

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

CONSOLIDATED FINANCIAL REPORT

June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the Community Foundation of Harrisonburg & Rockingham County and subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Harrisonburg & Rockingham County and subsidiaries as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Community Foundation of Harrisonburg & Rockingham County and subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Community Foundation of Harrisonburg & Rockingham County and subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Your Success is Our Focus

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Community Foundation of Harrisonburg & Rockingham County and subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Community Foundation of Harrisonburg & Rockingham County and subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 15, 2023

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022**

	2023	2022
ASSETS		
Cash and cash equivalents (Note 3)	\$ 3,871,586	\$ 5,082,367
Pledges receivable, net (Note 4)	1,964,726	1,393,584
Notes receivable (Note 5)	191,875	218,206
Prepaid expenses and other assets	69,120	17,914
Property held for sale (Note 7)	390,000	390,000
Investments (Note 6)	66,899,515	59,453,557
Beneficial interest in charitable remainder trusts (Note 6)	536,378	46,266
Assets held in trust under split-interest agreement (Notes 6 and 8)	500,804	480,523
Property and equipment, net (Note 7)	1,032,737	1,070,571
Total assets	\$ 75,456,741	\$ 68,152,988
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 13,261	\$ 17,522
Grants payable	592,300	2,113,600
Liabilities under split-interest agreement (Note 8)	273,514	269,324
Agency obligations	7,076,053	7,073,222
Total liabilities	7,955,128	9,473,668
NET ASSETS		
Without donor restrictions (Notes 9 and 10)	64,581,344	56,810,065
With donor restrictions (Note 11)	2,920,269	1,869,255
Total net assets	67,501,613	58,679,320
Total liabilities and net assets	\$ 75,456,741	\$ 68,152,988

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, 2023 and 2022**

	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue, gains and other support:		
Contributions - financial	\$ 8,540,088	\$ 16,110,008
Contributions - nonfinancial (Note 13)	766,805	35,943
Less amounts received for agency accounts	(55,956)	(378,680)
Interest on notes receivable	3,309	3,826
Contributions	9,254,246	15,771,097
Investment income (loss), net of expenses (Note 6)	5,672,456	(7,994,570)
Investment (income) loss allocated to agency accounts (Note 6)	(533,770)	681,866
Investment income (loss), net (Note 6)	5,138,686	(7,312,704)
Administrative Fees	52,345	55,707
Other income	42,032	157,680
Net assets released from restriction	1,052,086	4,795,745
Net other support	1,146,463	5,009,132
Total revenue, gains and other support	15,539,395	13,467,525
EXPENSES		
Program services		
Total grants and scholarships	7,427,691	16,105,285
Less grants and scholarships made from agency accounts	(540,720)	(85,731)
Other community support	435,512	306,437
Total program services	7,322,483	16,325,991
General and administrative	369,493	342,549
Less agency administrative fees and other expenses	(52,175)	(55,708)
Fundraising	128,315	113,708
Total expenses	7,768,116	16,726,540
Increase (decrease) in net assets without donor restrictions	\$ 7,771,279	\$ (3,259,015)

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, 2023 and 2022**

	2023	2022
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions of cash and other financial assets	\$ 1,840,875	\$ 19,783
Contributions of nonfinancial assets	237,900	400,000
Interest on notes receivable	-	315
Investment income (loss) on assets held under split-interest agreements, net (Note 6)	32,739	(45,037)
Change in present value discount on long-term pledges	8,080	3,512
Change in present value discount on split interest agreements	(16,648)	35,387
Change in value of charitable remainder trust	154	(10,744)
Net assets released from restriction	(1,052,086)	(4,795,745)
Increase (decrease) in net assets with donor restrictions	1,051,014	(4,392,529)
Change in net assets	8,822,293	(7,651,544)
Net Assets, beginning of year	58,679,320	66,330,864
Net Assets, end of year	\$ 67,501,613	\$ 58,679,320

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, 2023**

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 6,886,971	\$ -	\$ -	\$ 6,886,971
Agency fund expenditures	540,720	52,175	-	592,895
Salaries	225,667	175,374	80,227	481,268
Professional fees	831	33,126	295	34,252
Employee benefits	31,291	24,317	11,124	66,732
Depreciation and amortization	17,838	13,862	6,341	38,041
Maintenance	19,560	14,764	-	34,324
System user fees	14,034	10,906	4,989	29,929
Insurance package	-	18,054	-	18,054
Utilities	5,140	3,995	1,827	10,962
Events	45,560	-	1,984	47,544
IT services	3,832	2,978	1,362	8,172
Dues and membership	3,053	2,372	1,085	6,510
Software	2,057	1,599	731	4,387
Marketing media	-	-	16,121	16,121
Staff development	1,294	1,006	460	2,760
Print and photocopy	235	2,123	1,769	4,127
Other	5,272	973	-	6,245
Bad debts	57,701	-	-	57,701
Postage and delivery	2,106	-	-	2,106
Equipment purchases	-	5,385	-	5,385
Supplies	-	2,628	-	2,628
License and permits	-	3,249	-	3,249
Board	-	511	-	511
Staff mileage	41	96	-	137
	<u>7,863,203</u>	<u>369,493</u>	<u>128,315</u>	<u>8,361,011</u>
Less agency fund activity	<u>(540,720)</u>	<u>(52,175)</u>	<u>-</u>	<u>(592,895)</u>
Total functional expenses	<u>\$ 7,322,483</u>	<u>\$ 317,318</u>	<u>\$ 128,315</u>	<u>\$ 7,768,116</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, 2022**

	Program	General and Administrative	Fundraising	Total
Grant disbursements	\$ 16,019,554	\$ -	\$ -	\$ 16,019,554
Agency fund expenditures	85,731	55,708	-	141,439
Salaries	152,598	145,437	66,580	364,615
Professional fees	857	43,137	374	44,368
Employee benefits	23,430	22,330	10,223	55,983
Depreciation and amortization	15,781	15,041	6,886	37,708
Maintenance	26,274	-	-	26,274
System user fees	16,194	15,435	7,066	38,695
Insurance package	-	11,657	-	11,657
Utilities	4,957	4,723	2,162	11,842
Events	53,729	-	1,500	55,229
IT services	4,948	4,715	2,159	11,822
Dues and membership	2,431	2,317	1,061	5,809
Software	2,273	2,166	992	5,431
Marketing media	-	-	13,070	13,070
Staff development	454	432	198	1,084
Print and photocopy	-	1,404	1,437	2,841
Other	972	3,284	-	4,256
Postage and delivery	1,539	-	-	1,539
Equipment purchases	-	10,572	-	10,572
Supplies	-	1,433	-	1,433
License and permits	-	2,628	-	2,628
Board	-	99	-	99
Staff mileage	-	31	-	31
	<u>16,411,722</u>	<u>342,549</u>	<u>113,708</u>	<u>16,867,979</u>
Less agency fund activity	<u>(85,731)</u>	<u>(55,708)</u>	<u>-</u>	<u>(141,439)</u>
Total functional expenses	<u>\$ 16,325,991</u>	<u>\$ 286,841</u>	<u>\$ 113,708</u>	<u>\$ 16,726,540</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, 2023 and 2022**

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	\$ 8,822,293	\$ (7,651,544)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	38,041	37,708
Net realized and unrealized (gains) losses on investments	(3,286,047)	9,697,277
Change in value of split interest agreements	(16,091)	14,545
In-kind contribution of interest in CRUT	(489,958)	-
Change in value of charitable remainder trusts, net	(154)	10,744
Change in present value discount on long-term pledges	(6,579)	(6,221)
Change in present value discount on notes receivable	(7,500)	(3,823)
Noncash contributions received	-	(112,739)
Noncash grants issued	-	1,301,224
Decrease (increase) in:		
Pledges receivable	(564,563)	4,346,489
Prepaid expenses and other assets	(51,413)	19,779
Increase (decrease) in:		
Accounts payable	(4,262)	(11,482)
Grants payable	(1,521,300)	2,094,673
Net cash provided by operating activities	2,912,467	9,736,630
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(5,366)
Proceeds from notes receivable	33,831	30,795
Proceeds from sale of investments	26,134,317	38,887,411
Purchase of investments	(30,294,227)	(46,125,239)
Net cash used in investing activities	(4,126,079)	(7,212,399)
FINANCING ACTIVITIES		
Net change in agency obligations	2,831	(444,624)
Net cash provided by (used in) financing activities	2,831	(444,624)
Increase (decrease) in cash and cash equivalents	(1,210,781)	2,079,607
CASH AND CASH EQUIVALENTS		
Beginning	5,082,367	3,002,760
Ending	\$ 3,871,586	\$ 5,082,367
SUPPLEMENTAL DISCLOSURES		
Investment income allocated to agency funds	\$ 533,770	\$ (681,866)
In-kind gift of real estate and personal property	\$ 5,900	\$ 112,739
Non-cash pledge of securities	\$ 828,210	\$ -

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

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, TCF Holding, III, LLC, TCF Holding, IV, 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

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
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

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

Investments (Continued)

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 websites, 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 3 – 39 years.

Depreciation expense totaled \$38,041 and \$37,708 for the years ended June 30, 2023 and 2022, 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.

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.

(Continued)

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

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

Split Interest Agreements (Continued)

The Foundation is also the beneficiary of two charitable remainder unitrusts for which it does not serve as trustee. The Foundation's beneficial interests in the trusts are recorded at fair value 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.

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. Personnel costs, depreciation, professional services and software 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
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

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

Subsequent Events

Subsequent events have been evaluated through November 15, 2023, 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, 2023 and 2022, 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.

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:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 3,871,586	\$ 5,082,367
Pledges receivable	1,964,726	1,393,584
Notes receivable	191,875	218,206
Endowment spending policy appropriations	1,650,000	1,360,000
Total financial assets	7,678,187	8,054,157
Less those unavailable for general expenditure within one year:		
Pledges receivable expected to be collected beyond one year, net of discounts and allowances	(18,035)	(58,807)
Notes receivable expected to be collected beyond one year, net of discounts and allowances	(161,738)	(186,627)
Total unavailable assets	(179,773)	(245,434)
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,498,414	\$ 7,808,723

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

(Continued)

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2023 and 2022:

	2023	2022
Checking and savings accounts	\$ 2,251,428	\$ 3,593,677
Money market funds	1,615,067	1,481,479
Undeposited funds	5,091	7,211
	\$ 3,871,586	\$ 5,082,367

Note 4. Pledges Receivable

Pledges receivable as of June 30, 2023 and 2022 were expected to be collected in the following periods:

	2023	2022
One year or less	\$ 1,946,691	\$ 1,334,777
Between one and five years	18,774	66,125
	1,965,465	1,400,902
Less present value discount (at a rate of 4.10%)	(739)	(7,318)
	\$ 1,964,726	\$ 1,393,584

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 \$97,306 and \$126,137 as of June 30, 2023 and 2022, respectively.

On December 14, 2017, the Foundation 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. The Foundation 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 \$94,569 and \$92,069 as of June 30, 2023 and 2022, respectively.

(Continued)

**THE COMMUNITY FOUNDATION OF
HARRISONBURG & ROCKINGHAM COUNTY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 5. Notes Receivable (Continued)

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

2024	\$	30,137
2025		33,221
2026		34,079
2027		19,869
2028		5,000
Thereafter		145,000
		267,306
Less present value discount (at a rate of 4.1%)		(75,431)
	\$	191,875

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.

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

For the fiscal years ended June 30, 2023 and 2022, 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, 2023 and 2022.

Cash and Cash Equivalents and Money Market funds: Cash held as part of investment accounts are classified as Level 1 in the fair value hierarchy.

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.

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.

Notes Receivable: Notes held by the Foundation are valued using the present value of future cash flows. In the fair value hierarchy, the notes are considered a Level 3 asset.

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

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

	2023			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 1,218,347	\$ -	\$ -	\$ 1,218,347
Money Market Fund	1,962,328	-	-	1,962,328
Equity Securities	5,280,519	-	-	5,280,519
Fixed Income Securities:				
Corporate bonds	5,469,735	47,548	-	5,517,283
Mutual Fund Bonds	175,583	-	-	175,583
Mutual Funds and ETFs	53,246,259	-	-	53,246,259
Notes Receivable	-	-	191,875	191,875
Charitable Trusts	-	-	536,378	536,378
	<u>\$ 67,352,771</u>	<u>\$ 47,548</u>	<u>\$ 728,253</u>	<u>\$ 68,128,572</u>
Total assets				
	<u>\$ 67,352,771</u>	<u>\$ 47,548</u>	<u>\$ 728,253</u>	<u>\$ 68,128,572</u>

	2022			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 2,366,323	\$ -	\$ -	\$ 2,366,323
Money Market Fund	62,405	-	-	62,405
Equity Securities	16,546,340	-	-	16,546,340
Fixed Income Securities:				
Corporate bonds	2,055,824	63,120	-	2,118,944
Mutual Fund Bonds	214,213	-	-	214,213
Mutual Funds	38,625,855	-	-	38,625,855
Notes Receivable	-	-	218,206	218,206
Charitable Trusts	-	-	46,266	46,266
	<u>\$ 59,870,960</u>	<u>\$ 63,120</u>	<u>\$ 264,472</u>	<u>\$ 60,198,552</u>
Total assets				
	<u>\$ 59,870,960</u>	<u>\$ 63,120</u>	<u>\$ 264,472</u>	<u>\$ 60,198,552</u>

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

	2023	2022
Balance, July 1	\$ 264,472	\$ 302,188
Note receivable payments	(33,831)	(30,795)
Change in value	7,655	(6,921)
Contributions	489,957	-
	<u>\$ 728,253</u>	<u>\$ 264,472</u>
Balance, June 30		
	<u>\$ 728,253</u>	<u>\$ 264,472</u>

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

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

	Fair Value at June 30, 2023	Fair Value at June 30, 2022	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Charitable Remainder Trusts	\$ 536,378	\$ 46,266	Present value of projected remainder interest	Contractual payments and life expectancy of income beneficiary Present value discount rate	Based on contractual payment terms 3.4% - 5.5%
Note Receivable	97,306	126,137	Discounted cash flow	Contractual payments	Based on contractual payment terms as disclosed in Note 5
Note Receivable	94,569	92,069	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:

	2023	2022
Dividends	\$ 1,969,907	\$ 2,742,180
Interest	239,156	106,499
Net realized and unrealized gain (loss)	3,664,038	(10,604,483)
Custodial fees	(167,906)	(283,803)
Total investment income (loss)	5,705,195	(8,039,607)
Less amounts allocated to agency accounts:		
Dividends, interest and custodial fees	(155,779)	(225,340)
Net investment (gain) loss	(377,991)	907,206
Total investment income (loss) included in changes in net assets	\$ 5,171,425	\$ (7,357,741)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 7. Property and Equipment

Property and equipment consist of the following at June 30:

	2023	2022
Land	\$ 83,342	\$ 83,342
Land improvements	19,522	19,522
Buildings	989,901	989,901
Equipment	114,567	114,567
Phone system	5,424	5,424
Website	22,103	22,103
Software	16,000	16,000
	1,250,859	1,250,859
Less accumulated depreciation	(218,122)	(180,288)
Total property & equipment	\$ 1,032,737	\$ 1,070,571

The Foundation also holds certain property available for sale. These assets totaled \$390,000 as of June 30, 2023 and 2022, respectively, and are not depreciated or included in the Foundation's fixed assets.

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 \$500,804 and \$480,523 at June 30, 2023 and 2022, 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 \$273,514 and \$269,324 at June 30, 2023 and 2022, respectively.

The Foundation has been named the beneficiary of two split-interest agreement trusts for which it does not serve as trustee. The beneficial interests in the trusts were \$536,378 and \$46,266 as of June 30, 2023 and 2022, 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.

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Note 9. Endowments and Quasi-Endowments (Continued)

The Foundation's endowment consists of 78 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.

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 Foundation's long-term investment objective is to preserve the real value of its charitable funds while maintaining the desired grant expenditure payout rate to insure availability of funds for grant purposes in the near or 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.

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

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.

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>2023</u>	<u>2022</u>
Endowment Net Assets, beginning	\$ 34,117,711	\$ 35,390,923
Investment return:		
Interest and dividend income	1,205,890	1,633,061
Net appreciation (depreciation) in fair value of investments	<u>1,783,890</u>	<u>(6,018,821)</u>
Total investment return	2,989,780	(4,385,760)
Contributions	3,267,465	4,453,965
Reclassifications pursuant to board and donor direction	108,052	-
Appropriation of endowment assets for expenditure	<u>(1,793,036)</u>	<u>(1,341,417)</u>
Endowment Net Assets, ending	<u>\$ 38,689,972</u>	<u>\$ 34,117,711</u>

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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.

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.

	2023	2022
Discretionary	\$ 2,679,826	\$ 1,497,166
Donor advised	25,790,315	21,832,845
Scholarship	6,142,028	5,875,853
Field of interest and designations	29,325,772	26,988,492
Fundraising	643,403	615,709
	\$ 64,581,344	\$ 56,810,065

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Note 11. Net Assets with Donor Restriction

Net assets with donor restriction at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Pledges, net of present value discount	\$ 1,964,726	\$ 1,393,584
Note receivable, including accrued interest	191,875	218,206
Charitable remainder trust investments held in trust	500,804	480,523
Beneficial interest in charitable remainder trust	<u>536,378</u>	<u>46,266</u>
	3,193,783	2,138,579
Less liabilities under split-interest agreements held in trust	<u>(273,514)</u>	<u>(269,324)</u>
	<u>\$ 2,920,269</u>	<u>\$ 1,869,255</u>

Note 12. Related Party Relationships

From time to time, the Foundation enters into transactions with related parties in the ordinary course of business. These transactions were not significant to these financial statements for the years ended June 30, 2023 or 2022. All such transactions are subject to governance oversight in accordance with the Foundation's conflict of interest policies.

Note 13. Nonfinancial Contributions

Nonfinancial contributions received by the Foundation consisted of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Interest in LLC	\$ 728,000	\$ -
Interest in nonfinancial assets in estate pledge	237,900	400,000
Donated services	32,905	-
Personal property	<u>5,900</u>	<u>35,943</u>
Total nonfinancial contributions	<u>\$ 1,004,705</u>	<u>\$ 435,943</u>

Interest in LLC

The Foundation was given an ownership interest in an LLC. The value of the interest was based on a qualified appraisal. Once the assets in the LLC are sold, the proceeds will be used as part of donor advised funds.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 13. Nonfinancial Contributions (Continued)

Interest in nonfinancial assets in estate pledge

The Foundation is the beneficiary of several estate gifts consisting of nonfinancial assets. The value of the interest in the estate gifts are based on either the fair value of the property or estimates provided by the estate's executor or trustee. Once the estates are settled, the assets will be liquidated and the proceeds will be used as part of a donor advised fund or endowment.

Donated services

Certain donors provide services for the Foundation. The value of these services are based on either fair market values if they had been otherwise purchased or information provided by the donor regarding market value. The donated cost of these services are included in expense accounts on the statement of functional expenses.

Personal property

Personal property is recorded at fair value based on either information provided by the donor or market rates. The personal property was granted to further the mission of the donor and is included in grant expenses in the year ended June 30, 2023.

Note 14. Significant Transactions

The Foundation started an endowment for Dolly Parton's Imagination Library in May 2023. The Foundation is a partner of Dolly Parton's Imagination Library which aids in literacy development by providing free monthly books to local children under the age of five. Once fully endowed at \$500,000, the purpose of the endowment is to cover the monthly mailing costs for books provided through the Foundation's program. The endowment raised \$73,810 during the year ending June 30, 2023.

The Foundation is the beneficiary of a trust which is part of an estate. During the year ended June 30, 2023, the trust was involved in litigation; however, the Foundation expects to receive its remainder interest as the trust's beneficiary. The Foundation recorded a receivable of \$1,443,000 as of June 30, 2023, which is reduced based on estimates relating to the litigation of the trust assets.

The Foundation received gifts totaling \$9,651,502 from an estate in March and April 2022. The Foundation facilitated the disbursement of the remaining \$1,993,208 to an area nonprofit during the year ended June 30, 2023. All other funds received during the year ended June 30, 2022 were disbursed to ten area nonprofits.