

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**



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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 statements of financial position as of June 30, 2016 and 2015, 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 (collectively, 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.

### **Auditor's 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 auditor's 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 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 The Community Foundation of Harrisonburg and Rockingham County and its subsidiaries as of June 30, 2016 and 2015, 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 Moore, LLP*

Harrisonburg, Virginia  
November 2, 2016

## **CONSOLIDATED FINANCIAL STATEMENTS**

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2016 and 2015**

	2016	2015
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,726,960	\$ 3,257,095
Pledges Receivable, net of present value discount	228,353	248,996
Note Receivable and Accrued Interest	270,599	-
Prepaid Expenses	12,106	-
Investments	26,373,792	24,873,419
Investments in Real Estate	-	25,000
Beneficial Interests in Charitable Lead Trusts	601,217	864,236
Beneficial Interest in Charitable Remainder Trust	44,238	-
Assets Held in Trust Under Split-Interest Agreements	402,536	415,739
Website, net of accumulated amortization	8,069	12,103
Property Pledge Receivable	250,000	-
Construction in Progress	18,503	-
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 31,936,373</b>	<b>\$ 29,696,588</b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 13,684	\$ 6,326
Grants payable	8,176	14,730
Liabilities under split-interest agreements	263,214	277,352
Agency obligations	8,339,137	8,703,089
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>8,624,211</b>	<b>9,001,497</b>
Net Assets		
Unrestricted	21,778,433	19,443,472
Temporarily restricted	1,533,729	1,251,619
	<hr/>	<hr/>
<b>Total net assets</b>	<b>23,312,162</b>	<b>20,695,091</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 31,936,373</b>	<b>\$ 29,696,588</b>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains and Other Support</b>			
Total contributions	\$ 5,240,408	\$ 583,941	\$ 5,824,349
Less amounts received for agency accounts	(573,101)	-	(573,101)
Interest from note receivable	7,721	675	8,396
Change in fair value of charitable lead trusts	-	11,331	11,331
Change in fair value of charitable remainder trust	-	5,021	5,021
Change in present value discount on long-term pledges	-	10,209	10,209
<b>Contributions</b>	<b>4,675,028</b>	<b>611,177</b>	<b>5,286,205</b>
Investment gain, net of expenses	372,215	-	372,215
Investment gain allocated to agency accounts	(50,507)	-	(50,507)
<b>Investment gain</b>	<b>321,708</b>	<b>-</b>	<b>321,708</b>
Other income	78,739	-	78,739
Net assets released through expiration of time restrictions	329,067	(329,067)	-
<b>Net other support</b>	<b>407,806</b>	<b>(329,067)</b>	<b>78,739</b>
<b>Total revenue, gains and other support</b>	<b>5,404,542</b>	<b>282,110</b>	<b>5,686,652</b>
<b>Expenses</b>			
Program services:			
Total grants	3,612,033	-	3,612,033
Less grants made from agency accounts	(910,005)	-	(910,005)
Other community support	134,742	-	134,742
<b>Program services</b>	<b>2,836,770</b>	<b>-</b>	<b>2,836,770</b>
General and administrative	188,321	-	188,321
Fundraising	44,490	-	44,490
<b>Total expenses</b>	<b>3,069,581</b>	<b>-</b>	<b>3,069,581</b>
<b>Change in net assets</b>	<b>2,334,961</b>	<b>282,110</b>	<b>2,617,071</b>
Net Assets, beginning of year	19,443,472	1,251,619	20,695,091
Net Assets, end of year	\$ 21,778,433	\$ 1,533,729	\$ 23,312,162

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains and Other Support</b>			
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
<b>Contributions</b>	<b>5,082,584</b>	<b>78,279</b>	<b>5,160,863</b>
Investment gain, net of expenses	489,451	-	489,451
Investment gain allocated to agency accounts	(156,742)	-	(156,742)
<b>Investment gain</b>	<b>332,709</b>	<b>-</b>	<b>332,709</b>
Other income	81,940	-	81,940
Net assets released through expiration of time restrictions	402,608	(402,608)	-
<b>Net other support</b>	<b>484,548</b>	<b>(402,608)</b>	<b>81,940</b>
<b>Total revenue, gains and other support</b>	<b>5,899,841</b>	<b>(324,329)</b>	<b>5,575,512</b>
<b>Expenses</b>			
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
<b>Program services</b>	<b>2,703,138</b>	<b>-</b>	<b>2,703,138</b>
General and administrative	210,371	-	210,371
Fundraising	27,832	-	27,832
<b>Total expenses</b>	<b>2,941,341</b>	<b>-</b>	<b>2,941,341</b>
<b>Change in net assets</b>	<b>2,958,500</b>	<b>(324,329)</b>	<b>2,634,171</b>
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 FUNCTIONAL EXPENSES**

**Year Ended June 30, 2016**

	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Grant Disbursements	\$ 2,700,909	\$ -	\$ -	\$ 2,700,909
Fund Expenses	11,109	-	-	11,109
Fund Distributions	900,015	-	-	900,015
Salaries	104,985	100,750	27,654	233,389
Employee Benefits	11,071	10,624	2,918	24,613
Rent	6,478	6,216	1,706	14,400
Utilities	-	1,071	-	1,071
Equipment Purchases	-	2,626	-	2,626
Amortization	-	4,034	-	4,034
IT Services	-	8,057	-	8,057
Marketing Media	-	-	6,693	6,693
Events	5,439	-	3,736	9,175
Staff Development	-	8,546	-	8,546
Dues and Membership	-	2,646	-	2,646
Staff Mileage	-	611	-	611
Professional Fees	-	21,626	-	21,626
FIMS Fees	6,769	6,496	1,783	15,048
Insurance Package	-	2,662	-	2,662
Board Expenses	-	1,226	-	1,226
Meals	-	625	-	625
License and Permits	-	325	-	325
Print and Photocopy	-	4,010	-	4,010
Postage and Delivery	-	2,076	-	2,076
Supplies	-	2,285	-	2,285
Other	-	1,809	-	1,809
	<b>3,746,775</b>	<b>188,321</b>	<b>44,490</b>	<b>3,979,586</b>
Less Agency Fund Activity	<b>(910,005)</b>	<b>-</b>	<b>-</b>	<b>(910,005)</b>
<b>Total functional expenses</b>	<b>\$ 2,836,770</b>	<b>\$ 188,321</b>	<b>\$ 44,490</b>	<b>\$ 3,069,581</b>

**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
	<u>3,932,678</u>	<u>210,371</u>	<u>27,832</u>	<u>4,170,881</u>
Less Agency Fund Activity	<u>(1,229,540)</u>	<u>-</u>	<u>-</u>	<u>(1,229,540)</u>
<b>Total functional expenses</b>	<u><u>\$ 2,703,138</u></u>	<u><u>\$ 210,371</u></u>	<u><u>\$ 27,832</u></u>	<u><u>\$ 2,941,341</u></u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended June 30, 2016 and 2015**

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ 2,617,071	\$ 2,634,171
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization	4,034	-
Loss on investments	252,832	74,331
Change in fair value of charitable lead trusts	(11,331)	(23,948)
Change in fair value of charitable remainder trusts, net	(18,602)	(28,660)
Change in present value discount on pledges	(10,209)	(11,022)
Noncash contributions, net of related charges	(3,775,356)	(4,038,585)
Decrease (increase) in:		
Pledges receivable	(219,148)	30,852
Accrued interest	(675)	-
Prepaid expenses	(12,106)	-
Increase (decrease) in:		
Accounts payable	7,358	716
Grants payable	(6,554)	10,430
<b>Net cash used in operating activities</b>	<b>(1,172,686)</b>	<b>(1,351,715)</b>
Cash Flows From Investing Activities		
Annuity payments from charitable lead trusts	274,350	234,800
Proceeds from sale of real estate	24,518	117,315
Purchase of property and equipment	-	(12,103)
Proceeds from repayment of note receivable	19,779	-
Proceeds from sale of investments	8,961,094	16,495,622
Purchase of investments	(7,254,735)	(16,362,105)
Construction in progress	(18,503)	-
<b>Net cash provided by investing activities</b>	<b>2,006,503</b>	<b>473,529</b>
Cash Flows From Financing Activities		
Net change in agency obligations	(363,952)	775,803
<b>Net cash provided by (used in) financing activities</b>	<b>(363,952)</b>	<b>775,803</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>469,865</b>	<b>(102,383)</b>
Cash and Cash Equivalents, beginning of year	3,257,095	3,359,478
Cash and Cash Equivalents, end of year	\$ 3,726,960	\$ 3,257,095
Supplemental Disclosures of Cash Flow Information		
Investment gains (losses) allocated to agency funds	\$ (64,571)	\$ 55,395

# THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 purposeful giving and active engagement in our community 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, TCF Holding, LC, and Eastham, 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.

Receivables (pledges, notes, and property 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.

**Notes receivable:** Notes receivable are carried at their estimated collectible amounts. Receivables are periodically evaluated for collectability based on past collection history and their current financial condition. Provisions for losses are determined based on these criteria as well as past loss history and current economic conditions. Notes receivable are primarily from estate gifts where the Foundation is a beneficiary of the estate of donor. Notes receivable are presented at their net realized value as evaluated by management at year end. Interest on notes receivable is calculated using the simple interest method on principal amounts outstanding.

# THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 consolidated statements of activities. See Note 5 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 a prior year, the remaining parcel of which was sold on July 7, 2015. As of June 30, 2016, the Foundation has no real property held for investment.

**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 6 for additional information about the determination of fair value.

**Property receivable:** Property receivable is reflected at the value of the upfront contribution as determined by the City of Harrisonburg and stipulated in the purchase agreement between the Foundation and the City of Harrisonburg dated April 12, 2016.

**Website, net of accumulated amortization:** Assets costing in excess of \$5,000 with a useful life of more than 1 year are capitalized. The website was placed in service in October 2015 and is reported at the cost of design services incurred net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the asset. The website's estimated useful life is three years.

**Construction in progress:** Construction in progress reflects amounts incurred to date by the Foundation for renovation of the Eastham House, the future offices for the Foundation. Capital costs will be accumulated throughout the construction period. Once the building is placed in service, the building and systems will be reported at cost net of accumulated depreciation.

**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 one charitable remainder unitrust. Assets funding the trust are held in a separate investment account and monitored by the Foundation investment committee. They are carried at their fair values and stated separately in the consolidated statements of financial position.

# THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**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.

**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.

**Recent accounting pronouncements:** In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for a not-for-profit entity. The ASU requires nonprofits to:

1. Present on the face of the consolidated statements of financial position amounts for two classes of net assets at the end of the period, rather than the currently required three classes (unrestricted, temporarily restricted, and permanently restricted). A nonprofit will report amounts for net assets *with donor restrictions* and *without donor restrictions*.
2. Present on the face of the consolidated statements of activities the amount of the change in each of the two classes of net assets.
3. Present on the face of the consolidated statements of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method reconciliation if using the direct method.
4. Provide enhanced disclosures about:
  - a. Amounts and purpose of board designations.
  - b. Composition of net assets *with donor restrictions* and how the restrictions affect the use of resources.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

4. Provide enhanced disclosures about: (Continued)
  - c. Qualitative information that communicates how a nonprofit manages its liquid resources available to meet cash needs for general expenditures within one year of the consolidated statements of financial position date.
  - d. Quantitative information that communicates the availability of a nonprofit's financial assets at the consolidated statements of financial position date to meet cash needs for general expenditures within one year.
  - e. Amounts of expenses by both their natural classification and their functional classification.
  - f. Methods used to allocate costs among program and support functions.
  - g. Underwater endowment funds, to include:
    - i. policies concerning underwater endowment funds;
    - ii. aggregate fair value of such funds;
    - iii. aggregate of the original gift amounts to be maintained; and
    - iv. aggregate amount by which funds are underwater.
5. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.
6. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets *with donor restrictions* to *without donor restrictions* for such long-lived assets that have been placed in services.

The ASU is effective for years beginning after December 15, 2017. Early application is permitted. The amendments should be applied on a retrospective basis in the year that the ASU is first applied. While this ASU will change the presentation of the Foundation's consolidated financial statements it is not expected to alter the Organization's reported financial position or activities.

**Subsequent events:** Subsequent events have been evaluated through November 2, 2016, which was the date the consolidated financial statements were available to be issued.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 2. Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>
Checking and savings accounts	\$ 946,913	\$	515,546
Money market funds	<b>2,780,047</b>		2,741,549
	<b>\$ 3,726,960</b>	\$	<b>3,257,095</b>

**Note 3. Pledges Receivable**

Pledges receivable as of June 30, 2016 and 2015 were expected to be collected in the following periods:

	<u>2016</u>		<u>2015</u>
One year or less	\$ 30,852	\$	30,852
Between one and five years	<b>123,408</b>		123,408
More than five years	<b>123,408</b>		154,260
	<b>277,668</b>		308,520
Less present value discount (at a rate of 4.10%)	<b>(49,315)</b>		<b>(59,524)</b>
	<b>\$ 228,353</b>	\$	<b>248,996</b>

**Note 4. Note Receivable**

On September 23, 2015, the Foundation was assigned, as part of its beneficiary interest in the estate of a donor, a promissory note with a principal balance on the date of assignment of \$289,703. The promissory note is further secured by a deed of trust on real property located in Rockingham County, Virginia and bears interest at the rate of 3% per year. Payments of principal and interest in the amount of \$2,500 are due and payable on the sixth day of each month continuing through December 6, 2027. The promissory note had a principal balance of \$269,924 as of June 30, 2016 and accrued interest totaled \$675 as of June 30, 2016.

Future note receivable maturities are as follows as of June 30, 2016

<u>Years Ending June 30,</u>	<u>Amount</u>
2017	\$ 22,206
2018	22,881
2019	23,577
2020	24,294
2021	25,033
Thereafter	<u>151,933</u>
	<b>\$ 269,924</b>



**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. 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, 2016 and 2015 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, 2016 and 2015.

*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 are 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.

*Charitable Remainder Trusts:* Charitable Remainder Trusts for which the Foundation is a remainder beneficiary and which are held in trust by an independent trustee are valued at the present value of the anticipated remainder interest of the trust based on the fair market value of the underlying securities in the trust, the payout rate to the income beneficiary of the trust, and the actuarial tables and interest rates prescribed by Section 7520 of the Internal Revenue Service Code. The present value of the anticipated remainder interest in the trust is valued as a Level 3 asset in the fair value hierarchy. Charitable Remainder Trusts for which the Foundation functions as trustee and remainder beneficiary are included as Level 1 assets in the fair value hierarchy.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. 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, 2016			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Consumer discretionary	\$ 1,553,303	\$ -	\$ -	\$ 1,553,303
Consumer staples	1,501,526	-	-	1,501,526
Energy	931,982	-	-	931,982
Financial	2,601,782	-	-	2,601,782
Healthcare	1,786,298	-	-	1,786,298
Industrials	1,902,796	-	-	1,902,796
Information technology	1,579,191	-	-	1,579,191
Materials	336,549	-	-	336,549
Telecom services	504,823	-	-	504,823
Utilities	245,940	-	-	245,940
Fixed Income Securities				
Corporate bonds:				
Short-term	-	173,263	-	173,263
Intermediate-term	-	873,911	-	873,911
Long-term	-	338,201	-	338,201
Government bonds:				
Short-term	-	2,058,614	-	2,058,614
Intermediate-term	-	404,750	-	404,750
Long-term	-	549,135	-	549,135
Mutual Fund Bonds				
Short-term	66,310	-	-	66,310
Intermediate Term	73,919	-	-	73,919
Long-term	1,296,036	-	-	1,296,036
Mutual Fund				
Large cap	7,997,999	-	-	7,997,999
Note Receivable	-	-	270,599	270,599
Charitable Trusts	-	-	645,455	645,455
<b>Total assets</b>	<b>\$ 22,378,454</b>	<b>\$ 4,397,874</b>	<b>\$ 916,054</b>	<b>\$ 27,692,382</b>

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
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**Note 5. Fair Value Measurements and Disclosures (Continued)**

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Equity Securities</b>				
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
<b>Fixed Income Securities</b>				
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
<b>Mutual Fund Bond</b>				
Long-term	1,050,736	-	-	1,050,736
<b>Mutual Fund</b>				
Large cap	6,425,235	-	-	6,425,235
Charitable 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 changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	2016	2015
Balance, July 1	\$ 864,236	\$ 1,075,088
Charitable remainder trust additions	44,238	-
Charitable lead trust payments	(274,350)	(234,800)
Note receivable contributions	289,703	-
Note receivable payments	(19,104)	-
Change in fair value	11,331	23,948
Balance, June 30	<u>\$ 916,054</u>	<u>\$ 864,236</u>

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Fair Value Measurements and Disclosures (Continued)**

Quantitative Information About Level 3 Fair Value Measurements						
	<b>Fair Value at June 30, 2016</b>	Fair Value at June 30, 2015	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Charitable Lead Trusts	\$ 601,217	\$ 864,236	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 6	
				Present value discount rate	4.0%	
Charitable Remainder Trust	44,238	-	Present value of projected remainder interest	Contractual payments and life expectancy of income beneficiary	Based on contractual payment terms as disclosed in Note 7	
				Present value discount rate	1.8%	
Note Receivable	270,599	-	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 4	

The following schedule summarizes the investment returns and their classification in the consolidated statements of activities at June 30, 2016 and 2015:

	2016	2015
Dividends	\$ 658,816	\$ 589,697
Interest	122,148	116,821
Net realized and unrealized loss	(252,832)	(74,331)
Custodial fees	(155,917)	(142,736)
<b>Total investment income</b>	<b>372,215</b>	489,451
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(115,078)	(101,347)
Net investment gain (loss)	64,571	(55,395)
<b>Total investment income included in changes in net assets</b>	<b>\$ 321,708</b>	\$ 332,709

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 6. Charitable Lead Trusts**

The Foundation is the beneficiary of two Charitable Lead Trusts, both of which provide an income benefit to the Foundation for a stated period of time. Upon maturity, any remaining trust assets revert to the original donor. One trust provides a fixed annuity payment of \$100,000 to the Foundation annually for a period of 25 years beginning in December 2003. The other trust provides quarterly variable annuity payments to the Foundation for a ten year period through September 2020. Payments from the latter trust totaled \$174,350 and \$134,800 for fiscal years 2016 and 2015, respectively.

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% as of June 30, 2016 and 2015.

Total beneficial interests in charitable lead trusts include the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
\$100,000 Lead Trust	\$ 132,354	\$ 243,962
Variable Lead Trust	468,863	620,274
	<u>\$ 601,217</u>	<u>\$ 864,236</u>

**Note 7. Charitable Remainder Trust**

The Foundation is named trustee on one charitable remainder unitrust. This charitable remainder trust provides for payment of distributions to designated beneficiaries of the lesser of trust income or 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 trust's term, the remaining assets are available for the Foundation's use.

Assets held in the charitable remainder trust were \$402,536 and \$415,739 at June 30, 2016 and 2015, respectively and are reported at fair market value in investments. The present value of estimated future payments, calculated using a discount rate of 1.8% and 2.0% at June 30, 2016 and 2015, respectively, and applicable mortality table, was \$263,214 and \$277,352, at June 30, 2016 and 2015, respectively.

**Note 8. 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 43 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.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
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**Note 8. Board Designated Quasi-Endowments (Continued)**

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, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Endowment Net Assets, beginning	\$ <b>9,574,264</b>	\$ 9,370,838
Investment return:		
Interest and dividend income	266,451	261,621
Net appreciation in fair value of investments	<b>(67,936)</b>	(108,936)
<b>Total investment return</b>	<b>198,515</b>	152,685
Contributions	<b>1,891,613</b>	510,034
Appropriate of endowment assets for expenditure	<b>(604,839)</b>	(459,293)
Endowment Net Assets, ending	\$ <b>11,059,553</b>	\$ 9,574,264

*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.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 8. Board Designated Quasi-Endowments (Continued)**

*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 4%

*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 Investment Committee and revisited on an annual basis. The Investment 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, not including administrative fees is currently estimated at 4% of the twenty quarter moving average market value of the endowment fund. Distributions for Foundation administrative fees range from 1%-1.75% annually depending on fund type per the Foundation's fee policy. 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 9. 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.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 9. Net Assets (Continued)**

*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, 2016 and 2015 were comprised of the following:

	<u>2016</u>	<u>2015</u>
Discretionary	\$ 513,558	\$ 456,555
Donor advised	14,751,735	14,136,912
Scholarship	2,698,162	1,211,363
Field of interest and designations	3,693,751	3,508,086
Fundraising	121,227	117,104
Other	-	13,452
	<u>\$ 21,778,433</u>	<u>\$ 19,443,472</u>

**Note 10. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Pledges, net of present value discount	\$ 228,353	\$ 248,996
Note receivable and accrued interest	270,599	-
Charitable remainder unitrust investments held in trust	402,536	415,739
Beneficial interests in charitable lead trusts	601,217	864,236
Beneficial interest in charitable remainder unitrust	44,238	-
Other receivables	250,000	-
	<u>1,796,943</u>	<u>1,528,971</u>
Less liabilities under split-interest agreements held in trust	<u>(263,214)</u>	<u>(277,352)</u>
	<u>\$ 1,533,729</u>	<u>\$ 1,251,619</u>

**Note 11. Related Party Relationships**

From time to time the Foundation enters into transactions with related parties in the ordinary course of business. All such transactions are subject to governance oversight in accordance with the Foundation's conflict of interest policies.



**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY**  
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**Note 12. Noncash Contributions**

Noncash contributions related to stock donations were \$3,441,415 and \$4,026,293 for the years ended June 30, 2016 and 2015, respectively.

**Note 13. Lease Commitments and Total Rental Expense**

The Foundation leases its office building under a lease term expiring September 1, 2017. 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 \$14,400 and \$11,800 for the years ended June 30, 2016 and 2015, respectively.

**Note 14. Other Commitments**

On April 12, 2016, the Foundation entered into a purchase agreement with the City of Harrisonburg for real property and improvements commonly referred to as the Eastham House and located at 317 South Main Street in Harrisonburg, Virginia. As part of this purchase agreement and related City Council Resolutions, the City of Harrisonburg agreed to donate the Eastham House and the real property surrounding it to the Foundation. In return, the Foundation agreed to invest a minimum of \$440,000 to renovate, repair, and refurbish the existing building into office space. In addition, the Foundation committed to give the City a right of first refusal on the property at a discounted price, should the property ever be offered for sale. The City and the Foundation closed on the property on October 17, 2016.