



**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Community Foundation of the Dan River Region  
Danville, Virginia

We have audited the accompanying consolidated financial statements of The Community Foundation of the Dan River Region, (collectively, the Foundation), (a nonprofit Foundation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' 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 combined 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 The Community Foundation of the Dan River Region as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Harris Harvey Neal & Co. LLP*

Danville, Virginia  
September 26, 2016

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

| ASSETS  | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash and cash equivalents   | \$ 571,927          | \$ 752,564          |
| Dividends and interest receivable   | <u>17,454</u>       | <u>6,985</u>        |
| Total current assets  | 589,381             | 759,549             |
| <br>  |                     |                     |
| INVESTMENTS   | 27,611,514          | 27,838,709          |
| PROPERTY AND EQUIPMENT, net of accumulated<br>depreciation and amortization | 813,330             | 864,614             |
| INSURANCE LEGACIES  | <u>10,708</u>       | <u>9,938</u>        |
| Total assets  | <u>\$29,024,933</u> | <u>\$29,472,810</u> |
| <br>  |                     |                     |
| <b>LIABILITIES AND NET ASSETS</b>   |                     |                     |
| <br>  |                     |                     |
| <b>CURRENT LIABILITIES</b>  |                     |                     |
| Grants payable  | <u>\$ 1,000</u>     | <u>\$ 105,811</u>   |
| <br>  |                     |                     |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                     |                     |
| <br>  |                     |                     |
| <b>NET ASSETS</b>   |                     |                     |
| Unrestricted  |                     |                     |
| Donor advisory endowment funds  | 4,661,701           | 4,852,853           |
| Donor designated endowment funds  | 22,997,611          | 23,003,110          |
| Board designated endowment funds  | <u>931,872</u>      | <u>936,143</u>      |
|   | 28,591,184          | 28,792,106          |
| Undesignated  | <u>-</u>            | <u>-</u>            |
| Total unrestricted  | <u>28,591,184</u>   | <u>28,792,106</u>   |
| Temporarily restricted  | <u>432,749</u>      | <u>574,893</u>      |
| Total net assets  | <u>29,023,933</u>   | <u>29,366,999</u>   |
| Total liabilities and net assets  | <u>\$29,024,933</u> | <u>\$29,472,810</u> |

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

|  | 2016                |                                   |                     | 2015                |
|--|---------------------|-----------------------------------|---------------------|---------------------|
|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        | <u>Total</u>        |
| <b>REVENUE AND SUPPORT</b>                           |                     |                                   |                     |                     |
| Contributions and grants                             | 1,535,735           | 374,626                           | \$ 1,910,361        | \$ 4,316,297        |
| Rental revenues in-kind                              | 176,517             | -                                 | 176,517             | 302,600             |
| Investment income                                    | 478,170             | -                                 | 478,170             | 685,529             |
| Other income   | 9,756               | -                                 | 9,756               | 19,167              |
| Net realized and unrealized<br>(loss) on investments | <u>(1,071,777)</u>  | <u>-</u>                          | <u>(1,071,777)</u>  | <u>(771,625)</u>    |
| Total revenues, gains, and losses                    | <u>1,128,401</u>    | <u>374,626</u>                    | <u>1,503,027</u>    | <u>4,551,968</u>    |
| Net assets released from restrictions                | <u>516,770</u>      | <u>(516,770)</u>                  | <u>-</u>            | <u>-</u>            |
| Total revenues, gains, losses,<br>and other support  | <u>1,645,171</u>    | <u>(142,144)</u>                  | <u>1,503,027</u>    | <u>4,551,968</u>    |
| <b>EXPENSES</b>                                      |                     |                                   |                     |                     |
| Program expenses                                     |                     |                                   |                     |                     |
| Community grants                                     | 1,258,214           | -                                 | 1,258,214           | 1,916,781           |
| Workforce collaborative                              | -                   | -                                 | -                   | 340,522             |
| Program related expense                              | <u>281,702</u>      | <u>-</u>                          | <u>281,702</u>      | <u>408,223</u>      |
| Total program expenses                               | <u>1,539,916</u>    | <u>-</u>                          | <u>1,539,916</u>    | <u>2,665,526</u>    |
| Support services expenses                            |                     |                                   |                     |                     |
| Management and general                               | 246,251             | -                                 | 246,251             | 281,676             |
| Fundraising  | <u>59,926</u>       | <u>-</u>                          | <u>59,926</u>       | <u>85,682</u>       |
| Total support expenses                               | <u>306,177</u>      | <u>-</u>                          | <u>306,177</u>      | <u>367,358</u>      |
| Total expenses                                       | <u>1,846,093</u>    | <u>-</u>                          | <u>1,846,093</u>    | <u>3,032,884</u>    |
| Change in net assets                                 | (200,922)           | (142,144)                         | (343,066)           | 1,519,084           |
| Net assets, beginning                                | <u>28,792,106</u>   | <u>574,893</u>                    | <u>29,366,999</u>   | <u>27,847,915</u>   |
| Net assets, ending                                   | <u>\$28,591,184</u> | <u>\$ 432,749</u>                 | <u>\$29,023,933</u> | <u>\$29,366,999</u> |

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

|  | <u>2016</u>        | <u>2015</u>        |
|--|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                    |                    |
| Change in net assets   | \$ (343,066)       | \$ 1,519,084       |
| Adjustments to reconcile excess (deficiency) of revenue over expenses and change in assets to net cash provided by operating activities: |                    |                    |
| Depreciation and amortization  | 51,284             | 51,039             |
| Net realized and unrealized losses on investments  | 1,071,777          | 771,625            |
| Change in operating assets and liabilities:  |                    |                    |
| Dividends and interest receivable  | (10,469)           | 4,518              |
| Insurance legacies   | (770)              | (730)              |
| Accounts payable and accrued expenses  | -                  | (73,983)           |
| Grants payable   | (104,811)          | 53,311             |
| Net cash provided by operating activities  | <u>663,945</u>     | <u>2,324,864</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                    |                    |
| Purchase of designated investments   | (7,011,406)        | (4,637,664)        |
| Purchase of property and equipment   | -                  | (9,945)            |
| Net cash (used in) investing activities  | <u>(7,011,406)</u> | <u>(4,647,609)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                    |                    |
| Proceeds from the sale and maturities of investments   | <u>6,166,824</u>   | <u>2,420,552</u>   |
| Net cash provided by financing activities  | <u>6,166,824</u>   | <u>2,420,552</u>   |
| Net increase (decrease) in cash and cash equivalents   | (180,637)          | 97,807             |
| <b>CASH AND CASH EQUIVALENTS</b>   |                    |                    |
| Beginning  | <u>752,564</u>     | <u>654,757</u>     |
| Ending   | <u>\$ 571,927</u>  | <u>\$ 752,564</u>  |
| <b>SUPPLEMENTAL DISCLOSURES</b>  |                    |                    |
| Noncash operating activities transaction:  |                    |                    |
| Rental income  | \$ 176,517         | \$ 302,600         |
| Program expense  | (176,517)          | (302,600)          |
|  | <u>\$ -</u>        | <u>\$ -</u>        |

The accompanying notes are an integral part of the financial statements.

# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

#### Nature of activities:

The Community Foundation of the Dan River Region (the Foundation) was organized and incorporated under the laws of the Commonwealth of Virginia as a not-for-profit organization in September 1996. The Foundation is a not-for-profit, nonstock, tax-exempt public charity organized for the purpose of providing financial resources for social, educational, cultural, and other charitable benefits of the communities of Danville, Pittsylvania County, Halifax County, and Henry County, Virginia, and Caswell County, North Carolina.

#### Basis of presentation:

The consolidated financial statements include the accounts of the Foundation and those of its supporting organization, Community Foundation Properties, LLC (CFP). CFP is a corporation organized for the purpose of acquiring, accepting, holding, and managing gifts of real property, interests in real property, and other gifts for the sole benefit of the Foundation. The Foundation is the sole corporate member of CFP. Inter-organizational transactions and balances have been eliminated.

#### Basis of accounting:

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### Classification of net assets:

As a not-for-profit organization, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. However, governing instruments of the Foundation as well as certain donor agreements provide for the exercise of a variance power by the Foundation allowing the Board of Directors, at its discretion, to modify any restriction placed on contributions by donors if such restrictions become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

It is the intent of the Foundation's Board of Directors to honor restrictions placed on contributions by donors. However, endowed funds are intended to be maintained in perpetuity and, over time it is inevitable that instances of changes, that cannot be presently contemplated, will occur to the extent that they make following donor stipulations unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. Therefore, the Board of Directors' variance power is imperative to operations and, because of the power to do otherwise as described above, net assets have been classified in these consolidated financial statements as unrestricted unless the Board of Directors' variance power does not apply.



THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Unrestricted net assets:

Consist of assets, net of liabilities, related to the Foundation's regular activities, which are available at the discretion of the Foundation's Board of Directors. Unrestricted amounts that are available for use in carrying out the mission of the Foundation consist of expendable resources, including funds designated for special use by the Foundation's Board of Directors and funds subject to the variance power established by the Foundation's Governing Documents, and unexpendable resources invested in land, buildings, and equipment. The earnings of unrestricted net assets are to be used for operations.

The several types of endowment funds within the classification of unrestricted net assets are as follows:

Donor advisory endowment funds – Represent funds contributed by donors to benefit specific charitable areas of interest for which a committee designated by the donor may make periodic recommendations as to grants from the fund. Recommendations are subject to the Foundation's variance power; therefore, earnings from these funds are classified as unrestricted.

Donor designated endowment funds – Represent funds contributed by donors to benefit specific charitable or educational areas of interest. The Board of Directors awards grants within the areas specified by the donors subject to the Foundation's variance power.

Undesignated endowment funds – Represent funds for which the only restriction imposed by the donor is that the principal amount be preserved and the earnings from these funds be expended at the discretion of the Board of Directors.

Board designated endowment funds – The Foundation's Board of Directors may designate an otherwise unrestricted amount as an endowment fund whereby the contribution would remain intact and earnings set aside for a specific use determined by the Board of Directors. Since the restriction is not from an external donor and subject to change by future Board of Directors, these funds and their earnings are classified as unrestricted.

Temporarily restricted net assets:

Represent those amounts not subject to the Foundation's variance power which are donor restricted for specific purposes. A donor's restriction is met when a stipulated time restriction ends or a special purpose is accomplished. Temporarily restricted net assets are transferred to unrestricted net assets as the net assets are released from restrictions. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily restricted net assets. Temporarily restricted net assets at June 30, 2016 and 2015 amounted to \$432,739 and \$574,893, respectively.

# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Permanently restricted net assets:

Represent those amounts not subject to the Foundation's variance power, which are subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions. As of June 30, 2016 and 2015, the Foundation did not hold any permanently restricted net assets.

#### Expiration of donor – imposed restrictions:

The expiration of donor – imposed restriction(s) of a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Unrestricted bequests:

The Foundation follows the policy of designating all unrestricted bequests as funds functioning as contributions. Such bequests are included in contributions and grants in the Consolidated Statement of Activities and Changes in Net Assets.

#### Revenue recognition:

Contributions of cash or other assets are recognized when the cash is received or when ownership of donated assets are transferred to the Foundation. Donated assets are recorded at estimated fair value on the date of donation. Unconditional promises to give are recorded as made. Contributed support is unrestricted or restricted depending on the existence of donor stipulations that limit the use of the support.

#### Functional expenses:

Expenses are charged directly to program services, management and general, or fundraising in general categories based on specific identification.

Program related expense – Program related expense consists primarily of expenses incurred in relation to community grants awarded.

Support services expenses – Support services expenses include salaries and benefits, rent, and other overhead expenses that are incurred in the overall operation of the Foundation and are not specifically attributable to a particular fund or program. An administrative fee, which generally ranges from 0.65% to 1.25% of each funds market value, is charged

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

to cover the Foundation's operating expenses. Most pass-through (non-endowed) funds are charged a 2% administrative fee for the contributed amount, plus any interest or income earned. Special Projects Funds require additional oversight and have a 5% fee unless special circumstances require higher fees.

Cash equivalents:

For purposes of the Consolidated Statement of Cash Flows, the Foundation considers all highly liquid investments which are readily convertible into cash to be cash equivalents.

Investments:

Investments in equity and debt securities are reported at fair value in the Consolidated Statement of Financial Position. Realized and unrealized gains and losses are recognized in the Consolidated Statement of Activities and Changes in Net Assets. Investment return, including realized and unrealized gains and losses, is included as changes in net assets consistent with the purpose of the investment donor-imposed and Board of Directors' designated restrictions.

Investment management fees:

Investment management fees paid directly to the investment managers for the fiscal years ended June 30, 2016 and 2015, totaled \$54,071 and \$61,472, respectively. In addition, there were management fees incurred for the Foundation's alternative investments. Those fees were not paid to the managers but netted from the return on alternative investments.

Contributed services:

The Foundation receives a substantial amount of services donated by volunteers in carrying out the activity of the Foundation. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under FASB ASC Topic 958-Not-for-Profit Entities.

Land, buildings, and equipment:

For financial statement presentation, land, buildings, and equipment purchases have been capitalized. Donated land, buildings, and equipment are reflected as contributions in the accompanying statements at their estimated values at the date of receipt and are capitalized. The Foundation capitalizes asset acquisitions of \$1,000 or more. Depreciation is computed on the straight-line basis over the following estimated useful lives:

|                            |             |
|----------------------------|-------------|
| Buildings and Improvements | 15-40 Years |
| Equipment and Other        | 5-10 Years  |

Insurance legacies:

The Foundation has been named as beneficiary in certain insurance policies. Under the terms of the insurance policies, the Foundation will receive the applicable death benefit from the related insurance policies; and accordingly, the Foundation's interest in the insurance

# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

policies is recorded as an asset at fair value. The fair value of the insurance policies is presumed to be the policies' cash surrender value at the end of the Foundation's reporting period. Changes in the fair value of insurance assets, over any applicable obligations, are included in the Consolidated Statement of Activities and Changes in Net Assets as temporarily restricted revenue and support.

#### Outstanding legacies:

The Foundation is the beneficiary under various wills and trust agreements, the total realizable value amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the testamentary instrument is deemed to be valid and the proceeds are measurable.

#### Commitments and contingencies:

Contracts with government agencies require the fulfillment of certain conditions. Failure to fulfill the conditions could result in the return of funds to the agencies or the suspension of future funds. Although that is a possibility, the Board of Directors deems the contingencies remote.

#### Advertising:

The Foundation's advertising is nondirect and costs are expensed as incurred. Advertising expense for the years ended June 30, 2016 and 2015 were \$7,587 and \$37,290, respectively.

#### Income taxes:

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Internal Revenue Code Section 509(a) and qualifies for deductible contributions as provided in Section 170 (b)(1)(A)(vi) of the Internal Revenue Code.

#### Management review:

The Foundation must disclose the date through which subsequent events have been evaluated, in accordance with the requirements in FASB ASC Paragraph 855. In regards to these consolidated financial statements and the notes to these financial statements, the Foundation has evaluated all subsequent events through September 26, 2016, the date the Foundation's financial statements are available to be issued.

#### Reclassifications:

Certain amounts in the 2015 consolidated financial statements have been reclassified.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments

Investment performance for all accounts managed under investment agreements with external agents is reviewed periodically by the Foundation's Investment Committee and Board of Directors.

Investment income is comprised of the following for the years ended June 30, 2016:

|   |                     |
|---|---------------------|
| Interest and dividend income                        | \$ 478,170          |
| Net realized and unrealized (losses) on investments | <u>(1,071,777)</u>  |
|   | <u>\$ (593,607)</u> |

Note 3. Fair Value Measurements

FASB issued ASC Topic 820 – Fair Value Measurements and Disclosures, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted price in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

The fair value of the following financial assets, excluding its cash and cash equivalents and certificates of deposits, of the Foundation are measured at fair value based on the following input levels:

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

|                           | Fair<br>Value        | Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|---------------------------|----------------------|---|---|---|
| Cash and cash equivalents | \$ 1,456,738         | \$ 1,456,738  | \$ -  | \$ -  |
| Equity securities         | 20,374,944           | 20,374,944  | -   | -   |
| Corporate debt securities | 782,684              | 782,684   | -   | -   |
| Real estate               | 1,378,225            | 64,185  | -   | 1,314,040                                       |
| Tangible assets           | 32,102               | 32,102  | -   | -   |
| Municipal bonds           | 1,329,477            | 1,329,477   | -   | -   |
| U.S. Government agencies  | 776,461              | 776,461   | -   | -   |
| U.S. Treasury securities  | 27,233               | 27,233  | -   | -   |
| Alternative investments   | <u>1,453,650</u>     | <u>-</u>  | <u>-</u>  | <u>1,453,650</u>                                |
| Total                     | <u>\$ 27,611,514</u> | <u>\$ 24,843,824</u>  | <u>\$ -</u>   | <u>\$ 2,767,690</u>                             |

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Fair values of assets measured on a recurring basis at June 30, 2015 are as follows:

|                           | Fair<br>Value        | Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|---------------------------|----------------------|---|---|---|
| Cash and cash equivalents | \$ 2,346,713         | \$ 2,346,713  | \$ -  | \$ -  |
| Equity securities         | 21,446,794           | 21,446,794  | -   | -   |
| Corporate debt securities | 1,436,697            | 1,436,697   | -   | -   |
| Real estate               | 67,676               | 67,676  | -   | -   |
| Tangible assets           | 41,930               | 41,930  | -   | -   |
| Municipal bonds           | 501,640              | 501,640   |   |   |
| U.S. Government agencies  | 297,228              | 297,228   | -   | -   |
| U.S. Treasury securities  | 26,995               | 26,995  | -   | -   |
| Alternative investments   | <u>1,673,036</u>     | <u>-</u>  | <u>-</u>  | <u>1,673,036</u>                                |
| Total                     | <u>\$ 27,838,709</u> | <u>\$ 26,165,673</u>  | <u>\$ -</u>   | <u>\$ 1,673,036</u>                             |

Level 3 investment activity for the year ended June 30, 2016 consists of the following:

|  |                     |
|--|---------------------|
| Balance at June 30, 2015                     | \$ 1,673,036        |
| Ordinary income                              | 21,632              |
| Interest, dividends and fees                 | 11,327              |
| Total realized and unrealized gains (losses) | (47,024)            |
| Transfer in (out) of Level 3                 | <u>1,108,719</u>    |
| Balance at June 30, 2016                     | <u>\$ 2,767,690</u> |

Level 1 Fair value measurement – The fair values are based on quoted prices in active markets for identical securities.

Level 2 Fair value measurement – The fair values are determined by observable inputs other than Level 1 quoted prices (including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk).

Level 3 Fair value measurement – The fair values are determined by unobservable inputs.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 4. Land, Buildings, and Equipment

The Foundation received a contribution in 1998 of land and buildings as part of a donation. The land and buildings were recorded at a value based upon appraised value as determined in the jurisdiction in which the real estate is located.

Certain land and buildings of this donation are being used by a not-for-profit organization not related to the Foundation in performing its activities. As there is not a formal lease arrangement between the Foundation and the other organization, it is the mutual understanding that the organization will be allowed to continue to operate in the buildings and real estate for an indefinite time. The Foundation has chosen to recognize the rental value of the real estate used by the organization as in-kind program related support (expense) and rental revenue in-kind.

The Foundation has recognized depreciation expense for the buildings of \$34,904 per year since the contribution of the assets.

Land, buildings, and equipment consist of the following at June 30, 2016 and 2015:

|   | <u>2016</u>       | <u>2015</u>       |
|---|-------------------|-------------------|
| Land  |                   |                   |
| Administrative office                           | \$ 21,233         | \$ 21,233         |
| Used by other organization                      | 123,400           | 123,400           |
| Other   | 138,700           | 138,700           |
| Buildings                                       |                   |                   |
| Administrative office                           | 301,781           | 301,781           |
| Used by other organization                      | 992,600           | 992,600           |
| Furniture and Equipment                         | 43,192            | 43,192            |
| Computer Equipment and Software                 | <u>45,517</u>     | <u>45,517</u>     |
|   | 1,666,423         | 1,666,423         |
| Less: Accumulated depreciation and amortization | <u>853,093</u>    | <u>801,809</u>    |
|   | <u>\$ 813,330</u> | <u>\$ 864,614</u> |

Depreciation and amortization was \$51,284 and \$51,039 for the years ended June 30, 2016 and 2015, respectively.

# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Retirement Plan

The Foundation maintains a Simplified Employee Pension Plan (Plan) covering all employees who meet the eligibility requirements of the Plan. The Foundation's contributions to the Plan are at the sole discretion of the Board of Directors for the Foundation. Contributions to the Plan for the years ended June 30, 2016 and 2015 were \$9,997 and \$9,954, respectively.

### Note 6. Significant Concentrations

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. These matters include the following:

#### Contributions:

Approximately 63% of all contributions were received from six donors for the year ended June 30, 2016.

#### Investments:

The Foundation's investments consists primarily of financial instruments including cash equivalents, equity securities, fixed income securities, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risks as, from time to time, cash balances exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). The market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and investments are subject to changes in market values. At June 30, 2016, the Foundation's cash and cash equivalents balances in financial institutions included cash deposits of \$1,371,632 which was not covered by FDIC coverage.

### Note 7. Endowment Funds

#### Net asset classifications:

The FASB issued ASC Topic 958 – Not-for-Profit Entities which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC Topic 958 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and Board of Director designated endowment funds) whether or not the organization is subject to UPMIFA.

Inasmuch as the State of Virginia adopted UPMIFA effective March 2008, the Board of Directors has determined that the majority of the Foundation's net assets meet the definition of endowment funds under UPMIFA. The Foundation is governed subject to the Governing Documents for the Foundation and most contributions are received subject to the terms of the Governing Documents.



## THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

### NOTES TO FINANCIAL STATEMENTS

#### Note 7. Endowment Funds (Continued)

Under the terms of the Governing Documents, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board of Directors in its sole discretion shall determine. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted 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
- (7) The investment policies of the Foundation

As a result of the ability to distribute corpus, the Board of Directors has determined that all contributions received subject to the Governing Documents, and subject to UPMIFA, are classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted, or unrestricted, depending on the specific terms of the agreement.

Generally, if the corpus of a contribution will at some future time become available for spending, it is recorded as temporarily restricted; if the corpus never becomes available for spending, it will be reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are due.

#### Endowment investment and spending policies:

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 the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 5.0%, real rate of return. Actual returns in any given year may vary from this amount.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowment Funds (Continued)

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 parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current spending policy is to distribute an amount up to 5.0% of a moving five-year average.

Accordingly, over the long term the Foundation expects its current spending policy to allow its endowment assets to grow consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets:

For the year ended June 30, 2016

|  | <u>Unrestricted</u>  | Temporarily<br><u>Restricted</u> | <u>Total</u>         |
|--|----------------------|----------------------------------|----------------------|
| Endowment net assets , beginning of year             | \$ 28,792,106        | \$ 574,893                       | \$ 29,366,999        |
| Investment income                                    | 478,170              | -                                | 478,170              |
| Net realized and unrealized gains (losses)           | (1,071,777)          | -                                | (1,071,777)          |
| Contributions  | 1,535,735            | 374,626                          | 1,910,361            |
| Appropriation of endowment assets<br>for expenditure | (1,659,820)          | -                                | (1,659,820)          |
| Other charges-transfers                              | <u>516,770</u>       | <u>(516,770)</u>                 | <u>-</u>             |
| Endowment net assets, end of year                    | <u>\$ 28,591,184</u> | <u>\$ 432,749</u>                | <u>\$ 29,023,933</u> |

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 8. Commitments

The Foundation has entered into several certain subscription agreements to acquire investment securities at such times as determined by the investment advisory managers and/or the securities issuer. The remaining balance of these unfunded capital commitments for the years ended June 30, 2016 and 2015, were \$527,668 and \$1,856,278, respectively.