

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019



ASSURANCE, TAX & ADVISORY SERVICES

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

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 – 5
Consolidated Statements of Functional Expenses	6 – 7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 – 22



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Community Foundation of Harrisonburg and Rockingham County and Its Subsidiaries

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 (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 Foundations' 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 Foundations' 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, effective in 2019, The Community Foundation of Harrisonburg and Rockingham County and its Subsidiaries adopted and Accounting Standard Update 2016-14 *Not-For-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

PB Maest, LLP

Harrisonburg, Virginia
March 24, 2020

CONSOLIDATED FINANCIAL STATEMENTS

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM
COUNTY AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Years Ended June 30, 2019 and 2018**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 5,277,430	\$ 11,534,070
Pledges receivable, net of present value discount	706,205	2,056,924
Notes receivable	294,725	321,343
Prepaid expenses and other assets	23,950	39,275
Investments	44,909,334	31,782,469
Beneficial interests in charitable lead trusts	-	38,328
Beneficial interest in charitable remainder trust	47,319	48,337
Assets held in trust under split-interest agreement	459,291	446,686
Property and equipment, net	1,041,825	1,074,066
	1,041,825	1,074,066
Total assets	\$ 52,760,079	\$ 47,341,498
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 24,284	\$ 10,994
Grants payable	1,750	-
Liabilities under split-interest agreements	279,506	277,857
Agency obligations	8,800,174	8,801,865
	8,800,174	8,801,865
Total liabilities	9,105,714	9,090,716
Net Assets:		
Without donor restriction:		
Controlling interest	42,423,049	35,612,990
Noncontrolling interest	3,282	3,469
	42,426,331	35,616,459
With donor restriction:	1,228,034	2,634,323
Total net assets	43,654,365	38,250,782
Total liabilities and net assets	\$ 52,760,079	\$ 47,341,498

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM
COUNTY AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Year Ended June 30, 2019**

	Without Donor Restriction	With Donor Restriction	Total
Revenue, gains and other support:			
Total contributions	\$ 9,989,122	\$ -	\$ 9,989,122
Less amounts received for agency accounts	(590,700)	-	(590,700)
Interest on notes receivable	6,364	-	6,364
Change in value of charitable lead trusts	-	822	822
Change in value of charitable remainder trust	-	(10,667)	(10,667)
Change in present value discount on long-term pledges	-	8,689	8,689
Contributions	9,404,786	(1,156)	9,403,630
Investment income, net of expenses	2,787,639	-	2,787,639
Investment income allocated to agency accounts	(562,052)	-	(562,052)
Investment gain	2,225,587	-	2,225,587
Other income	101,459	-	101,459
Net assets released through expiration of time restrictions	1,405,133	(1,405,133)	-
Net other support	1,506,592	(1,405,133)	101,459
Total revenue, gains and other support	13,136,965	(1,406,289)	11,730,676
Expenses:			
Program services:			
Total grants	6,899,370	-	6,899,370
Less grants made from agency accounts	(1,084,871)	-	(1,084,871)
Other community support	227,713	-	227,713
Program services	6,042,212	-	6,042,212
General and administrative	281,989	-	281,989
Less agency administrative fees	(69,572)	-	(69,572)
Fundraising	72,277	-	72,277
Total expenses	6,326,906	-	6,326,906
Change in net assets before noncontrolling interest in Eastham, LLC	6,810,059	(1,406,289)	5,403,770
Noncontrolling interest in the activities of Eastham, LLC	(187)	-	(187)
Change in net assets	6,809,872	(1,406,289)	5,403,583
Net assets, beginning of year	35,616,459	2,634,323	38,250,782
Net assets, end of year	\$ 42,426,331	\$ 1,228,034	\$ 43,654,365

See Notes to Consolidated Financial Statements.

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM
COUNTY AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Year Ended June 30, 2018**

	Without Donor Restriction	With Donor Restriction	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 trusts	-	(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	338,108	-	338,108
Less agency administrative fees	(65,946)	-	(65,946)
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

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019**

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 5,814,499	\$ -	\$ -	\$ 5,814,499
Agency fund expenditures	1,084,871	69,572	-	1,154,443
Salaries	136,893	91,542	42,895	271,330
Equipment purchases	-	9,147	-	9,147
Employee benefits	22,230	11,818	6,599	40,647
Depreciation and amortization	16,163	10,948	5,130	32,241
Professional fees	592	46,189	185	46,966
Events	1,389	-	-	1,389
FIMS fees	12,790	8,553	4,008	25,351
Utilities	6,475	3,993	1,872	12,340
Other	-	7,037	-	7,037
Maintenance	20,843	-	-	20,843
Insurance package	-	9,308	-	9,308
Dues and membership	1,811	1,211	568	3,590
IT services	4,326	2,893	1,356	8,575
Marketing media	-	-	8,411	8,411
Rent	-	-	-	-
Meals	-	2,071	-	2,071
Software	1,170	783	367	2,320
Print and photocopy	-	2,289	-	2,289
Supplies	1,372	918	430	2,720
Publications	197	502	-	699
Postage and delivery	786	526	244	1,556
License and permits	-	450	-	450
Staff development	676	452	212	1,340
Staff mileage	-	566	-	566
Board	-	1,221	-	1,221
	<u>7,127,083</u>	<u>281,989</u>	<u>72,277</u>	<u>7,481,349</u>
Less agency fund activity	<u>(1,084,871)</u>	<u>(69,572)</u>	<u>-</u>	<u>(1,154,443)</u>
Total functional expenses	<u>\$ 6,042,212</u>	<u>\$ 212,417</u>	<u>\$ 72,277</u>	<u>\$ 6,326,906</u>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018**

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 3,696,063	\$ -	\$ -	\$ 3,696,063
Agency fund expenditures	852,988	65,946	-	918,934
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	338,108	54,624	5,147,430
Less agency fund activity	(852,988)	(65,946)	-	(918,934)
Total functional expenses	\$ 3,901,710	\$ 272,162	\$ 54,624	\$ 4,228,496

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 5,403,583	\$ 12,323,942
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,241	27,188
Gain on investments	(1,663,335)	(1,442,110)
Change in value of charitable lead trusts	(822)	(7,838)
Change in value of charitable remainder trusts, net	(9,938)	(4,398)
Change in present value discount on long-term pledges	(8,689)	(12,504)
Noncash contributions, including securities, net of related charges	(6,529,115)	(8,641,458)
Decrease (increase) in:		
Pledges receivable	1,359,408	(1,748,803)
Accrued interest	562	57
Prepaid expenses and other assets	15,325	(25,089)
Increase (decrease) in:		
Accounts payable	13,290	(14,154)
Grants payable	1,750	(5,500)
	<u>(1,385,740)</u>	<u>449,333</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Charitable lead trust distributions	39,150	241,600
Purchase of property and equipment	-	(115,279)
Proceeds from notes receivable	26,618	27,881
Proceeds from sale of investments	11,206,865	14,166,404
Purchase of investments	(16,141,280)	(8,393,916)
Payments for construction	-	(425,214)
	<u>(4,868,647)</u>	<u>5,501,476</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Net change in agency obligations	(1,691)	755,470
	<u>(1,691)</u>	<u>755,470</u>
Net cash provided by (used in) financing activities		
Increase (decrease) in cash and cash equivalents	(6,256,078)	6,706,279
Cash and cash equivalents, beginning of year	<u>11,534,070</u>	<u>4,827,791</u>
Cash and cash equivalents, end of year	<u>\$ 5,277,992</u>	<u>\$ 11,534,070</u>
Supplemental disclosure of cash flow information:		
Investment gains allocated to agency funds	\$ 346,093	\$ 293,141

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

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 Subsidiaries, The Valley Responds, LLC, Showker Memorial Gardens, LLC, TCF Holding, LC, and Eastham, LLC. All significant transactions and accounts among the Foundation 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 contributions without donor restrictions, 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 contributions without donor restrictions.

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 contributions with donor restrictions 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 contributions with donor restrictions until received or matured. As resources are realized for use by the Foundation, these contributions with donor restrictions are reclassified to contributions without donor restrictions 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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Net unrealized and realized gains or losses are reflected in the statements of activities.

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 6 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.

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 7 for additional information about the Foundation's charitable lead trust.

Property and equipment, net: The 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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 identified 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 2016 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.

Subsequent events: Subsequent events have been evaluated through March 24, 2020, which was the date the consolidated financial statements were available to be issued. See Note 15 for additional information.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Liquidity and Availability

Financial assets and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following at June 30, 2019:

Financial Assets

Cash and cash equivalents	\$ 5,277,430
Pledges receivable, due within one year	575,852
Notes receivable, due within one year	29,294
Endowment spending policy appropriations	<u>1,060,314</u>
Total financial assets and liquidity resources available within one year	<u><u>\$ 6,942,890</u></u>

Withdrawal requests from funds held under agency accounts and in donor advised funds are satisfied from invested resources specifically allocated to such accounts.

Note 3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Checking and savings accounts	\$ 1,078,090	\$ 664,435
Money market funds	2,865,625	9,570,144
U.S. Treasury bill	<u>1,333,715</u>	<u>1,299,491</u>
	<u><u>\$ 5,277,430</u></u>	<u><u>\$ 11,534,070</u></u>

Note 4. Pledges Receivable

Pledges receivable as of June 30, 2019 and 2018 were expected to be collected in the following periods:

	<u>2019</u>	<u>2018</u>
One year or less	\$ 575,852	\$ 1,904,407
Between one and five years	123,408	123,408
More than five years	<u>30,852</u>	<u>61,704</u>
	<u>730,112</u>	<u>2,089,519</u>
Less present value discount (at a rate of 4.10%)	<u>(23,907)</u>	<u>(32,595)</u>
	<u><u>\$ 706,205</u></u>	<u><u>\$ 2,056,924</u></u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. 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 collateralized by a deed of trust on real estate 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 \$199,262 and \$224,837 as of June 30, 2019 and 2018, respectively..

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 collateralized by a deed of trust on real estate 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 \$95,463 and \$96,506 as of June 30, 2019 and 2018, respectively.

Expected notes receivable maturities are as follows as of June 30, 2019.

Years Ending June 30,	Amount
2020	\$ 29,294
2021	30,033
2022	30,795
2023	31,579
2024	32,388
Thereafter	235,173
	389,262
Less present value discount (at a rate of 4.1%)	(94,537)
	\$ 294,725

Note 6. 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 COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Fair Value Measurements and Disclosures (Continued)

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, 2019 and 2018, 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, 2019 and 2018.

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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Fair Value Measurements and Disclosures (Continued)

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

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Equity Securities:				
Consumer discretionary	\$ 1,570,955	\$ -	\$ -	\$ 1,570,955
Consumer staples	903,647	-	-	903,647
Energy	1,237,301	-	-	1,237,301
Financial	3,044,594	-	-	3,044,594
Healthcare	1,974,120	-	-	1,974,120
Industrials	1,946,316	-	-	1,946,316
Information technology	2,029,729	-	-	2,029,729
Materials	556,090	-	-	556,090
Telecom services	333,654	-	-	333,654
Utilities	166,827	-	-	166,827
Real estate	139,023	-	-	139,023
Fixed Income Securities:				
Corporate bonds:				
Short-term	-	1,588,083	-	1,588,083
Intermediate-term	-	1,516,328	-	1,516,328
Long-term	-	427,937	-	427,937
Government bonds:				
Short-term	-	-	-	-
Intermediate-term	-	1,347,786	-	1,347,786
Long-term	-	-	-	-
Mutual Fund Bonds:				
Short-term	3,312,803	-	-	3,312,803
Intermediate-term	777,407	-	-	777,407
Long-term	2,042,110	-	-	2,042,110
Mutual Fund:				
Large cap	18,436,525	-	-	18,436,525
Mid cap	1,688,304	-	-	1,688,304
Small cap	270,217	-	-	270,217
Real Estate Investment Trusts	58,869	-	-	58,869
Notes Receivable	-	-	294,725	294,725
Charitable Trusts	-	-	47,319	47,319
Total assets	\$ 40,488,491	\$ 4,880,134	\$ 342,044	\$ 45,710,669

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Fair Value Measurements and Disclosures (Continued)

	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	-	-	321,343	321,343
Charitable Trusts	-	-	86,665	86,665
Total assets	\$ 27,616,711	\$ 4,612,444	\$ 408,008	\$ 32,637,163

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

	2019	2018
Balance, July 1	\$ 408,008	\$ 566,711
Charitable lead trust payments	(39,150)	(241,600)
Note receivable contributions	-	96,506
Note receivable payments	(26,618)	(27,882)
Change in value	(196)	14,273
Balance, June 30	\$ 342,044	\$ 408,008

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Fair Value Measurements and Disclosures (Continued)

Quantitative Information About Level 3 Fair Value Measurements

	Fair Value at June 30, 2019	Fair Value at June 30, 2018	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Charitable Lead Trusts	\$ -	\$ 38,328	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 7
				Present value discount rate	4.0%
Charitable Remainder Trust	47,319	48,337	Present value of projected remainder interest	Contractual payments and life expectancy of income beneficiary	Based on contractual payment terms as disclosed in Note 8
				Present value discount rate	3.4%
Note Receivable	199,262	224,837	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 5
Note Receivable	95,463	96,506	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 5
				Present value discount rate	4.1%

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Fair Value Measurements and Disclosures (Continued)

The following schedule summarizes the investment gains and their classification in the consolidated statements of activities at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Dividends	\$ 1,347,355	\$ 696,066
Interest	222,791	141,182
Net realized and unrealized gain	1,409,230	1,431,371
Custodial fees	<u>(191,737)</u>	<u>(242,939)</u>
Total investment income	2,787,639	2,025,680
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(147,605)	(53,523)
Net investment gain	<u>(414,447)</u>	<u>(293,140)</u>
Total investment income included in changes in net assets	<u>\$ 2,225,587</u>	<u>\$ 1,679,017</u>

Note 7. 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 \$39,150 and \$241,600 for fiscal years 2019 and 2018, respectively.

The fair value of the beneficial interest in the trust was estimated as the present value of expected cash flows discounted at an annual rate of 4%. The trust matured in December 2018

Note 8. 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 \$459,291 and \$446,686 at June 30, 2019 and 2018, 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 applicable mortality table, was \$279,506 and \$277,857 at June 30, 2019 and 2018, respectively.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. 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.

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 net assets without donor restriction. Changes therein during the fiscal years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Endowment Net Assets, beginning	<u>\$ 22,618,051</u>	<u>\$ 13,275,407</u>
Investment return:		
Interest and dividend income	829,750	299,646
Net appreciation in fair value of investments	<u>614,863</u>	<u>699,490</u>
Total investment return	<u>1,444,613</u>	<u>999,136</u>
Contributions	<u>3,169,086</u>	<u>8,943,486</u>
Appropriate of endowment assets for expenditure	<u>(723,909)</u>	<u>(599,978)</u>
Endowment Net Assets, ending	<u><u>\$ 26,507,841</u></u>	<u><u>\$ 22,618,051</u></u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Board Designated Quasi-Endowments (Continued)

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

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

- Growth of the funds
- Preservation of principal
- Current distribution of 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 10. Net Assets

Net assets without donor restriction include the following types of funds:

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

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Net Assets (Continued)

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

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

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

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

Non-controlling interest is the carrying value of the outside investment in a consolidated subsidiary.

Net assets without donor restriction as of June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Discretionary	\$ 618,058	\$ 509,803
Donor advised	30,172,063	25,828,416
Scholarship	4,000,898	3,693,220
Field of interest and designations	7,446,076	5,437,684
Fundraising	185,954	143,867
Non-controlling interest	3,282	3,469
	<u>\$ 42,426,331</u>	<u>\$ 35,616,459</u>

Note 11. Net Assets with Donor Restriction

Net assets with donor restriction at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Pledges, net of present value discount	\$ 706,205	\$ 2,056,924
Note receivable, including accrued interest	294,725	321,905
Charitable remainder trust investments held in trust	459,291	446,686
Beneficial interests in charitable lead trusts	-	38,328
Beneficial interest in charitable remainder trust	47,319	48,337
	<u>1,507,540</u>	<u>2,912,180</u>
Less liabilities under split-interest agreements held in trust	<u>(279,506)</u>	<u>(277,857)</u>
	<u>\$ 1,228,034</u>	<u>\$ 2,634,323</u>

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. 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.

Note 13. Noncash Contributions

Noncash contributions of marketable securities were \$6,529,115 and \$8,485,953, respectively, for the years ended June 30, 2019 and 2018. 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 14. Change in Accounting Standard

Effective July 1, 2018, the Foundation adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The presentation in these financial statements has been adjusted accordingly. The significant changes to the Foundation's financial statements included the following:

- Changing the description of net assets and change in net assets from unrestricted and temporarily restricted to with or without donor restrictions;
- Adding disclosure of the Foundation's financial assets available for general expenditure.

The implementation of this new guidance did not change the Foundation's total net assets or change in net assets as previously reported for 2018.

Note 15. Subsequent Event

In the first quarter of 2020, a coronavirus outbreak affected markets, businesses and other organizations worldwide. Negative impacts include record declines in financial markets, supply chain disruption and other business interruptions, resulting in financial losses to many businesses and not-for-profit entities. Specifically, the value of the Foundation's investment in marketable securities declined by approximately 8% during the first quarter of 2020. The Foundation initiated a response to the outbreak, which included suspending certain activities and decreasing in-person contact with constituents, donor and other stakeholders, etc. The extent to which this event may affect operations and financial position going forward remains uncertain.