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**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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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 statement of financial position as of June 30, 2019, and the related consolidated statement of activities, consolidated statement of functional expenses, and consolidated statement of 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 auditors' 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, 2019, 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.

## **Change in Accounting Principle**

As discussed in Note 1, during the year ended June 30, 2019, the Foundation adopted Accounting Standards Update 2016-14, *Not-for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited The Community Foundation of the Dan River Region's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

*Harris Harvey Neal & Co. LLP*

Danville, Virginia  
October 26, 2019

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019 With Comparative Totals for 2018

See Independent Auditors' Report

ASSETS	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,015,762	\$ 1,611,796
Prepaid expenses	10,087	-
Dividends and interest receivable	<u>19,307</u>	<u>27,207</u>
Total current assets	<u>2,045,156</u>	<u>1,639,003</u>
INVESTMENTS	35,140,760	34,373,862
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	672,961	721,461
INSURANCE LEGACIES	<u>13,176</u>	<u>12,328</u>
Total assets	<u>\$ 37,872,053</u>	<u>\$ 36,746,654</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NON-CURRENT LIABILITIES</b>		
Funds held as agency endowments	<u>\$ 274,553</u>	<u>\$ 59,223</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Without donor restrictions		
Donor advisory endowment funds	5,443,535	5,297,589
Donor designated endowment funds	18,259,794	17,618,625
Board designated endowment funds	<u>1,133,646</u>	<u>1,059,985</u>
	24,836,975	23,976,199
Undesignated	<u>12,519,929</u>	<u>12,472,160</u>
Total without donor restrictions	<u>37,356,904</u>	<u>36,448,359</u>
With donor restrictions	<u>240,596</u>	<u>239,072</u>
Total net assets	<u>37,597,500</u>	<u>36,687,431</u>
Total liabilities and net assets	<u>\$ 37,872,053</u>	<u>\$ 36,746,654</u>

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

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

See Independent Auditors' Report

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE AND SUPPORT</b>				
Contributions and grants	\$ 503,409	\$ 389,751	\$ 893,160	\$ 2,686,514
Investment income	627,967	-	627,967	555,463
Other income	6,867	-	6,867	6,010
Net realized and unrealized gain on investments	<u>1,144,022</u>	<u>-</u>	<u>1,144,022</u>	<u>2,185,384</u>
Total revenues, gains, and losses	<u>2,282,265</u>	<u>389,751</u>	<u>2,672,016</u>	<u>5,433,371</u>
Net assets released from restrictions	<u>388,227</u>	<u>(388,227)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, losses, and other support	<u>2,670,492</u>	<u>1,524</u>	<u>2,672,016</u>	<u>5,433,371</u>
<b>EXPENSES</b>				
Program expenses				
Community grants	1,324,534	-	1,324,534	1,246,242
Program related expenses	<u>138,841</u>	<u>-</u>	<u>138,841</u>	<u>52,552</u>
Total program expenses	<u>1,463,375</u>	<u>-</u>	<u>1,463,375</u>	<u>1,298,794</u>
Support services expenses				
Management and general	221,980	-	221,980	264,614
Fundraising	<u>76,592</u>	<u>-</u>	<u>76,592</u>	<u>68,335</u>
Total support expenses	<u>298,572</u>	<u>-</u>	<u>298,572</u>	<u>332,949</u>
Total expenses	<u>1,761,947</u>	<u>-</u>	<u>1,761,947</u>	<u>1,631,743</u>
Change in net assets	908,545	1,524	910,069	3,801,628
Net assets, beginning	<u>36,448,359</u>	<u>239,072</u>	<u>36,687,431</u>	<u>32,885,803</u>
Net assets, ending	<u>\$ 37,356,904</u>	<u>\$ 240,596</u>	<u>\$ 37,597,500</u>	<u>\$ 36,687,431</u>

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

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019 With Comparative Totals for 2018

See Independent Auditors' Report

	Year Ended June 30, 2019				Year Ended June 30, 2018	
	Program Services		Management and General	Fundraising	Total	Total
	Community Grants	Program Related Expenses				
Salaries and wages	\$ -	\$ 74,524	\$ 67,592	\$ 43,381	\$ 185,497	\$ 157,472
Payroll taxes	-	5,701	5,974	3,319	14,994	13,245
Employee benefits	-	9,276	8,414	5,400	23,090	20,533
Grants	1,324,534	-	-	-	1,324,534	1,246,242
Promotion	-	-	-	24,492	24,492	22,636
Depreciation	-	-	53,162	-	53,162	53,770
Utilities	-	-	3,956	-	3,956	3,664
Office supplies	-	15	3,744	-	3,759	3,226
Telephone/fax/internet	-	-	4,176	-	4,176	5,514
Postage/shipping	-	-	2,614	-	2,614	3,175
Web hosting and software	-	28,422	9,474	-	37,896	33,973
Marketing and advertising	-	-	2,032	-	2,032	60
Maintenance	-	-	15,028	-	15,028	12,282
Meeting, travel and conferences	-	-	8,260	-	8,260	5,004
Subscriptions/memberships	-	-	3,861	-	3,861	4,336
Insurance	-	-	12,790	-	12,790	12,066
Professional fees	-	20,903	20,903	-	41,806	34,545
Total expenses	<u>\$ 1,324,534</u>	<u>\$138,841</u>	<u>\$ 221,980</u>	<u>\$ 76,592</u>	<u>\$ 1,761,947</u>	<u>\$ 1,631,743</u>

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

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

CONSOLIDATED STATEMENT OF CASH FLOWS  
 Year Ended June 30, 2019 with Comparative Totals for 2018  
 See Independent Auditors' Report

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 910,069	\$ 3,801,629
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	53,162	53,770
Loss on disposal of assets	276	74
Net realized and unrealized (gains) on investments	(1,144,022)	(2,172,431)
Change in operating assets and liabilities:		
(Increase) decrease in prepaid expenses	(10,087)	7,901
(Increase) decrease in dividends and interest receivable	7,900	(8,441)
(Increase) in insurance legacies	(848)	(823)
(Decrease) in grants payable	-	(500)
Increase in agency endowments	215,330	-
Net cash provided by operating activities	<u>31,780</u>	<u>1,681,179</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of designated investments	(4,650,486)	(3,494,109)
Purchase of property and equipment	(4,938)	(4,194)
Net cash (used in) investing activities	<u>(4,655,424)</u>	<u>(3,498,303)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the sale and maturities of investments	<u>5,027,610</u>	<u>1,967,014</u>
Net cash provided by financing activities	<u>5,027,610</u>	<u>1,967,014</u>
Net increase in cash and cash equivalents	403,966	149,890
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>1,611,796</u>	<u>1,461,906</u>
Ending	<u>\$ 2,015,762</u>	<u>\$ 1,611,796</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH AND CASH CASH FLOW INFORMATION</b>		
Interest	<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.

#### Net assets:

As a not-for-profit organization, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. 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 without donor restrictions 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)

#### Net assets without donor restrictions:

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. Without donor restrictions 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 net assets without donor restrictions are to be used for operations.

The several types of endowment funds within the classification of net assets without donor restrictions 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 without donor restrictions.

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.

#### Net assets with donor restrictions:

Represent those amounts not subject to the Foundation's variance power which are donor restricted for specific purposes. Some donor-imposed restrictions are temporary in nature and may or will be met, either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Investment earnings available for distribution are recorded in net assets without donor restrictions. Investment earnings with donor restrictions are recorded in net assets with donor restrictions.

#### Comparative financial information:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018 from which the summarized information was derived.

# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

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

#### 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 net assets without restrictions. 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:

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of donor-imposed restrictions on net assets are reported as net assets released from restriction on the Combined Statements of Activities.

The Foundation reports non-cash gifts as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. The Foundation reports expirations of donor restrictions when the donated assets are placed in service.

Contributions are recognized as revenues in the period made. Contributions of assets other than cash, which are primarily donated investment securities, are recorded at their estimated fair value at the date of donation.

#### Functional allocation of 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 0.40% to 1.25% of each fund's 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:

The Foundation investments are reported at fair value in the combined statements of financial position. The fair value of marketable equity and debt securities is determined using quoted market prices. Certain less-marketable investments are generally carried at values determined by the respective investment managers using valuation approaches that can generally be classified as either; an income or earnings approach, a cost or asset approach, or a market approach. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the risks in the near term could materially affect amounts reported on the combined financial statements. Unrealized gains and losses are included in the combined statements of activities.

#### Investment management fees:

Investment management fees paid directly to the investment managers for the fiscal years ended June 30, 2019 and 2018, totaled \$100,118 and \$75,974, 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 \$5,000 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

# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

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

#### Insurance legacies:

The Foundation has been named as beneficiary of 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 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 as with donor restrictions 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.

#### Funds held as agency endowment liabilities:

The Foundation is a recipient organization that accepts contributions from organizations and agrees to use those assets on behalf of a specified beneficiary and recognizes the fair value of those assets as a liability to the specified beneficiary. The Foundation maintains variance power and legal ownership of agency endowment funds and as such, continues to report the funds as assets of the Foundation.

#### Advertising:

The Foundation's advertising is non-direct and costs are expensed as incurred. Advertising expenses for the years ended June 30, 2019 and 2018 were \$12,439 and \$9,902, 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 October 26, 2019, the date the Foundation's financial statements are available to be issued.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

New accounting pronouncement:

On August 18, 2016, FASB issued ASU 2016-14, Not-for Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications:

Certain amounts in the 2018 consolidated financial statements have been reclassified.

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, 2019:

Interest and dividend income	\$ 627,967
Net realized and unrealized gains on investments	<u>1,144,022</u>
	<u><u>\$ 1,771,989</u></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:

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, 2019 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 1,059,907	\$ 1,059,907	\$ -	\$ -
Equity securities	27,210,726	27,210,726	-	-
Corporate debt securities	299,288	299,288	-	-
Hedge fund	202,262	-	-	202,262
Real estate	2,433,208	917,234	-	1,515,974
Tangible assets	58,078	58,078	-	-
Municipal bonds	1,619,238	1,619,238	-	-
U.S. Government agencies	1,269,678	1,269,678	-	-
U.S. Treasury securities	23,330	23,330	-	-
Alternative investments	965,045	-	-	965,045
Total	<u>\$ 35,140,760</u>	<u>\$ 32,457,479</u>	<u>\$ -</u>	<u>\$ 2,683,281</u>

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 1,305,595	\$ 1,305,595	\$ -	\$ -
Equity securities	26,076,015	26,076,015	-	-
Corporate debt securities	351,498	351,498	-	-
Hedge fund	215,184	-	-	215,184
Real estate	1,929,992	495,350	-	1,434,642
Tangible assets	76,355	76,355	-	-
Municipal bonds	1,597,457	1,597,457	-	-
U.S. Government agencies	1,665,090	1,665,090	-	-
U.S. Treasury securities	23,543	23,543	-	-
Alternative investments	1,133,133	-	-	1,133,133
Total	<u>\$ 34,373,862</u>	<u>\$ 31,590,903</u>	<u>\$ -</u>	<u>\$ 2,782,959</u>

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Level 3 investment activity for the year ended June 30, 2019 consists of the following:

Balance at June 30, 2018	\$ 2,782,959
Ordinary income	8,346
Interest and dividends	27,761
Total realized and unrealized gains	73,602
Investment fees	(18,996)
Transfers into Level 3	24,269
Transfers out of Level 3	<u>(214,660)</u>
 Balance at June 30, 2019	 <u><u>\$ 2,683,281</u></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.

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.

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land		
Administrative office	\$ 21,233	\$ 21,233
Donated land	123,400	123,400
Other	138,700	138,700
Buildings		
Administrative office	301,781	301,781
Donated buildings	992,600	992,600
Furniture and equipment	39,788	40,088
Computer equipment and software	<u>39,575</u>	<u>37,394</u>
	1,657,077	1,655,196
Less: Accumulated depreciation and amortization	<u>984,116</u>	<u>933,735</u>
	<u><u>\$ 672,961</u></u>	<u><u>\$ 721,461</u></u>



# THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Land, Buildings, and Equipment (Continued)

Depreciation and amortization was \$53,162 and \$53,770 for the years ended June 30, 2019 and 2018, respectively.

### 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, 2019 and 2018 were \$8,144 and \$7,014, 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 66% of all contributions were received from ten donors for the year ended June 30, 2019.

#### Investments:

The Foundation's investments consist 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, 2019, the Foundation's cash and cash equivalents balances in financial institutions included cash deposits of \$1,799,174 which were 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 with donor restrictions until appropriated, at which time the appropriation is reclassified to net assets without donor restrictions. Contributions that are subject to other gift instruments may be recorded as with donor restrictions or without donor restrictions, depending on the specific terms of the agreement.

Generally, if the corpus of a contribution will, at some future time, become available for spending or if the corpus never becomes available for spending, it will be reported as with donor restrictions. In addition, contributions that are promised to be given in a future period are presented as with donor restrictions 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.

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.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowment Funds (Continued)

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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2019, there were no deficiencies in the funds.

Changes in endowment net assets:

For the year ended June 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 36,507,582	\$ 239,072	\$ 36,746,654
Reclassified to agency endowments	(59,223)	-	(59,223)
Investment income	627,967	-	627,967
Net realized and unrealized gains, other income	1,150,889	-	1,150,889
Contributions	503,409	389,751	893,160
Appropriation of endowment assets for expenditure	(1,761,947)	-	(1,761,947)
Other charges-transfers	388,227	(388,227)	-
	<u>\$ 37,356,904</u>	<u>\$ 240,596</u>	<u>\$ 37,597,500</u>

Amounts released from restriction in 2019 and 2018 relate primarily to the occurrence of the passage of time and appropriations of spendable amounts from endowments funds.

Note 8. Commitments

The Foundation has entered into 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, 2019 and 2018, were \$825,239 and \$1,296,274, respectively.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 9. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,015,762	\$ 1,611,796
Investments, short-term and liquid	<u>1,059,907</u>	<u>1,305,595</u>
	3,075,669	2,917,391
Less: donor and committee advised funds	<u>(1,975,610)</u>	<u>(1,880,120)</u>
Available for general expenditure	<u>\$ 1,100,059</u>	<u>\$ 1,037,271</u>

The Foundation generally uses the assets held for donor advised funds for grantmaking based on donor recommendations although those funds are not donor-restricted.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. Although the Foundation does not intend to spend from the board-designated endowment (other than amounts appropriated per the board's annual spending rate approval), these amounts could be made available if necessary. See Note 7 for more information.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

Note 10. Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes, professional services, office supplies and web hosting and software, which are allocated on the basis of estimates of time and effort.

THE COMMUNITY FOUNDATION OF THE DAN RIVER REGION

NOTES TO FINANCIAL STATEMENTS

Note 11. Prior Period Adjustment

Net assets without donor restrictions have been adjusted due to funds received that were agency endowments that should have been shown as a liability in the previous year. Also, undesignated endowment funds net assets were shown as board designated in the previous year. The effect of the adjustment in financial position for the year ended June 30, 2018 is as follows.

	As previously reported	Restated
Funds held as agency endowments	\$ -	\$ 59,223
Net assets without donor restrictions		
Donor advisory endowment funds	5,337,512	5,297,589
Donor designated endowment funds	30,058,422	17,618,625
Undesignated endowment funds	-	12,472,160
Board designated endowment funds	1,111,648	1,059,985
	<u>\$ 36,507,582</u>	<u>\$ 36,448,359</u>