

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015



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 Consolidated 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 statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 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, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PB Maest, LLP

Harrisonburg, Virginia
November 11, 2015

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014**

	2015	2014
ASSETS		
Cash and Cash Equivalents	\$ 3,257,095	\$ 3,359,478
Pledges Receivable, net of present value discount	248,996	268,826
Investments	24,873,419	20,877,691
Investments in Real Estate	25,000	185,000
Beneficial Interests in Charitable Lead Trusts	864,236	1,075,088
Assets Held in Trust Under Split-Interest Agreements	415,739	565,334
Other assets	12,103	-
Total assets	\$ 29,696,588	\$ 26,331,417
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 6,326	\$ 5,610
Grants payable	14,730	4,300
Liabilities under split-interest agreements	277,352	333,301
Agency obligations	8,703,089	7,927,286
Total liabilities	9,001,497	8,270,497
Net Assets		
Unrestricted	19,443,472	16,484,972
Temporarily restricted	1,251,619	1,575,948
Total net assets	20,695,091	18,060,920
Total liabilities and net assets	\$ 29,696,588	\$ 26,331,417

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

**CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Total contributions	\$ 7,010,988	\$ -	\$ 7,010,988
Less amounts received for agency accounts	(1,928,404)	-	(1,928,404)
Change in fair value of charitable lead trusts	-	23,948	23,948
Change in fair value of charitable remainder trusts	-	43,309	43,309
Change in present value discount on long-term pledges	-	11,022	11,022
Contributions	5,082,584	78,279	5,160,863
Investment gain, net of expenses	489,451	-	489,451
Investment gain allocated to agency accounts	(156,742)	-	(156,742)
Investment gain	332,709	-	332,709
Other income	81,940	-	81,940
Net assets released through expiration of time restrictions	402,608	(402,608)	-
Net other support	484,548	(402,608)	81,940
Total revenue, gains and other support	5,899,841	(324,329)	5,575,512
Expenses			
Program services:			
Total grants	3,858,962	-	3,858,962
Less grants made from agency accounts	(1,229,540)	-	(1,229,540)
Other community support	73,716	-	73,716
Program services	2,703,138	-	2,703,138
General and administrative	210,371	-	210,371
Fundraising	27,832	-	27,832
Total expenses	2,941,341	-	2,941,341
Change in net assets	2,958,500	(324,329)	2,634,171
Net Assets, beginning of year	16,484,972	1,575,948	18,060,920
Net Assets, end of year	\$ 19,443,472	\$ 1,251,619	\$ 20,695,091

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

**CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Total contributions	\$ 6,054,428	\$ 238,500	\$ 6,292,928
Less amounts received for agency accounts	(591,562)	-	(591,562)
Change in fair value of charitable lead trusts	-	94,891	94,891
Change in fair value of charitable remainder trusts	-	(6,467)	(6,467)
Change in present value discount on long-term pledges	-	11,803	11,803
Contributions	<u>5,462,866</u>	<u>338,727</u>	<u>5,801,593</u>
Investment gain, net of expenses	2,755,473	-	2,755,473
Investment gain allocated to agency accounts	(935,108)	-	(935,108)
Investment gain	<u>1,820,365</u>	<u>-</u>	<u>1,820,365</u>
Other income	122,566	-	122,566
Net assets released through expiration of time restrictions	263,074	(263,074)	-
Net other support	<u>385,640</u>	<u>(263,074)</u>	<u>122,566</u>
Total revenue, gains and other support	<u>7,668,871</u>	<u>75,653</u>	<u>7,744,524</u>
Expenses			
Program services:			
Total grants	2,892,035	-	2,892,035
Less grants made from agency accounts	(184,515)	-	(184,515)
Other community support	96,466	-	96,466
Program services	<u>2,803,986</u>	<u>-</u>	<u>2,803,986</u>
General and administrative	185,018	-	185,018
Fundraising	29,576	-	29,576
Total expenses	<u>3,018,580</u>	<u>-</u>	<u>3,018,580</u>
Change in net assets	<u>4,650,291</u>	<u>75,653</u>	<u>4,725,944</u>
Net Assets, beginning of year	<u>11,834,681</u>	<u>1,500,295</u>	<u>13,334,976</u>
Net Assets, end of year	<u>\$ 16,484,972</u>	<u>\$ 1,575,948</u>	<u>\$ 18,060,920</u>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015**

	Program	General and Administrative	Fundraising	Total
Grant Disbursements	\$ 2,782,200	\$ -	\$ -	\$ 2,782,200
Fund Expenses	54,767	-	-	54,767
Fund Distributions	1,021,995	-	-	1,021,995
Salaries	58,611	128,450	21,141	208,202
Employee Benefits	5,873	12,871	2,119	20,863
Rent	3,322	7,280	1,198	11,800
Utilities	-	1,093	-	1,093
Equipment Purchases	-	5,762	-	5,762
IT Services	-	5,645	-	5,645
Marketing Media	-	-	1,942	1,942
Events	1,941	-	-	1,941
Staff Development	-	612	-	612
Dues and Membership	-	2,253	-	2,253
Staff Mileage	-	418	-	418
Professional Fees	-	25,693	-	25,693
FIMS Fees	3,969	8,699	1,432	14,100
Insurance Package	-	2,637	-	2,637
Board Expenses	-	804	-	804
Meals	-	56	-	56
License and Permits	-	325	-	325
Print and Photocopy	-	2,875	-	2,875
Postage and Delivery	-	1,889	-	1,889
Supplies	-	2,459	-	2,459
Other	-	550	-	550
	3,932,678	210,371	27,832	4,170,881
Less Agency Fund Activity	(1,229,540)	-	-	(1,229,540)
Total functional expenses	\$ 2,703,138	\$ 210,371	\$ 27,832	\$ 2,941,341

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014**

	Program	General and Administrative	Fundraising	Total
Grant Disbursements	\$ 2,828,828	\$ -	\$ -	\$ 2,828,828
Fund Expenses	13,941	-	-	13,941
Fund Distributions	49,266	-	-	49,266
Salaries	57,221	87,772	22,017	167,010
Employee Benefits	6,016	9,228	2,315	17,559
Rent	3,700	5,676	1,424	10,800
Utilities	-	1,098	-	1,098
Equipment Purchases	-	1,373	-	1,373
IT Services	-	3,770	-	3,770
Marketing Media	-	-	1,124	1,124
Events	26,515	-	1,536	28,051
Publications	-	2,861	-	2,861
Staff Development	-	1,744	-	1,744
Dues and Membership	-	580	-	580
Staff Mileage	-	271	-	271
Professional Fees	-	57,834	-	57,834
FIMS Fees	3,014	4,624	1,160	8,798
Insurance Package	-	2,228	-	2,228
Board Expenses	-	356	-	356
Meals	-	619	-	619
License and Permits	-	475	-	475
Print and Photocopy	-	518	-	518
Postage and Delivery	-	1,701	-	1,701
Supplies	-	1,275	-	1,275
Other	-	1,015	-	1,015
	2,988,501	185,018	29,576	3,203,095
Less Agency Fund Activity	(184,515)	-	-	(184,515)
Total functional expenses	\$ 2,803,986	\$ 185,018	\$ 29,576	\$ 3,018,580

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014**

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 2,634,171	\$ 4,725,944
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss (Gain) on investments	74,331	(2,420,603)
Loss on sale of real estate	32,685	22,400
Change in fair value of charitable lead trusts	(23,948)	(94,891)
Change in fair value of charitable remainder trusts	(28,660)	6,467
Change in present value allowance on pledges	(11,022)	(11,803)
Non-cash contributions, net of related charges	(4,038,585)	(4,473,981)
Non-cash contributions of real estate	-	(315,000)
Decrease in:		
Pledges receivable	30,852	30,852
Other assets	-	2,275
Increase (decrease) in:		
Accounts payable	716	(974)
Grants payable	10,430	4,300
Net cash provided by (used in) operating activities	(1,319,030)	(2,525,014)
Cash Flows From Investing Activities		
Annuity payments from charitable lead trusts	234,800	232,223
Proceeds from sale of real estate	117,315	322,600
Purchase of property and equipment	(12,103)	-
Proceeds from sale of investments	16,462,937	10,942,380
Purchase of investments	(16,362,105)	(8,434,609)
Net cash provided by (used in) investing activities	440,844	3,062,594
Cash Flows From Financing Activities		
Net change in agency obligations	775,803	1,243,446
Net cash provided by financing activities	775,803	1,243,446
Increase (decrease) in cash and cash equivalents	(102,383)	1,781,026
Cash and Cash Equivalents, beginning of year	3,359,478	1,578,452
Cash and Cash Equivalents, end of year	\$ 3,257,095	\$ 3,359,478
Supplemental Disclosures of Cash Flow Information		
Investment gains allocated to agency funds	\$ 55,396	\$ 812,373

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 (IRS) 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 consolidated 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, LC. 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 investments subject to split interest agreements 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 consolidated statements 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 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.

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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 consolidated statements 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 consolidated statements of financial position.

Investment in real estate: The Foundation was gifted real estate property in the prior year which is currently held for sale. Real estate was adjusted to fair market value on June 30, 2015.

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.

Assets held in trust under split interest agreements: The Foundation is trustee for two charitable remainder unitrusts. Assets funding the trust are included as separate accounting funds in the Foundation's aggregate investment pool. They are carried at their fair values and stated separately in the consolidated statements of financial position.

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 (ASC); 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.

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 consolidated statements 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 accordance 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 consolidated 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 11, 2015, which was the date the consolidated financial statements were available to be issued.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2015 and 2014:

	2015	2014
Checking and savings accounts	\$ 515,546	\$ 560,147
Money market funds	2,741,549	2,799,331
	<u>\$ 3,257,095</u>	<u>\$ 3,359,478</u>

Note 3. Pledges Receivable

Pledges receivable as of June 30, 2015 and 2014 were expected to be collected in the following periods:

	2015	2014
One year or less	\$ 30,852	\$ 30,852
Between one and five years	123,408	123,408
More than five years	154,260	185,112
	<u>308,520</u>	<u>339,372</u>
Less present value discount (at a rate of 4.10%)	(59,524)	(70,546)
	<u>\$ 248,996</u>	<u>\$ 268,826</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements and Disclosures

FASB 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, 2015 and 2014 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, 2015 and 2014.

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 tables below present the balances of investments measured at fair value on a recurring basis.

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Consumer discretionary	\$ 1,604,949	\$ -	\$ -	\$ 1,604,949
Consumer staples	1,337,458	-	-	1,337,458
Energy	936,220	-	-	936,220
Financial	2,674,915	-	-	2,674,915
Healthcare	1,872,441	-	-	1,872,441
Industrials	2,139,932	-	-	2,139,932
Information technology	1,604,949	-	-	1,604,949
Materials	401,237	-	-	401,237
Telecom services	534,983	-	-	534,983
Utilities	267,492	-	-	267,492
Fixed Income Securities				
Corporate bonds:				
Short-term	-	339,563	-	339,563
Intermediate term	-	831,726	-	831,726
Long-term	-	305,113	-	305,113
Government bonds:				
Short-term	-	2,101,384	-	2,101,384
Intermediate term	-	336,865	-	336,865
Long-term	-	483,922	-	483,922
Preferred high yield bond	-	40,038	-	40,038
Mutual fund bonds:				
Long-term	1,050,736	-	-	1,050,736
Mutual Funds				
Large cap	6,425,235	-	-	6,425,235
Charitable Lead Trusts	-	-	864,236	864,236
	<u>\$ 20,850,547</u>	<u>\$ 4,438,611</u>	<u>\$ 864,236</u>	<u>\$ 26,153,394</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, 2014			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Consumer discretionary	\$ 1,335,798	\$ -	\$ -	\$ 1,335,798
Consumer staples	1,001,849	-	-	1,001,849
Energy	1,001,849	-	-	1,001,849
Financial	2,003,697	-	-	2,003,697
Healthcare	1,558,431	-	-	1,558,431
Industrials	1,669,748	-	-	1,669,748
Information technology	1,558,431	-	-	1,558,431
Materials	445,266	-	-	445,266
Telecom services	333,949	-	-	333,949
Utilities	222,633	-	-	222,633
Fixed Income Securities				
Corporate bonds:				
Short-term	-	252,488	-	252,488
Intermediate term	-	660,525	-	660,525
Long-term	-	258,932	-	258,932
Government bonds:				
Short-term	-	1,464,073	-	1,464,073
Intermediate term	-	406,539	-	406,539
Long-term	-	292,290	-	292,290
Preferred high yield bond	-	14,273	-	14,273
Mutual fund bonds:				
Intermediate term	1,197,112	-	-	1,197,112
Long-term	834,154	-	-	834,154
Mutual Funds				
Large cap	4,930,988	-	-	4,930,988
Charitable Lead Trusts	-	-	1,075,088	1,075,088
	<u>\$ 18,093,905</u>	<u>\$ 3,349,120</u>	<u>\$ 1,075,088</u>	<u>\$ 22,518,113</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements and Disclosures (Continued)

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

	2015	2014
Balance, July 1	\$ 1,075,088	\$ 1,212,420
Charitable lead trust payments	(234,800)	(232,223)
Change in fair value	23,948	94,891
Balance, June 30	<u>\$ 864,236</u>	<u>\$ 1,075,088</u>

Quantitative Information About Level 3 Fair Value Measurements

	Fair Value at June 30, 2015	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Charitable Lead Trusts	\$ 864,236	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, 2015 and 2014:

	2015	2014
Dividends	\$ 589,697	\$ 361,571
Interest	116,821	96,572
Net realized and unrealized gains (losses)	(74,331)	2,420,603
Custodial fees	(142,736)	(123,273)
Total investment income	<u>489,451</u>	<u>2,755,473</u>
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(101,347)	(122,735)
Net investment gain	<u>(55,395)</u>	<u>(812,373)</u>
Total investment income included in changes in net assets	<u>\$ 332,709</u>	<u>\$ 1,820,365</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Charitable Lead Trusts

Beneficial interests in charitable lead trusts at June 30, 2015 and 2014, included interests in two trusts: one with a fixed annuity of \$100,000 payable annually for a period of 25 years beginning in December 2003, and one with variable annuity payments which totaled \$134,800 and \$132,250 for fiscal years 2015 and 2014, 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 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, 2015 and 2014.

Total beneficial interests in charitable lead trusts include the following at June 30, 2015 and 2014:

	2015	2014
\$100,000 Lead Trust	\$ 243,962	\$ 347,534
Variable Lead Trust	620,274	727,554
	<u>\$ 864,236</u>	<u>\$ 1,075,088</u>

Note 6. Charitable Remainder Trusts

The Foundation is named trustee on two charitable remainder unitrusts. The charitable remainder trusts provide for payment of distributions to designated beneficiaries of the lessor of trust income and 5% of the fair market value of the assets as of the first day of each year over the beneficiaries' lives. At the end of the trusts' terms, the remaining assets are available for the Foundation's use. During the year ended June 30, 2015, one of the charitable remainder unitrusts was terminated and the remaining funds were transferred to the remainder beneficiary, as stipulated in the trust agreement. Upon termination of the agreement, asset and liability accounts related to the agreement were closed, and the remaining amount was recognized as a change in the split-interest agreement.

Assets held in the charitable remainder trusts were \$415,739 and \$565,335 at June 30, 2015 and 2014, respectively and are reported at fair market value in investments. The present value of estimated future payments, calculated using a discount rate of 2.0% and 2.4%, respectively and applicable mortality table, was \$277,352 and \$333,301, at June 30, 2015 and 2014, respectively.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. 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 69 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; and
7. The investment policies of the Foundation.

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, 2015 and 2014 were as follows:

	2015	2014
Endowment Net Assets, beginning	\$ 9,370,838	\$ 6,261,953
Investment Return:		
Interest and dividend income	261,621	154,212
Net appreciation in fair value of investments	(108,936)	874,767
Total investment return	152,685	1,028,979
Contributions	510,034	2,608,392
Appropriation of endowment assets for expenditure	(459,293)	(528,486)
Endowment Net Assets, ending	\$ 9,574,264	9,370,838

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Board Designated Quasi-Endowments (Continued)

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.

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 5% 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 8. 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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Net Assets (Continued)

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, 2015 and 2014 were comprised of the following:

	2015	2014
Discretionary	\$ 456,555	\$ 405,743
Donor advised	14,136,912	11,375,689
Scholarship	1,211,363	1,133,529
Field of interest and designations	3,508,086	3,438,020
Fundraising	117,104	128,973
Other	13,452	3,018
	<u>\$ 19,443,472</u>	<u>\$ 16,484,972</u>

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Pledges receivable	\$ 248,996	\$ 268,826
Charitable remainder unitrust investments	415,739	565,335
Beneficial interests in charitable lead trusts	864,236	1,075,088
	<u>1,528,971</u>	<u>1,909,249</u>
Less liabilities under split-interest agreements	(277,352)	(333,301)
Temporarily restricted net assets	<u>\$ 1,251,619</u>	<u>\$ 1,575,948</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. 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 former Board member and officer who continues to serve as an advisor to the executive committee. During the fiscal years ended June 30, 2015 and 2014, custodial fees of \$141,318 and \$123,723, respectively, were paid directly to this firm.

Note 11. Noncash Contributions

Noncash contributions consisting of accounting, legal and web maintenance services as well as printing and marketing materials totaled \$2,588 and \$26,108 for the years ended June 30, 2015 and 2014, respectively.

Noncash contributions related to stock donations were \$4,026,293 and \$4,779,353 for the years ended June 30, 2015 and 2014, respectively.

The Foundation received a noncash contribution of real estate with appraised value of \$315,000 for the year ended June 30, 2014.

Note 12. Lease Commitments and Total Rental Expense

The Foundation leases its office building under a lease term expiring August 30, 2016. The lease provides that the Foundation pay an annual rental of \$14,400. 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 \$11,800 and \$10,800 for the years ended June 30, 2015 and 2014, respectively.