

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

CONSOLIDATED FINANCIAL REPORT

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Community Foundation of Harrisonburg & Rockingham County and subsidiaries
Harrisonburg, Virginia

We have audited the accompanying consolidated financial statements of the Community Foundation of Harrisonburg & Rockingham County and subsidiaries (the "Foundation", a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of Harrisonburg & Rockingham County and subsidiaries as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Community Foundation of Harrisonburg & Rockingham County and subsidiaries as of and for the year ended June 30, 2020 were audited by other auditors whose report dated January 26, 2021 expressed an unmodified opinion on those statements.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
February 1, 2022

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020**

	2021	2020
ASSETS		
Cash and cash equivalents (Note 3)	\$ 3,002,760	\$ 2,545,137
Pledges receivable, net (Note 4)	5,733,852	136,963
Notes receivable (Note 5)	245,178	271,342
Prepaid expenses and other assets	37,693	28,281
Property held for sale (Note 7)	1,691,224	390,000
Investments (Note 6)	61,913,006	49,817,516
Beneficial interest in charitable remainder trust (Notes 6)	57,010	46,233
Assets held in trust under split-interest agreement (Notes 6 and 8)	534,862	434,165
Property and equipment, net (Note 7)	990,174	1,022,005
	\$ 74,205,759	\$ 54,691,642
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 29,004	\$ 37,179
Grants payable	18,927	-
Liabilities under split-interest agreements (Note 8)	309,118	260,671
Agency obligations	7,517,846	8,434,697
	7,874,895	8,732,547
NET ASSETS		
Without donor restrictions (Notes 9 and 10)	60,069,080	45,331,063
With donor restrictions (Note 11)	6,261,784	628,032
	66,330,864	45,959,095
Total net assets	66,330,864	45,959,095
Total liabilities and net assets	\$ 74,205,759	\$ 54,691,642

The Notes to Financial Statements are an integral part of these statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2021 and 2020**

	2021	2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue, gains and other support:		
Total contributions	\$ 9,353,545	\$ 5,826,615
Less amounts received for agency accounts	(78,734)	(260,319)
Interest on notes receivable	4,524	5,203
Contributions	9,279,335	5,571,499
Investment income, net of expenses (Note 6)	13,046,377	1,701,607
Investment income allocated to agency accounts (Note 6)	(1,486,609)	(242,169)
Investment income, net (Note 6)	11,559,768	1,459,438
Other income	90,711	103,806
Net assets released from restriction	59,536	613,657
Net other support	150,247	717,463
Total revenue, gains and other support	20,989,350	7,748,400
EXPENSES		
Program services		
Total grants	5,974,121	5,063,889
Less grants made from agency accounts	(304,509)	(797,885)
Other community support	288,559	297,391
Total program services	5,958,171	4,563,395
General and administrative	276,366	274,796
Less agency administrative fees	(49,120)	(70,080)
Fundraising	65,916	72,275
Total expenses	6,251,333	4,840,386
Noncontrolling interest in the activities of Eastham, LLC	-	(3,282)
Increase in net assets without donor restrictions	\$ 14,738,017	\$ 2,904,732

The Notes to Financial Statements are an integral part of these statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2021 and 2020**

	2021	2020
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	\$ 5,626,889	\$ 6,609
Interest on notes receivable	380	442
Investment income on assets held under split-interest agreements, net (Note 6)	111,444	(11,145)
Change in present value discount on split interest agreements	(56,202)	18,835
Change in value of charitable remainder trust	10,777	(1,086)
Net assets released from restriction	(59,536)	(613,657)
Increase (decrease) in net assets with donor restrictions	5,633,752	(600,002)
Change in net assets	20,371,769	2,304,730
Net Assets, beginning of year	45,959,095	43,654,365
Net Assets, end of year	\$ 66,330,864	\$ 45,959,095

The Notes to Financial Statements are an integral part of these statements.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Grant disbursements	\$ 5,669,612	\$ -	\$ -	\$ 5,669,612
Agency fund expenditures	304,509	49,120	-	353,629
Salaries	170,583	106,858	42,118	319,559
Professional fees	828	50,082	204	51,114
Employee benefits	26,935	15,835	6,009	48,779
Depreciation and amortization	17,102	10,714	4,223	32,039
Maintenance	27,361	-	-	27,361
FIMS fees	14,355	8,993	3,545	26,893
Insurance package	-	17,105	-	17,105
Utilities	6,108	3,826	1,508	11,442
Events	10,176	-	-	10,176
IT services	4,032	2,526	995	7,553
Dues and membership	2,876	1,801	710	5,387
Software	3,606	2,259	890	6,755
Marketing media	-	-	4,950	4,950
Staff development	1,371	858	338	2,567
Print and photocopy	-	2,564	-	2,564
Other	1,502	476	-	1,978
Postage and delivery	1,000	627	247	1,874
Equipment purchases	-	1,636	-	1,636
Supplies	724	453	179	1,356
License and permits	-	450	-	450
Board	-	104	-	104
Staff mileage	-	79	-	79
	<u>6,262,680</u>	<u>276,366</u>	<u>65,916</u>	<u>6,604,962</u>
Less agency fund activity	<u>(304,509)</u>	<u>(49,120)</u>	<u>-</u>	<u>(353,629)</u>
Total functional expenses	<u>\$ 5,958,171</u>	<u>\$ 227,246</u>	<u>\$ 65,916</u>	<u>\$ 6,251,333</u>

The Notes to Financial Statements are an integral part of these statements.

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

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

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
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
	<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>\$ 4,563,395</u>	<u>\$ 204,716</u>	<u>\$ 72,275</u>	<u>\$ 4,840,386</u>

The Notes to Financial Statements are an integral part of these statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020**

	2021	2020
OPERATING ACTIVITIES		
Change in net assets	\$ 20,371,769	\$ 2,304,730
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	32,039	32,979
Net realized and unrealized (gains) losses on investments	(10,638,223)	500,231
Change in value of split interest agreements	(52,250)	-
Change in value of charitable remainder trusts, net	(10,777)	7,377
Change in present value discount on long-term pledges	(3,758)	(6,609)
Change in present value discount on notes receivable	(3,869)	-
Noncash contributions received	(3,831,394)	(2,761,608)
Decrease (increase) in:		
Pledges receivable	(5,593,131)	575,851
Prepaid expenses and other assets	(9,620)	(4,773)
Increase (decrease) in:		
Accounts payable	(8,175)	12,895
Grants payable	18,927	(1,750)
	271,538	659,323
Net cash (used in) provided by operating activities	271,538	659,323
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(13,159)
Proceeds from notes receivable	30,033	23,825
Proceeds from sale of investments	20,467,798	11,472,097
Purchase of investments	(19,394,895)	(11,779,878)
Net cash provided by (used in) investing activities	1,102,936	(297,115)
FINANCING ACTIVITIES		
Net change in agency obligations	(916,851)	(365,477)
Net cash used in financing activities	(916,851)	(365,477)
Increase (decrease) in cash and cash equivalents	457,623	(3,269)
CASH AND CASH EQUIVALENTS		
Beginning	2,545,137	2,548,406
Ending	\$ 3,002,760	\$ 2,545,137
SUPPLEMENTAL DISCLOSURES		
Investment income allocated to agency funds	\$ 1,486,609	\$ 98,063
Noncash pledge of securities	\$ 4,469,103	\$ -
In-kind gift of real estate and personal property	\$ 1,410,090	\$ 390,000

The Notes to Financial Statements are an integral part of these statements.

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities:

The Community Foundation of Harrisonburg and Rockingham County and subsidiaries (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 Foundation provides exceptional donor services, charitable fund and scholarship management, and bold initiatives to benefit our community. Funds are established or bequeathed by individuals and families within the community and disbursed to meet the needs of local charities and nonprofits. 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, TCF Holding, II, LLC, 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.

(Continued)

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Support and Revenue Recognition: (Continued)

Contributions and grants received in connection with a specific 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.

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 and pooled accounts 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.

(Continued)

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Investments:

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.

Depreciation expense totaled \$32,039 and \$32,979 for the years ended June 30, 2021 and 2020, respectively.

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.

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**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Grants:

Grants are recorded as expenses when they are approved by the Board for payment.

Income Taxes:

The Foundation is exempt from federal income taxes under Section 501(c)(3) and 509(a)(1) of the Internal Revenue Code and has been determined to be an exempt charity which qualifies donations to the 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.

Reclassifications:

Certain amounts in the prior period financial statements have been reclassified to conform with current period presentation. These reclassifications had no impact on ending net assets or change in net assets.

(Continued)

**THE COMMUNITY FOUNDATION OF
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Adoption of New Fair Value Measurement Standard

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This update modifies the disclosure requirements on fair value measurement in *Topic 820, Fair Value Measurement*. The Foundation adopted ASU 2018-13 beginning in fiscal year 2021. The ASU primarily addresses Level 3 investments and has been reflected accordingly in the disclosures.

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The Foundation adopted ASU 2014-09 and all amendments as of July 1, 2020 for fiscal year 2021. Consistent with the modified retrospective adoption method, prior reporting period results remain unchanged and reported in accordance with ASC 605. As it relates to the services provided by the Foundation to clients, the guidance in ASC 606 is consistent with the guidance in ASC 605; therefore, the modified retrospective approach resulted in no cumulative catch-up to net assets. Furthermore, there was no significant impact to revenues recognized, and no significant changes to the Foundation's disclosures, related processes, systems, or internal control over financial reporting because of the new guidance.

Subsequent Events:

Subsequent events have been evaluated through February 1, 2021, which was the date the consolidated financial statements were available to be issued.

Note 2. Liquidity and Availability

The following table reflects the Foundation's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, when assets are held for others, when restricted by donors, or because the governing board has set aside the funds for a specific purpose.

(Continued)

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 2. Liquidity and Availability (Continued)

Financial assets available for general expenditure without donor or other restrictions limiting their use, within one year of the balance sheet date, consist of the following:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 3,002,760	\$ 2,545,137
Pledges receivable	5,733,852	136,963
Notes receivable	245,178	271,342
Endowment spending policy appropriations	1,416,637	1,085,125
Total financial assets	10,397,427	4,038,567
Less those unavailable for general expenditure within one year:		
Pledges receivable expected to be collected beyond one year, net of discounts and allowances	(796,345)	(106,111)
Notes receivable expected to be collected beyond one year, net of discounts and allowances	(214,383)	(241,309)
Total unavailable assets	(1,010,728)	(347,420)
Financial assets available to meet cash needs for general expenditures within one year	\$ 9,386,699	\$ 3,691,147

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, 2021 and 2020:

	2021	2020
Checking and savings accounts	\$ 1,217,597	\$ 1,006,589
Money market funds	1,785,163	1,538,548
	\$ 3,002,760	\$ 2,545,137

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**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 4. Pledges Receivable

Pledges receivable as of June 30, 2021 and 2020 were expected to be collected in the following periods:

	2021	2020
One year or less	\$ 4,937,507	\$ 30,852
Between one and five years	809,884	123,408
	5,747,391	154,260
Less present value discount (at a rate of 4.10%)	(13,539)	(17,297)
	\$ 5,733,852	\$ 136,963

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 \$151,932 and \$176,965 as of June 30, 2021 and 2020, 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 \$93,246 and \$94,377 as of June 30, 2021 and 2020, respectively.

Expected notes receivable maturities are as follows for the years ending June 30:

2022	\$	30,795
2023		31,579
2024		32,388
2025		33,221
2026		34,079
Thereafter		169,870
		331,932
Less present value discount (at a rate of 4.1%)		(86,754)
	\$	245,178

(Continued)

**THE COMMUNITY FOUNDATION OF
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

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.
- 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, 2021 and 2020, 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, 2021 and 2020.

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. Mutual funds and equity securities are invested in a widely diversified portfolio.

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. Valuation techniques and inputs for Level 2 securities are the yield based matrix system.

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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 following tables summarize the inputs used to determine the fair values of financial assets measured on a recurring basis at June 30:

	2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,765,428	\$ -	\$ -	\$ 1,765,428
Money Market Fund	1,142,425	-	-	1,142,425
Equity Securities	30,372,060	-	-	30,372,060
Fixed Income Securities:				
Corporate bonds	1,746,586	2,160,660	-	3,907,246
Government bonds	3,254,973	432,815	-	3,687,788
Mutual Fund Bonds	3,539,635	-	-	3,539,635
Mutual Fund	17,992,407	-	-	17,992,407
Real Estate Investment Trusts	40,879	-	-	40,879
Notes Receivable	-	-	245,178	245,178
Charitable Trusts	-	-	57,010	57,010
Total assets	\$ 59,854,393	\$ 2,593,475	\$ 302,188	\$ 62,750,056

	2020			
	Level 1	Level 2	Level 3	Total
Cash & cash equivalents	\$ 3,233,171	\$ -	\$ -	\$ 3,233,171
Money Market Fund	584,923	-	-	584,923
Equity Securities	14,352,526	-	-	14,352,526
Fixed Income Securities:				
Corporate bonds	-	2,466,401	-	2,466,401
Government bonds	4,147,824	717,550	-	4,865,374
Mutual Fund Bonds	3,850,672	-	-	3,850,672
Mutual Fund	20,828,915	-	-	20,828,915
Real Estate Investment Trusts	69,699	-	-	69,699
Notes Receivable	-	-	271,342	271,342
Charitable Trusts	-	-	46,233	46,233
Total assets	\$ 47,067,730	\$ 3,183,951	\$ 317,575	\$ 50,569,256

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6. Fair Value Measurements and Disclosures (Continued)

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

	2021	2020
Balance, July 1	\$ 317,575	\$ 342,044
Note receivable payments	(30,033)	(23,825)
Change in value	14,646	(644)
Balance, June 30	\$ 302,188	\$ 317,575

Quantitative information regarding the fair value measurements for Level 3 assets on a recurring basis is summarized as follows:

	Fair Value at June 30, 2021	Fair Value at June 30, 2020	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Charitable Remainder Trust	\$ 57,010	\$ 46,233	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	151,932	176,965	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 5
Note Receivable	93,246	94,377	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 5
				Present value discount rate	4.1%

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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:

	2021	2020
Dividends	\$ 1,256,879	\$ 1,169,013
Interest	132,931	178,370
Net realized and unrealized gain	12,038,424	579,622
Custodial fees	(270,413)	(236,543)
Total investment income	13,157,821	1,690,462
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(86,408)	(128,502)
Net investment gain	(1,400,201)	(113,667)
Total investment income included in changes in net assets	\$ 11,671,212	\$ 1,448,293

Note 7. Property and Equipment

Property and equipment consist of the following at June 30:

	2021	2020
Land	\$ 83,342	\$ 83,342
Land improvements	19,522	19,522
Buildings	877,162	877,162
Equipment	114,567	114,567
Phone system	5,424	5,424
Website	22,103	22,103
Total property & equipment	1,122,120	1,122,120
Less accumulated depreciation	(131,946)	(100,115)
Total property & equipment	\$ 990,174	\$ 1,022,005

The Foundation also holds certain property available for sale. These assets totaled \$1,691,224 and \$390,000 as of June 30, 2021 and 2020, respectively, and are not depreciated or included in the Foundation's fixed assets.

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Note 8. Split-Interest Agreement

The Foundation is named trustee on one split-interest agreement trust. This 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 trust were \$534,862 and \$434,165 at June 30, 2021 and 2020, 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 \$309,118 and \$260,671 at June 30, 2021 and 2020, respectively.

Note 9. Endowments and Quasi-Endowments

Endowment is a commonly used term to refer to resources that have been restricted by the donor, is donor advised, 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 64 individual funds established for a variety of purposes. 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 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9. Endowments and 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 examines the endowment funds' earnings and establishes 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9. Endowments and Quasi-Endowments (Continued)

The endowment net assets consist of donor advised, fundraising, scholarship, designated, and discretionary funds, which are primarily included in net assets without donor restriction. Changes during the fiscal years ended June 30 were as follows:

	<u>2021</u>	<u>2020</u>
Endowment Net Assets, beginning	\$ 27,128,114	\$ 26,507,841
Investment return:		
Interest and dividend income	830,280	567,426
Net appreciation in fair value of investments	<u>6,434,745</u>	<u>462,624</u>
Total investment return	<u>7,265,025</u>	<u>1,030,050</u>
Contributions	<u>750,213</u>	<u>1,027,518</u>
Reclassification pursuant to board and donor direction	1,189,119	(533,068)
Appropriation of endowment assets for expenditure	<u>(941,548)</u>	<u>(904,227)</u>
Endowment Net Assets, ending	<u><u>\$ 35,390,923</u></u>	<u><u>\$ 27,128,114</u></u>

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.

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.

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Note 10. Net Assets (Continued)

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

	<u>2021</u>	<u>2020</u>
Discretionary	\$ 1,074,269	\$ 1,106,517
Donor advised	25,136,582	32,269,328
Scholarship	5,346,251	4,202,889
Field of interest and designations	27,844,241	7,486,255
Fundraising	<u>667,737</u>	<u>266,074</u>
	<u>\$ 60,069,080</u>	<u>\$ 45,331,063</u>

Note 11. Net Assets with Donor Restriction

Net assets with donor restriction at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Pledges, net of present value discount	\$ 5,733,852	\$ 136,963
Note receivable, including accrued interest	245,178	271,342
Charitable remainder trust investments held in trust	534,862	434,165
Beneficial interest in charitable remainder trust	<u>57,010</u>	<u>46,233</u>
	6,570,902	888,703
Less liabilities under split-interest agreements held in trust	<u>(309,118)</u>	<u>(260,671)</u>
	<u>\$ 6,261,784</u>	<u>\$ 628,032</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.

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Note 13. Noncash Contributions

Noncash contributions consisted of the following during the year ended June 30:

	2021	2020
Marketable securities	\$ 2,421,304	\$ 2,371,608
Interest in real estate and personal property	1,410,090	390,000
Noncash contributions received	3,831,394	2,761,608
Add: noncash contributions in pledges receivable	4,469,103	-
Total noncash contributions	\$ 8,300,497	\$ 2,761,608

Noncash gifts in pledges receivable as of June 30, 2021 consist of marketable securities.

Note 14. Significant Transactions

The Community Foundation accepted a gift of property of the former Harrisonburg Rockingham Free Clinic, located at 25 W Water Street in downtown Harrisonburg. The gift was received on June 16, 2021 and had three main components – real property, personal property and endowment funds.

The value of the real property and personal property components were determined by professional appraisal at \$1,275,000 and \$26,224, respectively. The Community Foundation has six months to donate the property to a nonprofit organization serving healthcare needs of our community, or that otherwise furthers the mission of the Free Clinic. If the Foundation is not able to identify a feasible recipient, the property will be sold.

The third component of the gift includes two endowment funds benefiting the Harrisonburg Rockingham Free Clinic as follows:

The Alvin V. Baird, Jr. Program Endowment Fund, intended to address unmet healthcare needs in the community, was previously an agency fund at the Community Foundation. Upon gift acceptance, this endowment was recognized as a contribution and reduced the related agency liability. The estimated value of this endowment gift at time of transfer was \$1,200,000.

The Free Clinic Endowment, estimated at \$573,000 at time of transfer, was previously recognized as an agency fund at the Community Foundation. Upon gift acceptance, the endowment was recognized as a contribution and reduced the related agency liability. The fund will be used to cover costs related to the upkeep of the property until it is donated or sold. If the property is donated, any balance remaining in this fund will move to the Alvin V. Baird Jr. Program Endowment Fund.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 14. Significant Transactions (Continued)

Should the property be sold, the sales proceeds and the balance of the Free Clinic Endowment will create a new fund named the Community Healthcare Endowment. Ultimately, it is the Community Foundation's hope to further the mission of the Free Clinic and honor the volunteers and donors who made this gift possible.

Note 15. COVID-19

In March of 2020, the World Health Organization classified the COVID-19 outbreak as a global pandemic, adversely affecting global economic activity and financial markets. The ongoing extent of the impact of COVID-19 on the Foundation's operations is uncertain and cannot be predicted.

Note 16. Subsequent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria, the lessor accounting model, and guidance on separating components of a contract and consideration in the contract. The amendments in ASU 2016-02 will require modified retrospective application as of the beginning of the earliest period presented in the financial statements. Early application is permitted. In May 2020, the FASB approved to defer the effective date of ASU 2016-02. Accordingly, ASU 2016-02 will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2021.

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.

The FASB issued ASU 2018-15, *Intangibles, Goodwill, and Other Internal-Use Software (Subtopic 350-40)*. The new standard clarifies the accounting for implementation costs that are incurred in service contracts related to cloud computing arrangements. This will result in capitalization of implementation costs over the term of the hosting arrangement instead of being fully expensed in the year the software is implemented. Nonpublic entities are required to adopt this standard for reporting periods beginning after December 15, 2020. Early adoption is permitted.

Management has not determined the effects these new FASB Statements may have on prospective financial statements.