

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018



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, 2018 and 2017, 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, 2018 and 2017, 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 Maes, LLP

Harrisonburg, Virginia
December 27, 2018

CONSOLIDATED FINANCIAL STATEMENTS

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 11,534,070	\$ 4,827,791
Pledges receivable, net of present value discount	2,056,924	295,617
Notes receivable and accrued interest	321,905	248,337
Prepaid expenses and other assets	38,713	13,624
Investments	31,782,469	27,590,785
Beneficial interests in charitable lead trusts	38,328	272,091
Beneficial interest in charitable remainder trust	48,337	46,283
Assets held in trust under split-interest agreement	446,686	438,796
Property and equipment, net	1,074,066	266,335
Construction in progress	-	284,426
	<hr/>	<hr/>
Total assets	\$ 47,341,498	\$ 34,284,085
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LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 10,994	\$ 25,148
Grants payable	-	5,500
Liabilities under split-interest agreements	277,857	280,202
Agency obligations	8,801,865	8,046,395
	<hr/>	<hr/>
Total liabilities	9,090,716	8,357,245
	<hr/>	<hr/>
Net assets:		
Unrestricted:		
Controlling interest	35,612,990	24,903,370
Noncontrolling interest	3,469	2,548
	<hr/>	<hr/>
	35,616,459	24,905,918
Temporarily restricted	2,634,323	1,020,922
	<hr/>	<hr/>
Total net assets	38,250,782	25,926,840
	<hr/>	<hr/>
Total liabilities and net assets	\$ 47,341,498	\$ 34,284,085
	<hr/> <hr/>	<hr/> <hr/>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:			
Total contributions	\$ 14,059,223	\$ 1,845,000	\$ 15,904,223
Less amounts received for agency accounts	(1,285,858)	-	(1,285,858)
Interest on notes receivable	6,499	562	7,061
Change in value of charitable lead trusts	-	7,838	7,838
Change in value of charitable remainder trust	-	(6,009)	(6,009)
Change in present value discount on long-term pledges	-	12,504	12,504
Contributions	12,779,864	1,859,895	14,639,759
Investment income, net of expenses	2,025,680	-	2,025,680
Investment income allocated to agency accounts	(346,663)	-	(346,663)
Investment gain	1,679,017	-	1,679,017
Other income	232,741	-	232,741
Net assets released through expiration of time restrictions	246,494	(246,494)	-
Net other support	479,235	(246,494)	232,741
Total revenue, gains and other support	14,938,116	1,613,401	16,551,517
Expenses:			
Program services:			
Total grants	4,549,051	-	4,549,051
Less grants made from agency accounts	(852,988)	-	(852,988)
Other community support	205,647	-	205,647
Program services	3,901,710	-	3,901,710
General and administrative	272,162	-	272,162
Fundraising	54,624	-	54,624
Total expenses	4,228,496	-	4,228,496
Change in net assets before noncontrolling interest in Eastham, LLC	10,709,620	1,613,401	12,323,021
Noncontrolling interest in the activities of Eastham, LLC	921	-	921
Change in net assets	10,710,541	1,613,401	12,323,942
Net assets, beginning of year	24,905,918	1,020,922	25,926,840
Net assets, end of year	\$ 35,616,459	\$ 2,634,323	\$ 38,250,782

See Notes to Consolidated Financial Statements.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:			
Total contributions	\$ 5,790,962	\$ 88,753	\$ 5,879,715
Less amounts received for agency accounts	(1,005,115)	-	(1,005,115)
Interest on notes receivable	7,119	619	7,738
Change in value of charitable lead trusts		16,979	16,979
Change in value of charitable remainder trusts	-	(24,273)	(24,273)
Change in present value discount on long-term pledges	-	9,363	9,363
Contributions	4,792,966	91,441	4,884,407
Investment income, net of expenses	2,752,693	-	2,752,693
Investment income allocated to agency accounts	(653,829)	-	(653,829)
Investment gain	2,098,864	-	2,098,864
Other income	171,805	-	171,805
Net assets released through expiration of time restrictions	604,248	(604,248)	-
Net other support	776,053	(604,248)	171,805
Total revenue, gains and other support	7,667,883	(512,807)	7,155,076
Expenses:			
Program services:			
Total grants	6,015,783	-	6,015,783
Less grants made from agency accounts	(1,879,968)	-	(1,879,968)
Other community support	169,007	-	169,007
Program services	4,304,822	-	4,304,822
General and administrative	194,707	-	194,707
Fundraising	43,417	-	43,417
Total expenses	4,542,946	-	4,542,946
Change in net assets before noncontrolling interest in Eastham, LLC	3,124,937	(512,807)	2,612,130
Noncontrolling interest in the activities of Eastham, LLC	2,548	-	2,548
Change in net assets	3,127,485	(512,807)	2,614,678
Net assets, beginning of year	21,778,433	1,533,729	23,312,162
Net assets, end of year	\$ 24,905,918	\$ 1,020,922	\$ 25,926,840

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 3,696,063	\$ -	\$ -	\$ 3,696,063
Fund distributions	852,988	-	-	852,988
Salaries	125,021	118,402	31,130	274,553
Equipment purchases	-	49,739	-	49,739
Employee benefits	12,349	12,766	3,371	28,486
Depreciation and amortization	12,380	11,725	3,083	27,188
Professional fees	315	26,132	78	26,525
Events	21,146	-	3,919	25,065
FIMS fees	11,206	10,614	2,791	24,611
Utilities	3,473	3,920	865	8,258
Other	-	8,084	-	8,084
Maintenance	7,183	-	-	7,183
Insurance package	-	6,555	-	6,555
Dues and membership	2,948	2,792	734	6,474
IT services	2,870	2,718	715	6,303
Marketing media	-	-	6,256	6,256
Rent	2,186	2,070	544	4,800
Meals	-	4,164	-	4,164
Software	1,762	1,669	439	3,870
Print and photocopy	-	2,925	-	2,925
Supplies	1,344	1,272	335	2,951
Publications	-	2,259	-	2,259
Postage and delivery	864	819	215	1,898
License and permits	-	1,750	-	1,750
Staff development	600	568	149	1,317
Staff mileage	-	743	-	743
Board	-	476	-	476
	4,754,698	272,162	54,624	5,081,484
Less agency fund activity	(852,988)	-	-	(852,988)
Total functional expenses	\$ 3,901,710	\$ 272,162	\$ 54,624	\$ 4,228,496

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 4,135,815	\$ -	\$ -	\$ 4,135,815
Fund distributions	1,879,968	-	-	1,879,968
Salaries	113,272	108,198	29,060	250,530
Equipment purchases	-	2,052	-	2,052
Employee benefits	10,664	11,932	3,986	26,582
Depreciation and amortization	1,824	1,742	468	4,034
Professional fees	5,254	29,183	1,348	35,785
Events	4,711	-	-	4,711
FIMS fees	10,718	10,237	2,750	23,705
Utilities	785	749	201	1,735
Other	-	958	-	958
Maintenance	7,224	-	-	7,224
Insurance package	-	4,931	-	4,931
Dues and membership	1,456	1,391	374	3,221
IT services	2,074	1,981	532	4,587
Marketing media	-	-	1,969	1,969
Rent	6,511	6,219	1,670	14,400
Meals	-	2,895	-	2,895
Software	1,407	1,344	361	3,112
Print and photocopy	-	3,273	-	3,273
Supplies	868	829	223	1,920
Publications	384	3,368	-	3,752
Postage and delivery	715	683	183	1,581
License and permits	-	500	-	500
Staff development	1,140	1,089	292	2,521
Staff mileage	-	630	-	630
Board	-	523	-	523
	<u>6,184,790</u>	<u>194,707</u>	<u>43,417</u>	<u>6,422,914</u>
Less agency fund activity	<u>(1,879,968)</u>	<u>-</u>	<u>-</u>	<u>(1,879,968)</u>
Total functional expenses	<u>\$ 4,304,822</u>	<u>\$ 194,707</u>	<u>\$ 43,417</u>	<u>\$ 4,542,946</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 12,323,942	\$ 2,614,678
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	27,188	4,034
Gain on investments	(1,442,110)	(2,205,984)
Change in value of charitable lead trusts	(7,837)	(16,979)
Change in value of charitable remainder trusts, net	(4,399)	20,090
Change in present value discount on long-term pledges	(12,504)	(9,363)
Noncash contributions, net of related charges	(8,641,458)	(2,931,505)
Decrease (increase) in:		
Pledges receivable	(1,748,803)	(63,048)
Accrued interest	57	56
Prepaid expenses and other assets	(25,089)	(1,518)
Increase (decrease) in:		
Accounts payable	(14,154)	1,036
Grants payable	(5,500)	(2,676)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	449,333	(2,591,179)
	<hr/>	<hr/>
Cash flows from investing activities:		
Charitable lead trust distributions	241,600	346,105
Purchase of property and equipment	(115,279)	(12,300)
Proceeds from notes receivable	27,881	22,206
Proceeds from sale of investments	14,166,404	10,984,269
Purchase of investments	(8,393,916)	(7,100,033)
Payments for construction	(425,214)	(255,495)
	<hr/>	<hr/>
Net cash provided by investing activities	5,501,476	3,984,752
	<hr/>	<hr/>
Cash flows from financing activities:		
Net change in agency obligations	755,470	(292,742)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	755,470	(292,742)
	<hr/>	<hr/>
Increase in cash and cash equivalents	6,706,279	1,100,831
Cash and cash equivalents, beginning of year	4,827,791	3,726,960
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 11,534,070	\$ 4,827,791
	<hr/>	<hr/>
Supplemental disclosure of cash flow information:		
Investment gains allocated to agency funds	\$ 293,141	\$ 549,522

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 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 or promised 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 subsidiaries, The Valley Responds, LLC, Showker Memorial Gardens, LLC, TCF Holding, LC, and Eastham, LLC. All significant transactions and accounts among the entities have been eliminated. The Foundation consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. All subsidiaries of the Foundation are wholly owned or controlled by the Foundation.

Support and revenue recognition: The Foundation reports contributions received in connection with its charitable component funds 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, substantially all contributions received by the Foundation in connection with its charitable funds are reported as unrestricted support.

Contributions and grants received in connection with a specific capital purpose of the Foundation itself, not subject to the variance provision above, are reported as temporarily restricted until the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time.

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 deposits, 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.

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

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

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.

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 property during fiscal year ending June 30, 2018 which is currently held for sale. Real estate was adjusted to fair market value on June 30, 2018.

Beneficial interest in charitable lead trust: The Foundation is the beneficiary of a charitable lead trust. The present value of expected future benefits related to this trust 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 Foundation's charitable lead trust.

Property and equipment, net: Foundation property and equipment consists of buildings and improvements and website, carried at cost, less accumulated depreciation and amortization. Assets costing in excess of \$5,000 with a useful life of more than one year are capitalized. Depreciation and amortization are computed by the straight line method over the estimated useful lives ranging from 15 – 30 years.

Construction in progress: Construction in progress reflects amounts incurred to as of June 30, 2017 by Eastham, LLC, a subsidiary of the Foundation, for renovation of the Plecker Center for Community Philanthropy (formerly the Eastham House). Capital costs were accumulated throughout the construction period. The building was placed in service in October 2017. The building and systems are 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 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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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. Returns from the 2015 fiscal year through the current year remain open to examination.

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 pronouncement: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statement of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early application is permitted. The ASU 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 Foundations' consolidated financial statements it is not expected to alter the Foundations' reported financial position or activities.

Subsequent events: Subsequent events have been evaluated through December 27, 2018, 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

Note 2. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2018 and 2017:

	2018		2017
Checking and savings accounts	\$ 664,435	\$	1,375,709
Money market funds	9,570,144		3,452,082
U.S. Treasury bill due 7/26/2018	1,299,491		-
	\$ 11,534,070	\$	4,827,791

Note 3. Pledges Receivable

Pledges receivable as of June 30, 2018 and 2017 were expected to be collected in the following periods:

	2018		2017
One year or less	\$ 1,904,407	\$	89,302
Between one and five years	123,408		158,858
More than five years	61,704		92,556
	2,089,519		340,716
Less present value discount (at a rate of 4.10%)	(32,595)		(45,099)
	\$ 2,056,924	\$	295,617

Note 4. Notes 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 \$224,837 and \$247,718 as of June 30, 2018 and 2017, respectively, and accrued interest totaled \$562 and \$619, respectively as of June 30, 2018 and 2017.

On December 14, 2017, TCFHR was assigned a promissory note from the Town of Timberville to the Plains District American Legion Post 278 with principal balance on the date of assignment of \$200,000. The promissory note was further secured by a deed of trust on real property located in Rockingham County, Virginia and bears no interest. Annual payments of principal in the amount of \$5,000 are due and payable on the 1st day of December continuing through December 1, 2056. TCFHR valued the promissory note based on the net present value of anticipated cash flows discounted at a rate of 4.1%. It was valued at \$96,506 as of June 30, 2018.

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

Note 4. Notes Receivable (Continued)

Future notes receivable maturities are as follows as of June 30, 2018.

Years Ending June 30,	Amount
2019	\$ 28,577
2020	29,294
2021	30,033
2022	30,795
2023	31,580
Thereafter	269,558
	<u>419,837</u>
Less present value discount (at a rate of 4.1%)	(98,494)
Accrued interest	<u>562</u>
	<u><u>\$ 321,905</u></u>

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.

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

Note 5. Fair Value Measurements and Disclosures (Continued)

For the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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. Investments held in Charitable Remainder Trusts for which the Foundation functions as trustee and remainder beneficiary are included according to their classification in the fair value hierarchy, generally as Level 1.

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

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, 2018			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Consumer discretionary	\$ 1,626,112	\$ -	\$ -	\$ 1,626,112
Consumer staples	935,374	-	-	935,374
Energy	1,280,743	-	-	1,280,743
Financial	3,151,492	-	-	3,151,492
Healthcare	2,043,433	-	-	2,043,433
Industrials	2,014,652	-	-	2,014,652
Information technology	2,100,995	-	-	2,100,995
Materials	575,615	-	-	575,615
Telecom services	345,369	-	-	345,369
Utilities	172,684	-	-	172,684
Real estate	143,904	-	-	143,904
Fixed income securities:				
Corporate bonds:				
Short-term	-	356,104	-	356,104
Intermediate-term	-	541,724	-	541,724
Long-term	-	165,597	-	165,597
Government bonds:				
Short-term	-	2,021,209	-	2,021,209
Intermediate-term	-	616,594	-	616,594
Long-term	-	911,216	-	911,216
Mutual fund bonds:				
Short-term	911,519	-	-	911,519
Intermediate-term	145,891	-	-	145,891
Long-term	1,387,210	-	-	1,387,210
Mutual fund:				
Large cap	10,700,869	-	-	10,700,869
Mid cap	80,849	-	-	80,849
Notes receivable	-	-	321,905	321,905
Charitable trusts	-	-	86,665	86,665
Total assets	\$ 27,616,711	\$ 4,612,444	\$ 408,570	\$ 32,637,725

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

Note 5. Fair Value Measurements and Disclosures (Continued)

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Consumer discretionary	\$ 1,307,902	\$ -	\$ -	\$ 1,307,902
Consumer staples	1,215,424	-	-	1,215,424
Energy	1,017,257	-	-	1,017,257
Financial	2,800,760	-	-	2,800,760
Healthcare	1,757,080	-	-	1,757,080
Industrials	2,193,048	-	-	2,193,048
Information technology	1,836,347	-	-	1,836,347
Materials	383,123	-	-	383,123
Telecom services	132,111	-	-	132,111
Utilities	383,123	-	-	383,123
Unclassified	184,956	-	-	184,956
Fixed income securities:				
Corporate bonds:				
Short-term	-	559,483	-	559,483
Intermediate-term	-	564,732	-	564,732
Long-term	-	378,986	-	378,986
Government bonds:				
Short-term	-	2,053,765	-	2,053,765
Intermediate-term	-	436,911	-	436,911
Long-term	-	761,197	-	761,197
Mutual fund bonds:				
Short-term	66,291	-	-	66,291
Intermediate-term	74,475	-	-	74,475
Long-term	1,397,781	-	-	1,397,781
Mutual fund:				
Large cap	8,524,829	-	-	8,524,829
Notes receivable	-	-	248,337	248,337
Charitable trusts	-	-	318,374	318,374
Total assets	\$ 23,274,507	\$ 4,755,074	\$ 566,711	\$ 28,596,292

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

	2018	2017
Balance, July 1	\$ 566,711	\$ 916,054
Charitable lead trust payments	(241,600)	(346,105)
Note receivable contributions	96,506	-
Note receivable payments	(27,882)	(22,262)
Change in value	14,835	19,024
Balance, June 30	\$ 408,570	\$ 566,711

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

Note 5. Fair Value Measurements and Disclosures (Continued)

Quantitative Information About Level 3 Fair Value Measurements						
	Fair Value at June 30, 2018	Fair Value at June 30, 2017	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
Charitable Lead Trusts	\$ 38,328	\$ 272,091	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 6	
				Present value discount rate	4.0%	
Charitable Remainder Trust	48,337	46,283	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	3.4%	
Note Receivable	225,399	248,337	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 4	
Note Receivable	96,506	-	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 4	
				Present value discount rate	4.1%	

The following schedule summarizes the investment gains and their classification in the consolidated statements of activities at June 30, 2018 and 2017:

	2018	2017
Dividends	\$ 696,066	\$ 660,442
Interest	141,182	115,649
Net realized and unrealized gain	1,431,371	2,199,935
Custodial fees	(242,939)	(223,333)
Total investment income	2,025,680	2,752,693
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(53,523)	(104,394)
Net investment gain	(293,140)	(549,435)
Total investment income included in changes in net assets	\$ 1,679,017	\$ 2,098,864

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

Note 6. Charitable Lead Trusts

The Foundation is the beneficiary of a Charitable Lead Trust, which provides an income benefit to the Foundation for a stated period of time. Upon maturity, any remaining trust assets revert to the original donor. This trust provides quarterly variable annuity payments to the Foundation for a ten year period through December 2018. Payments from the trust totaled \$241,600 and \$346,105 for fiscal years 2018 and 2017, respectively.

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, 2018 and 2017.

Total beneficial interests in charitable lead trusts include variable lead trust of \$38,328 and \$272,091 as of June 30, 2018 and 2017, respectively.

Note 7. Charitable Remainder Trust

The Foundation is named trustee on one charitable remainder trust. 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 \$446,686 and \$438,796 at June 30, 2018 and 2017, respectively, and are reported at fair market value in investments. The present value of estimated future payments, calculated using a discount rate of 3.4% and 2.4% at June 30, 2018 and 2017, respectively, and applicable mortality table, was \$277,857 and \$280,202 at June 30, 2018 and 2017, 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 49 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2018 and 2017 were as follows:

	2018	2017
Endowment net assets, beginning	<u>\$ 13,275,407</u>	<u>\$ 11,059,553</u>
Investment return:		
Interest and dividend income	299,646	279,067
Net appreciation in fair value of investments	<u>699,490</u>	<u>875,592</u>
Total investment return	<u>999,136</u>	1,154,659
Contributions	<u>10,243,486</u>	1,693,576
Appropriate of endowment assets for expenditure	<u>(1,899,978)</u>	(632,381)
Endowment net assets, ending	<u><u>\$ 22,618,051</u></u>	<u>\$ 13,275,407</u>

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

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

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, 2018 and 2017 were comprised of the following:

	2018	2017
Discretionary	\$ 509,803	\$ 539,612
Donor advised	25,828,416	16,295,791
Scholarship	3,693,220	3,349,976
Field of interest and designations	5,437,684	4,592,309
Fundraising	143,867	125,682
	\$ 35,612,990	\$ 24,903,370

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Pledges, net of present value discount	\$ 2,056,924	\$ 295,617
Note receivable and accrued interest	321,905	248,337
Charitable remainder trust investments held in trust	446,686	438,796
Beneficial interests in charitable lead trusts	38,328	272,091
Beneficial interest in charitable remainder trust	48,337	46,283
	2,912,180	1,301,124
Less liabilities under split-interest agreements held in trust	(277,857)	(280,202)
	\$ 2,634,323	\$ 1,020,922

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Noncash Contributions

Noncash contributions related to stock donations were \$8,529,952 and \$2,931,505 respectively for the years ended June 30, 2018 and 2017. Other noncash contributions for fiscal year ending June 30, 2018 totaled \$155,505 and included a note receivable, website design services and real property.

Note 13. Lease Commitments and Total Rental Expense

On October 1, 2017, the Foundation moved to new office space. Before moving, the Foundation leased, on a month to month basis, its office space for \$1,200 per month. Beginning October 1, 2017, the Foundation leases its office space at the Plecker Center for Community Philanthropy from its subsidiary entity, Eastham LLC. The lease provides that the Foundation pay an annual rental of \$30,600. The lease terms allow for an increase in rent year over year, not to exceed CPI. Rent expense and income under this agreement have been eliminated in the accompanying Statement of Activities. The total rental expense included in the consolidated statements of activities was \$4,800 and \$14,400, respectively for the years ended June 30, 2018 and 2017.

Note 14. Reclassification

Certain amounts in the 2017 financial statements and related notes to financial statements have been reclassified to conform with the presentation in 2018.