation of endowment assets for expenditure	(296,374)	(430,735)
Endowment Net Assets, Ending	\$ 6,261,953	5,417,419

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Finance Committee, the endowment assets are invested in a manner that is intended to ensure preservation of capital. Safety of principal is the primary objective. Investments are sufficiently liquid to enable the Foundation to meet all reasonable anticipated operating requirements, and return objectives are set based on a standard market rate of return, taking into account the cash flow characteristics of the investments.

Investment Objectives: The primary long-term objective of the Foundation is to accrue investment returns that exceed the annualized rate of inflation by approximately 5% over the long term. The Foundation seeks long term principal growth while preserving capital by means of minimizing the risk of substantial loss in asset value through investment in a diversified portfolio of quality investment securities. The primary investment goals are:

- Growth of the funds
- Preservation of principal
- Current distribution of 5%

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). 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 COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Board Designated Quasi-Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation's current spending policy regarding endowment income is established by the Foundation's Finance Committee and revisited on an annual basis. The Finance Committee will examine the endowment funds' earnings and establish an earnings spending plan for the upcoming fiscal year based on anticipated investment earnings. Spending may be taken from current income or, if current income is less than planned spending, from prior periods' retained earnings. The target annual distribution rate including fees is currently estimated at five percent of the twenty quarter moving average market value of the endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Note 7. Net Assets

Unrestricted net assets include the following types of funds:

Discretionary funds are not designated for any specific use and are available for operating expenses.

Donor-advised funds are established by donors who wish to actively participate in the grant process. Donors make annual recommendations to the Foundation's Board as to how monies should be spent. The Board decides to distribute these funds based on the donor recommendations received and considerations as to what best enhances and promotes philanthropy within the community.

Scholarship funds are established by donors who wish to establish scholarships for various purposes within the community. The Foundation Board determines scholarship recipients each year.

Field of Interest and Designated funds are established to benefit particular interest areas or specific charitable organizations. These funds are subject to variance power and are appropriated by the Board annually.

Fundraising funds are established by other nonprofit organizations to raise funds for their particular cause in the community. The Foundation performs all administrative tasks associated with the collecting and recording fundraising contributions. The Foundation Board approves all expenditures.

Unrestricted net assets as of June 30, 2013 and 2012 were comprised of the following:

	2013	2012
Discretionary	\$ 299,138	\$ 199,228
Donor advised	7,863,680	6,073,456
Scholarship	977,003	862,957
Field of interest and designations	2,595,689	2,324,478
Fundraising	88,205	72,883
Other	10,966	-
	<u>\$ 11,834,681</u>	<u>\$ 9,533,002</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Net Assets (Continued)

Temporarily restricted net assets consist of time restrictions on net pledges receivable and beneficial interests in charitable lead annuity trusts. See Notes 3 and 5 for a detailed summary of pledges receivable and charitable lead annuity trust balances.

Note 8. Related Party Relationships

The Foundation's investment portfolio is managed by professional investment advisory firms. Approximately 90% of the portfolio is managed by a firm whose principal is the spouse of a Board member and officer. During the fiscal years ended June 30, 2013 and 2012, custodial fees of \$110,433 and \$105,595, respectively, were paid directly to this firm.

Note 9. Noncash Contributions

Noncash contributions consisting of audit, legal and web maintenance services as well as printing and marketing materials totaled \$20,499 and \$8,022 for the years ended June 30, 2013 and 2012, respectively.

Noncash contributions related to stock donations were \$1,440, 896 and \$274,388 for the years ended June 30, 2013 and 2012, respectively.

The Foundation received a noncash contribution of real estate for the year ended June 30, 2013. The real estate was recorded at its appraised value of \$215,000.

Note 10. Lease Commitments and Total Rental Expense

The Foundation leases its office building under a lease term expiring August 30, 2014. The lease provides that the Foundation pay all property taxes, insurance and maintenance plus an annual rental of \$10,800. The lease terms allow for an increase in rent year over year not to exceed the CPI.

The total rental expense included in the Consolidated Statements of Activities was \$10,800 and \$10,300 for the years ended June 30, 2013 and 2012, respectively.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Unrelated Business Income Tax

During the year ended June 30, 2009, the Foundation received a gift of stock of a privately held S-Corporation which was subsequently sold for approximately \$922,000, with a portion of the proceeds receivable after year end. Pursuant to the Internal Revenue Code (IRC), the Foundation incurred unrelated business income tax as a result of the gift. During the year ended June 30, 2012, the Foundation sold its remaining interest in the stock of the aforementioned privately held S-Corporation. Proceeds from the sale were approximately \$130,000. The Foundation incurred unrelated business income tax as a result of the sale. The remaining balance of income tax was \$0- and \$44,300 as of June 30, 2013 and 2012, respectively.

During the year ended June 30, 2012, the Foundation sold its remaining interest in the stock of the aforementioned privately held S-Corporation. Proceeds from the sale were approximately \$130,000. Pursuant to IRC, the Foundation provided for unrelated business income tax of \$41,200 in the year ended June 30, 2012. The difference between income tax expense and tax on unrelated business income at the statutory rate is attributed to income taxed in lower brackets.