

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020



ASSURANCE, TAX & ADVISORY SERVICES

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

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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, 2020 and 2019, 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 Foundation'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 Foundation'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, 2020 and 2019, 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 Mares, LLP

Harrisonburg, Virginia
January 26, 2021

CONSOLIDATED FINANCIAL STATEMENTS

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM
COUNTY AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019**

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 6,363,231	\$ 5,277,430
Pledges receivable, net of present value discount	136,963	706,205
Notes receivable	271,342	294,725
Prepaid expenses and other assets	28,281	23,950
Property held for sale	390,000	-
Investments	45,999,422	44,909,334
Beneficial interest in charitable remainder trust	46,233	47,319
Assets held in trust under split-interest agreement	434,165	459,291
Property and equipment, net	1,022,005	1,041,825
Total assets	\$ 54,691,642	\$ 52,760,079
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 37,179	\$ 24,284
Grants payable	-	1,750
Liabilities under split-interest agreements	260,671	279,506
Agency obligations	8,434,697	8,800,174
Total liabilities	8,732,547	9,105,714
Net Assets:		
Without donor restriction:		
Controlling interest	45,331,063	42,423,049
Noncontrolling interest	-	3,282
	45,331,063	42,426,331
With donor restriction:	628,032	1,228,034
Total net assets	45,959,095	43,654,365
Total liabilities and net assets	\$ 54,691,642	\$ 52,760,079

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM
COUNTY AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2020 and 2019**

	2020	2019
Change in Net Assets Without Donor Restrictions		
Revenue, gains and other support:		
Total contributions	\$ 5,826,615	\$ 9,989,122
Less amounts received for agency accounts	(260,319)	(590,700)
Interest on notes receivable	5,203	6,364
	<u>5,571,499</u>	<u>9,404,786</u>
Investment income, net of expenses	1,701,607	2,787,639
Investment income allocated to agency accounts	(242,169)	(562,052)
	<u>1,459,438</u>	<u>2,225,587</u>
Other income	103,806	101,459
Net assets released through expiration of time restrictions	613,657	1,405,133
	<u>717,463</u>	<u>1,506,592</u>
Total revenue, gains and other support	<u>7,748,400</u>	<u>13,136,965</u>
Expenses:		
Program services:		
Total grants	5,063,889	6,899,370
Less grants made from agency accounts	(797,885)	(1,084,871)
Other community support	297,391	227,713
Program services	<u>4,563,395</u>	<u>6,042,212</u>
General and administrative	274,796	281,989
Less agency administrative fees	(70,080)	(69,572)
Fundraising	72,275	72,277
	<u>4,840,386</u>	<u>6,326,906</u>
Noncontrolling interest in the activities of Eastham, LLC	(3,282)	(187)
Increase in net assets without donor restrictions	<u>2,904,732</u>	<u>6,809,872</u>

**THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM
COUNTY AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2020 and 2019**

	2020	2019
Change in Net Assets With Donor Restrictions:		
Interest on notes receivable	\$ 442	\$ -
Change in value of charitable lead trusts	-	822
Change in value of charitable remainder trust	6,604	(10,667)
Change in present value discount on long-term pledges	6,609	8,689
Net assets released through expiration of time restrictions	<u>(613,657)</u>	<u>(1,405,133)</u>
 Decrease in net assets with donor restrictions	(600,002)	(1,406,289)
 Change in net assets	2,304,730	5,403,583
Net Assets, beginning of year	<u>43,654,365</u>	<u>38,250,782</u>
Net Assets, end of year	<u><u>\$ 45,959,095</u></u>	<u><u>\$ 43,654,365</u></u>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020**

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 4,266,004	\$ -	\$ -	\$ 4,266,004
Agency fund expenditures	797,885	70,080	-	867,965
Salaries	176,395	80,360	45,541	302,296
Professional fees	807	65,061	208	66,076
Employee benefits	28,119	10,685	6,451	45,255
Depreciation and amortization	19,244	8,767	4,968	32,979
FIMS fees	15,236	6,941	3,933	26,110
Maintenance	22,756	-	-	22,756
Utilities	5,321	2,424	1,374	9,119
IT services	8,758	3,990	2,261	15,009
Events	11,462	-	1,573	13,035
Insurance package	-	9,033	-	9,033
Dues and membership	3,311	1,509	855	5,675
Other	305	5,045	-	5,350
Software	2,869	1,307	741	4,917
Marketing media	-	-	3,644	3,644
Equipment purchases	-	3,345	-	3,345
Staff development	997	454	258	1,709
License and permits	-	1,700	-	1,700
Print and photocopy	-	1,661	-	1,661
Postage and delivery	925	421	239	1,585
Supplies	886	403	229	1,518
Meals	-	734	-	734
Staff mileage	-	538	-	538
Board	-	338	-	338
Publications	-	-	-	-
	<u>5,361,280</u>	<u>274,796</u>	<u>72,275</u>	<u>5,708,351</u>
Less agency fund activity	<u>(797,885)</u>	<u>(70,080)</u>	<u>-</u>	<u>(867,965)</u>
Total functional expenses	<u><u>\$ 4,563,395</u></u>	<u><u>\$ 204,716</u></u>	<u><u>\$ 72,275</u></u>	<u><u>\$ 4,840,386</u></u>

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
Professional fees	592	46,189	185	46,966
Employee benefits	22,230	11,818	6,599	40,647
Depreciation and amortization	16,163	10,948	5,130	32,241
FIMS fees	12,790	8,553	4,008	25,351
Maintenance	20,843	-	-	20,843
Utilities	6,475	3,993	1,872	12,340
IT services	4,326	2,893	1,356	8,575
Events	1,389	-	-	1,389
Insurance package	-	9,308	-	9,308
Dues and membership	1,811	1,211	568	3,590
Other	-	7,037	-	7,037
Software	1,170	783	367	2,320
Marketing media	-	-	8,411	8,411
Equipment purchases	-	9,147	-	9,147
Staff development	676	452	212	1,340
License and permits	-	450	-	450
Print and photocopy	-	2,289	-	2,289
Postage and delivery	786	526	244	1,556
Supplies	1,372	918	430	2,720
Meals	-	2,071	-	2,071
Staff mileage	-	566	-	566
Board	-	1,221	-	1,221
Publications	197	502	-	699
	<u>7,127,083</u>	<u>281,989</u>	<u>72,277</u>	<u>7,481,349</u>
Less agency fund activity	(1,084,871)	(69,572)	-	(1,154,443)
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 STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019**

	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,304,730	\$ 5,403,583
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,979	32,241
(Gain) loss on investments	500,231	(1,663,335)
Change in value of charitable lead trusts	-	(822)
Change in value of charitable remainder trusts, net	7,377	(9,938)
Change in present value discount on long-term pledges	(6,609)	(8,689)
Noncash contributions, including securities, net of related charges	(2,371,608)	(6,529,115)
Decrease (increase) in:		
Pledges receivable	575,851	1,359,408
Accrued interest	(442)	562
Prepaid expenses and other assets	(394,331)	15,325
Increase (decrease) in:		
Accounts payable	12,895	13,290
Grants payable	(1,750)	1,750
Net cash provided by (used in) operating activities	659,323	(1,385,740)
Cash Flows from Investing Activities:		
Charitable lead trust distributions	-	39,150
Purchase of property and equipment	(13,159)	-
Proceeds from notes receivable	23,825	26,056
Proceeds from sale of investments	12,561,167	11,206,865
Purchase of investments	(11,779,878)	(16,141,280)
Net cash provided by (used in) investing activities	791,955	(4,869,209)
Cash Flows from Financing Activities:		
Net change in agency obligations	(365,477)	(1,691)
Net cash used in financing activities	(365,477)	(1,691)
Increase (decrease) in cash and cash equivalents	1,085,801	(6,256,640)
Cash and Cash Equivalents, beginning of year	5,277,430	11,534,070
Cash and Cash Equivalents, end of year	\$ 6,363,231	\$ 5,277,430
Supplemental Disclosure of Cash Flow Information:		
Investment gains allocated to agency funds	\$ 98,063	\$ 346,093
In-kind real estate contributions	391,000	-

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 I, TCF Holding, LLC II, 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 unconditional 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 an original maturity of three months or less to be cash equivalents. The Foundation maintains its demand deposits in federally insured accounts and employs an automated sweep feature to avoid exceeding insured limits. Money market accounts, pooled accounts and brokered cash balances may, at times, 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.

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.

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 AND ITS SUBSIDIARIES

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 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 Foundation 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 2017 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.

Adoption of accounting standard: During the year ended June 30, 2020, the Foundation adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions received and Contributions Made*, which clarifies and improves guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction would be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The Foundation's management determined that the adoption of this guidance did not result in any changes to existing revenue recognition policies.

Subsequent events: Subsequent events have been evaluated through January 26, 2021, which was the date the consolidated financial statements were available to be issued.

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, 2020:

Financial Assets

Cash and cash equivalents	\$ 6,363,231
Pledges receivable, due within one year	30,852
Notes receivable, due within one year	30,033
Endowment spending policy appropriations	<u>1,085,125</u>
Total financial assets and liquidity resources available within one year	<u><u>\$ 7,509,241</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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Checking and savings accounts	\$ 1,006,589	\$ 1,078,090
Money market funds	5,356,642	2,865,625
U.S. Treasury bill	-	1,333,715
	<u>\$ 6,363,231</u>	<u>\$ 5,277,430</u>

Note 4. Pledges Receivable

Pledges receivable as of June 30, 2020 and 2019 were expected to be collected in the following periods:

	<u>2020</u>	<u>2019</u>
One year or less	\$ 30,852	\$ 575,852
Between one and five years	123,408	123,408
More than five years	-	30,852
	<u>154,260</u>	<u>730,112</u>
Less present value discount (at a rate of 4.10%)	<u>(17,297)</u>	<u>(23,907)</u>
	<u><u>\$ 136,963</u></u>	<u><u>\$ 706,205</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 \$176,965 and \$199,262 as of June 30, 2020 and 2019, 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 \$94,377 and \$95,463 as of June 30, 2020 and 2019, respectively.

Expected notes receivable maturities are as follows as of June 30, 2020.

Years Ending June 30,	Amount
2021	\$ 30,033
2022	30,795
2023	31,579
2024	32,388
2025	33,221
Thereafter	203,949
	<hr/> 361,965
Less present value discount (at a rate of 4.1%)	<hr/> (90,623)
	<hr/> <hr/> \$ 271,342

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 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Fair Value Measurements and Disclosures (Continued)

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, 2020 and 2019, 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, 2020 and 2019.

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 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 AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. 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, 2020			
	Level 1	Level 2	Level 3	Total
Equity Securities:				
Consumer Cyclical	\$ 835,293	\$ -	\$ -	\$ 835,293
Consumer Non-Cyclicals	1,326,135	-	-	1,326,135
Consumer Services	279,866	-	-	279,866
Business Services	228,199	-	-	228,199
Energy	429,128	-	-	429,128
Financial	3,294,222	-	-	3,294,222
Healthcare	2,260,458	-	-	2,260,458
Industrials	1,255,810	-	-	1,255,810
Information Technology	2,854,636	-	-	2,854,636
Materials	731,958	-	-	731,958
Telecom Services	555,427	-	-	555,427
Utilities	299,959	-	-	299,959
Unassigned	1,435	-	-	1,435
Fixed Income Securities:				
Corporate bonds:				
Short-term	-	547,923	-	547,923
Intermediate-term	-	1,626,972	-	1,626,972
Long-term	-	291,506	-	291,506
Government bonds:				
Intermediate-term	3,207,593	717,550	-	3,925,143
Long-term	940,231	-	-	940,231
Mutual Fund Bonds:				
Intermediate-term	1,606,630	-	-	1,606,630
Long-term	2,244,042	-	-	2,244,042
Mutual Fund:				
Large cap	19,124,947	-	-	19,124,947
Mid cap	1,387,765	-	-	1,387,765
Small cap	316,203	-	-	316,203
Real Estate Investment Trusts	69,699	-	-	69,699
Notes Receivable	-	-	271,342	271,342
Charitable Trusts	-	-	46,233	46,233
Total assets	\$ 43,249,636	\$ 3,183,951	\$ 317,575	\$ 46,751,162

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, 2019			
	Level 1	Level 2	Level 3	Total
Equity Securities:				
Consumer Non-Cyclicals	\$ 1,235,911	\$ -	\$ -	\$ 1,235,911
Consumer Cyclicals	832,745	-	-	832,745
Consumer Services	284,996	-	-	284,996
Business Services	86,194	-	-	86,194
Energy	775,746	-	-	775,746
Financial	3,677,147	-	-	3,677,147
Healthcare	2,110,362	-	-	2,110,362
Industrials	1,348,519	-	-	1,348,519
Information technology	2,081,167	-	-	2,081,167
Materials	707,625	-	-	707,625
Telecom services	429,580	-	-	429,580
Utilities	279,435	-	-	279,435
Unassigned	52,829	-	-	52,829
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:				
Intermediate-term	-	1,347,786	-	1,347,786
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 changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	2020	2019
Balance, July 1	\$ 342,044	\$ 408,008
Charitable lead trust payments	-	(39,150)
Note receivable contributions	-	-
Note receivable payments	(23,825)	(26,618)
Change in value	(644)	(196)
Balance, June 30	\$ 317,575	\$ 342,044

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, 2020	Fair Value at June 30, 2019	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Charitable Remainder Trust	\$ 46,233	\$ 47,319	Present value of projected remainder interest	Contractual payments and life expectancy of income beneficiary Present value discount rate	Based on contractual payment terms as disclosed in Note 8 3.4%
Note Receivable	176,965	199,262	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 5
Note Receivable	94,377	95,463	Discounted cash flow	Contractual payments Present value discount rate	Based on contractual payment terms as disclosed in Note 5 4.1%

The following schedule summarizes the investment gains and their classification in the consolidated statements of activities at June 30, 2020 and 2019:

	2020	2019
Dividends	\$ 1,168,571	\$ 1,347,355
Interest	178,370	222,791
Net realized and unrealized gain	591,209	1,409,230
Custodial fees	(236,543)	(191,737)
Total investment income	1,701,607	2,787,639
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(128,502)	(147,605)
Net investment gain	(113,667)	(414,447)
Total investment income included in changes in net assets	\$ 1,459,438	\$ 2,225,587

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Land, Buildings and Equipment

Land, buildings and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land	\$ 83,342	\$ 83,342
Land Improvements	19,522	19,522
Buildings	877,162	869,076
Equipment	114,567	109,700
Phone System	5,424	5,424
Website	22,103	22,103
	1,122,120	1,109,167
Less accumulated depreciation	100,115	67,342
	\$ 1,022,005	\$ 1,041,825

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 \$434,165 and \$459,291 at June 30, 2020 and 2019, 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 \$260,671 and \$279,506 at June 30, 2020 and 2019, respectively.

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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. 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 net assets without donor restriction. Changes therein during the fiscal years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Endowment Net Assets, beginning	<u>\$ 26,507,841</u>	<u>\$ 22,618,051</u>
Investment return:		
Interest and dividend income	567,426	829,750
Net appreciation in fair value of investments	<u>462,624</u>	<u>614,863</u>
Total investment return	<u>1,030,050</u>	<u>1,444,613</u>
Contributions	<u>1,027,518</u>	3,169,086
Reclassification pursuant to board and donor direction	(533,068)	-
Appropriation of endowment assets for expenditure	<u>(904,227)</u>	<u>(723,909)</u>
Endowment Net Assets, ending	<u><u>\$ 27,128,114</u></u>	<u>\$ 26,507,841</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 AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. 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 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.

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. A committee of the Foundation Board determines scholarship recipients each year.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Net Assets (Continued)

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, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Discretionary	\$ 1,106,517	\$ 618,058
Donor advised	32,269,328	30,172,063
Scholarship	4,202,889	4,000,898
Field of interest and designations	7,486,256	7,446,076
Fundraising	266,074	185,954
Non-controlling interest	-	3,282
	<u>\$ 45,331,063</u>	<u>\$ 42,426,331</u>

Note 11. Net Assets with Donor Restriction

Net assets with donor restriction at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Pledges, net of present value discount	\$ 136,963	\$ 706,205
Note receivable, including accrued interest	271,342	294,725
Charitable remainder trust investments held in trust	434,165	459,291
Beneficial interest in charitable remainder trust	46,233	47,319
	<u>888,703</u>	<u>1,507,540</u>
Less liabilities under split-interest agreements held in trust	<u>(260,671)</u>	<u>(279,506)</u>
	<u>\$ 628,032</u>	<u>\$ 1,228,034</u>

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.

THE COMMUNITY FOUNDATION OF HARRISONBURG AND ROCKINGHAM COUNTY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Noncash Contributions

Noncash contributions of marketable securities were \$2,371,608 and \$6,529,115, respectively, for the years ended June 30, 2020 and 2019. Other noncash contributions for the fiscal year ended June 30, 2020 totaled \$391,000 and included an interest in real property.

Note 14. Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the prior period reported results.

Note 15. Pending Changes in Accounting Standards

ASU 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the lease guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

ASU 2020-07, Contributed Nonfinancial Assets (Topic 958)

In July 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Under the new guidance, in-kind contributions will be required to be reported separately and their makeup disclosed in the notes. The new standard is effective for fiscal years beginning after June 15, 2021. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Note 16. Risks and Uncertainties

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 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.