



**COMMUNITY FOUNDATION
OF HENDERSON COUNTY, INC.**

Hendersonville, North Carolina

Financial Statements and
Supplementary Information

Years Ended June 30, 2019 and 2018



COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

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COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Foundation of Henderson County, Inc.

We have audited the accompanying financial statements of Community Foundation of Henderson County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

To the Board of Directors
Community Foundation of Henderson County, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of Henderson County, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of grants is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CARTER, P.C.

Asheville, North Carolina
September 25, 2019

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and equivalents	\$ 7,466,333	\$ 6,419,216
Accounts receivable	12,649	9,950
Beneficial interest in trusts, current portion	49,970	80,739
Asset available-for-sale	100,000	100,000
Prepaid expenses	54,554	42,281
Total current assets	7,683,506	6,652,186
Beneficial interest in trusts, net of current portion	148,966	175,513
Investments	102,789,086	100,916,684
Property and equipment	532,347	579,052
Total assets	\$ 111,153,905	\$ 108,323,435
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 20,486	\$ 15,404
Grants and scholarships payable	638,504	519,102
Current portion of annuity trust obligations	192,667	199,818
Total current liabilities	851,657	734,324
Annuity trust obligations, net of current portion	1,369,249	1,532,715
Funds held as organizational endowments	7,412,366	7,249,572
Total liabilities	9,633,272	9,516,611
Net assets:		
Without donor restrictions	4,631,116	4,346,477
With donor restrictions	96,889,517	94,460,347
Total net assets	101,520,633	98,806,824
Total liabilities and net assets	\$ 111,153,905	\$ 108,323,435

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

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and other revenues			
Contributions	\$ 60,982	\$ 5,398,266	\$ 5,459,248
Less, amounts received for organizational endowments		<u>(280,657)</u>	<u>(280,657)</u>
Contributions, net	60,982	5,117,609	5,178,591
Investment income, net	208,422	2,989,075	3,197,497
Management fees	52,994		52,994
Change in value of split-interest agreements		186,692	186,692
Fundraising income, net	70,802		70,802
Other income	13,640		13,640
Net assets released from restrictions	<u>5,320,641</u>	<u>(5,320,641)</u>	
Total public support and other revenues	<u>5,727,481</u>	<u>2,972,735</u>	<u>8,700,216</u>
Expenses			
Program services	4,803,839		4,803,839
Supporting services	<u>645,679</u>		<u>645,679</u>
Total expenses	<u>5,449,518</u>		<u>5,449,518</u>
Increase in net assets before other gains (losses)	277,963	2,972,735	3,250,698
Other gains (losses)			
Net gains (losses) on investments	<u>6,676</u>	<u>(543,565)</u>	<u>(536,889)</u>
Increase in net assets	284,639	2,429,170	2,713,809
Net assets at beginning of year	<u>4,346,477</u>	<u>94,460,347</u>	<u>98,806,824</u>
Net assets at end of year	<u>\$ 4,631,116</u>	<u>\$ 96,889,517</u>	<u>\$ 101,520,633</u>

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

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Statement of Activities
Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and other revenues			
Contributions	\$ 39,868	\$ 7,707,270	\$ 7,747,138
Less, amounts received for organizational endowments		<u>(567,552)</u>	<u>(567,552)</u>
Contributions, net	39,868	7,139,718	7,179,586
Investment income, net	109,944	2,105,725	2,215,669
Management fees	50,028		50,028
Change in value of split-interest agreements		(412,686)	(412,686)
Fundraising income, net	60,694		60,694
Other income	14,605		14,605
Net assets released from restrictions	<u>4,597,250</u>	<u>(4,597,250)</u>	
Total public support and other revenues	<u>4,872,389</u>	<u>4,235,507</u>	<u>9,107,896</u>
Expenses			
Program services	3,916,336		3,916,336
Supporting services	<u>562,769</u>		<u>562,769</u>
Total expenses	<u>4,479,105</u>		<u>4,479,105</u>
Increase in net assets before other gains	393,284	4,235,507	4,628,791
Other gains			
Net gains on investments	<u>140,999</u>	<u>5,135,161</u>	<u>5,276,160</u>
Increase in net assets	534,283	9,370,668	9,904,951
Net assets at beginning of year	<u>3,812,194</u>	<u>85,089,679</u>	<u>88,901,873</u>
Net assets at end of year	<u>\$ 4,346,477</u>	<u>\$ 94,460,347</u>	<u>\$ 98,806,824</u>

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

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Statement of Functional Expenses
Year Ended June 30, 2019

	Supporting Services				Total
	Program Services	Management & General	Fundraising	Total Supporting Services	
Salaries	\$ 234,737	\$ 243,806	\$ 94,262	\$ 338,068	\$ 572,805
Payroll taxes	16,953	17,609	6,808	24,417	41,370
Benefits	47,887	50,416	19,230	69,646	117,533
Total salaries and related expenses	<u>299,577</u>	<u>311,831</u>	<u>120,300</u>	<u>432,131</u>	<u>731,708</u>
Grants	4,420,703				4,420,703
Less, organizational grants	<u>(221,718)</u>				<u>(221,718)</u>
Grants, net	4,198,985				4,198,985
Annuity payments	194,634				194,634
Advertising	1,946	4,396	2,451	6,847	8,793
Dues and subscriptions	6,850	3,184	1,420	4,604	11,454
Insurance		7,526	340	7,866	7,866
Office expense	2,920	3,248	253	3,501	6,421
Postage	1,545	3,563	832	4,395	5,940
Telephone	3,864	1,189	892	2,081	5,945
Professional services		37,221		37,221	37,221
Communications	20	21,978	1,831	23,809	23,829
Travel and training	7,284	9,728	2,191	11,919	19,203
Printing and publications	11,397	7,556	4,144	11,700	23,097
Occupancy	4,910	11,457		11,457	16,367
Technology	42,691	29,028	6,505	35,533	78,224
Other	16,340	16,786		16,786	33,126
Total expenses before depreciation	<u>4,792,963</u>	<u>468,691</u>	<u>141,159</u>	<u>609,850</u>	<u>5,402,813</u>
Depreciation	<u>10,876</u>	<u>35,829</u>		<u>35,829</u>	<u>46,705</u>
Total expenses	<u>\$ 4,803,839</u>	<u>\$ 504,520</u>	<u>\$ 141,159</u>	<u>\$ 645,679</u>	<u>\$ 5,449,518</u>

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

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Statement of Functional Expenses
Year Ended June 30, 2018

	Supporting Services				Total
	Program Services	Management & General	Fundraising	Total Supporting Services	
Salaries	\$ 204,181	\$ 212,068	\$ 81,991	\$ 294,059	\$ 498,240
Payroll taxes	14,551	15,113	5,843	20,956	35,507
Benefits	37,271	38,710	14,967	53,677	90,948
Total salaries and related expenses	256,003	265,891	102,801	368,692	624,695
Grants	3,585,591				3,585,591
Less, organizational grants	(218,046)				(218,046)
Grants, net	3,367,545				3,367,545
Annuity payments	202,432				202,432
Advertising	472	4,498	4,026	8,524	8,996
Dues and subscriptions	4,483	2,448	875	3,323	7,806
Insurance		9,637	395	10,032	10,032
Office expense	2,672	3,000	234	3,234	5,906
Postage	2,078	4,794	1,119	5,913	7,991
Telephone	5,443	1,675	1,256	2,931	8,374
Professional services		29,947		29,947	29,947
Communications	186	12,976	866	13,842	14,028
Travel and training	13,260	15,969	3,413	19,382	32,642
Printing and publications	17,387	10,530	6,323	16,853	34,240
Occupancy	4,928	11,500		11,500	16,428
Technology	24,800	24,977	3,380	28,357	53,157
Other	3,771	6,846		6,846	10,617
Total expenses before depreciation	3,905,460	404,688	124,688	529,376	4,434,836
Depreciation	10,876	33,393		33,393	44,269
Total expenses	\$ 3,916,336	\$ 438,081	\$ 124,688	\$ 562,769	\$ 4,479,105

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

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Increase in net assets	\$ 2,713,809	\$ 9,904,951
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	46,705	44,269
Change in value of split-interest agreements	(186,692)	412,686
Net (gains) losses on investments	536,889	(5,276,160)
Receipt of donated stock	(1,051,424)	(1,629,001)
Working capital changes - sources (uses):		
Accounts receivable	(2,699)	3,835
Beneficial interest in trusts	136,615	197,782
Prepaid expenses	(12,273)	13,418
Accounts payable and accrued liabilities	5,082	5,519
Grants and scholarships payable	119,402	42,402
Annuity trust obligations	(63,224)	(822)
Restricted contributions	<u>(5,117,609)</u>	<u>(7,139,718)</u>
Net cash used by operating activities	<u>(2,875,419)</u>	<u>(3,420,839)</u>
 Cash flows from investing activities		
Proceeds from sale of investments	10,071,167	6,945,172
Purchase of investments	(11,429,034)	(11,113,932)
Purchase of equipment	<u>(58,727)</u>	<u>(58,727)</u>
Net cash used by investing activities	<u>(1,357,867)</u>	<u>(4,227,487)</u>
 Cash flows from financing activities		
Funds held as organizational endowments	162,794	850,556
Restricted contributions	<u>5,117,609</u>	<u>7,139,718</u>
Net cash provided by financing activities	<u>5,280,403</u>	<u>7,990,274</u>
 Net increase in cash and equivalents	1,047,117	341,948
 Cash and equivalents at beginning of year	<u>6,419,216</u>	<u>6,077,268</u>
 Cash and equivalents at end of year	<u>\$ 7,466,333</u>	<u>\$ 6,419,216</u>

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

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Notes to Financial Statements
June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies

Organization

The Community Foundation of Henderson County, Inc. (the Foundation) is a permanent foundation. The Foundation receives gifts, grants, and bequests for the purpose of making charitable donations to approved organizations (as defined in its articles of incorporation and determined by the Board of Directors) and generally to perform all acts which may be deemed necessary or expedient to develop charitable capital for Henderson County, North Carolina.

Income Tax Status

The Foundation is incorporated as a nonprofit corporation under the laws of the State of North Carolina. The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualifies as a publicly charity under Section 509(a)(1) of the Code.

Fund Accounting

The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Fund balances are classified on the statements of financial position as net assets without donor restrictions or net assets with donor restrictions based on the absence or existence and type of donor-imposed restrictions.

Basis of Presentation

The 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 (U.S. GAAP), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of Foundation's management and Board of Directors.

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- *Net assets with donor restrictions:* Net assets subject to donor-imposed time or purpose restrictions. These restrictions limit the spending options when using these resources because the Foundation has a fiduciary responsibility to follow the donors' instructions. Net assets with donor restrictions generally result from donor-restricted contributions and investment income generated by donor-restricted endowment funds. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation, or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Support is recorded 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. Expirations of donor restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled and/or time period has elapsed) are reported as net assets released from restrictions.

The net asset classification of donor-restricted endowment funds is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). As a result, the investment return from donor-restricted endowment funds is classified as net assets with donor restrictions until appropriated for expenditure.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Foundation's ongoing program services and interest and dividends earned on investments. Non-operating activities are limited to resources that generate income from other activities considered to be a more unusual or nonrecurring in nature.

Variance Power

All contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance power grants the Board of Directors the authority to modify any condition or restriction on the distribution of funds if, in its sole judgement (without the approval of any trustee, custodian, or agent), such restriction or condition becomes in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by the Foundation.

Fair Value of Financial Instruments

The carrying value of substantially all reported assets and liabilities, other than beneficial interest in trusts, investments, and annuity trust obligations, approximates fair value due to the relatively short-term nature of the financial instruments.

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Amounts recognized for beneficial interest in trusts and annuity trust obligations approximates fair value due to net present value adjustments applied to outstanding balances.

Fair value of investments is discussed in Note 5.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

For the purpose of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except those amounts designated and classified as investments.

Beneficial Interest in Trusts

The Foundation has been named beneficiary in three irrevocable charitable lead annuity trusts held by third-parties. The receivable is carried at fair value, which the Foundation has estimated based on the present value of its expected future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the contributions are received. Amortization of the discounts is included in the change in value of split-interest agreements. An allowance for doubtful accounts has not been established, as management believes all amounts will be collected.

Asset Available-for-Sale

Asset available-for-sale consists of donated property held for sale that, once sold, will be used to establish a donor advised fund.

Investments

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the statements of activities.

Note 1 - Summary of Significant Accounting Policies (continued)

Investment Income and Gains

Investment income and gains are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investment Pools

The Foundation maintains pooled investment accounts for its board-designated and donor-restricted endowments. Pooling endowment funds for investment purposes has many benefits, including but not limited to spreading the total risk for each endowment fund and making the risk equal for all funds invested in the investment pool, enhancing the investment performance relative to that of an individual fund, and reducing management fees. Realized and unrealized gains and losses from securities in the investment pool are allocated monthly to individual endowments based on the relationship of the fair value of each endowment to the total fair value of the investment accounts, as adjusted for additions to or deductions from those accounts.

Trusts, Gift Annuities, and Life Estates

The Foundation serves as trustee and is the sole beneficiary of several trusts, gift annuities, and life estate agreements. The fair market values of the trusts and gift annuities are recorded as assets of the Foundation and are included in investments. The net present value of the anticipated benefit to be received by the Foundation from these agreements is recorded as contribution revenue in the year the agreement is created. The difference between the total trust assets and the contribution revenue recognized is recorded as a liability to be disbursed during the lifetime of the income beneficiaries. As required distributions are made to these beneficiaries, the liability is reduced. Life estates are recorded at the fair market value at the gift date.

Funds Held as Organizational Endowments

The Foundation receives and distributes assets under certain agency and intermediary arrangements. FASB ASC 958-605 *Not-for-Profit Entities: Revenue Recognition*, establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor.

FASB ASC 958-605 specifically requires that, if a nonprofit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself or its affiliates as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The liability is reported at the fair value of the funds, which is equivalent to the present value of the future payments expected to be made to the NPO and is recorded as funds held as organizational endowments in the accompanying statements of financial position. In addition, related amounts received, distributed, investment income or loss, and expenses have been removed from the accompanying statements of activities.

Note 1 - Summary of Significant Accounting Policies (continued)

Funds Held as Organizational Endowments (continued)

The Foundation is the legal owner of all assets contributed to any of its component funds, including organizational endowment funds, as a result of its variance power. It reports the value of organizational endowment funds as assets and liabilities rather than in net assets, in accordance with U.S. GAAP.

Fair Value Measurements and Disclosures

The Foundation applies U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities within the hierarchy are based on the lowest (or least observable) input that is significant to the measurement. The Foundation's assessment of the significance of an input requires judgment, which may affect the valuation and classification within the fair value hierarchy.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized as incurred. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed as incurred. The Foundation has adopted an accounting practice to capitalize all property and equipment with a cost greater than \$2,000. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from three to thirty-nine years.

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of the gift. The Foundation reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are recorded as net assets with donor restrictions until such assets are acquired or placed in service.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. A number of unpaid volunteers, who serve in the capacity of Board members and various volunteer committees, have made significant contributions of their time in the furtherance of the Foundation's programs. The value of this contributed time is not recognized as contributions in the accompanying financial statements since the recognition criteria were not met.

Management Fees

The Foundation retains as compensation for its services a charge against the various funds. Generally, the fee is tiered from 0.75% to 2% depending on the type of fund and based on the principal market value of the fund, calculated monthly.

Grants

Unconditional grants are charged to operations and recognized as liabilities when authorized by the Board of Directors, regardless of the year in which they are paid. Gifts that are subject to conditions are recorded when approved by the Board of Directors and paid when the conditions are substantially met.

Advertising

Advertising costs are not expected to extend beyond the current period and are expensed as incurred. Advertising expense for the years ended June 30, 2019 and 2018, was \$8,793 and \$8,996, respectively. In addition, in-kind advertising in the amount of \$16,270 and \$23,840, is included in net fundraising income in the accompanying statements of activities.

Note 1 - Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Certain categories of expenses are attributable to programs and support. All expenses except for grants, annuity payments, and professional fees are allocated on the basis of estimated time and effort. Grants and annuity payments are directly related to program services while professional fees are supporting service activities.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

New Accounting Pronouncement

During the year ended June 30, 2019, the Foundation adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type and information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily and permanently restricted net assets are now combined and reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 3).

The accompanying information from the 2018 financial statements has been restated to conform to the 2019 presentation and disclosure requirements of ASU 2016-14. As a result, previously reported net assets without donor restrictions (unrestricted net assets) have been increased by \$2,844,440 and net assets with donor restrictions have been decreased by the same amount as of June 30, 2018, from the reclassification of board-designated net assets.

Recently Issued Accounting Pronouncements

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 changes certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard is effective for annual financial statements issued for years beginning after December 15, 2018. The Foundation is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

Note 1 - Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to clarify and improve the guidance about the distinction between contributions and exchange transactions and determine whether a contribution is conditional. This ASU will be effective for annual periods beginning after December 15, 2018. The Foundation is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

Note 2 - Net Assets

Net assets are described as follows:

<u>At June 30</u>	<u>2019</u>	<u>2018</u>
Net assets (deficiency) without donor restrictions:		
Undesignated	\$ 5,503	\$ (1,082)
Board designated:		
Operations	1,816,334	1,517,640
Board-designated endowment funds	<u>2,809,279</u>	<u>2,829,919</u>
Net assets without donor restrictions	<u>4,631,116</u>	<u>4,346,477</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Donor-advised grants	2,275,798	1,678,734
Trusts designated for endowments	1,293,698	1,301,684
Subject to the Foundation's spending policy:		
Donor-restricted endowments	17,784,050	19,450,527
Not subject to spending policy or appropriation:		
Investment in perpetuity - endowments	<u>75,535,971</u>	<u>72,029,402</u>
Net assets with donor restrictions	<u>96,889,517</u>	<u>94,460,347</u>
<u>Total net assets</u>	<u>\$ 101,520,633</u>	<u>\$ 98,806,824</u>

Note 3 - Liquidity and Availability of Financial Assets

The following reflects the liquidity and availability of the Foundation's financial assets:

<u>At June 30</u>	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and equivalents	\$ 7,466,333	\$ 6,419,216
Accounts receivable	12,649	9,950
Beneficial interest in trusts, net	198,936	256,252
Investments	<u>102,789,086</u>	<u>100,916,684</u>
Total financial assets	<u>110,467,004</u>	<u>107,602,102</u>
Amounts not available for general expenditure:		
Board designated for operations	(1,816,334)	(1,517,640)
Board-designated endowment funds	(2,809,279)	(2,829,919)
Total net assets with donor restrictions	<u>(96,889,517)</u>	<u>(94,460,347)</u>
Total amounts not available for general expenditure	<u>(101,515,130)</u>	<u>(98,807,906)</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,951,874</u>	<u>\$ 8,794,196</u>

The Foundation 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 insured cash sweep accounts and money market funds.

Board-designated endowment funds are available, if necessary, for expenditure by appropriation by the Board. However, the Foundation does not intend to spend from these board-designated endowment funds.

Note 4 - Split-Interest Agreements

Assets of the Foundation that are derived from split-interest agreements are as follows:

<u>At June 30</u>	<u>2019</u>	<u>2018</u>
Beneficial interest in trusts, net	\$ 198,936	\$ 256,252
Investments:		
Cash and money market funds	16,683	17,566
Mutual funds	2,422,732	2,492,392
Exchange-traded funds	413,692	450,336
Interest in life estates	<u> </u>	<u>388,000</u>
Total assets derived from split-interest agreements	<u>\$ 3,052,043</u>	<u>\$ 3,604,546</u>

Note 4 - Split-Interest Agreements (continued)

Beneficial Interest in Trusts

For agreements where the Foundation is not the trustee, the Foundation has recorded its beneficial interest in the agreements as an asset.

Beneficial interest in trusts is described as follows:

<u>At June 30</u>	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 49,970	\$ 80,739
One to five years	66,916	96,008
More than five years	<u>135,459</u>	<u>151,089</u>
Total beneficial interest in trusts	252,345	327,836
Less, discount to net present value	<u>(53,409)</u>	<u>(71,584)</u>
<u>Beneficial interest in trusts, net</u>	<u>\$ 198,936</u>	<u>\$ 256,252</u>

The percentage of discount to net present value ranges from 4.56% to 7.6%.

Annuity Trust Obligations

The Foundation has entered into various irrevocable trust agreements with donors whereby in exchange for the gift, the Foundation is obligated to provide an annuity to the donor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are generally available for the Foundation's use. Contributions under trust agreements totaled \$110,000 and \$257,696 for the years ended June 30, 2019 and 2018, respectively.

A liability is recognized for the estimated present value of the annuity obligation and assets are recorded at their gross market value. The discount rate and actuarial assumptions used in calculating annuity obligations are those provided in Internal Revenue Service guidelines and mortality tables. The present value of the estimated future payments at June 30, 2019 and 2018, was \$1,561,916 and \$1,669,308, respectively. The liability is calculated using a discount rate of 5% to 10% and applicable mortality tables.

Note 5 - Fair Value Measurements

Investments are recorded in the accompanying financial statements at estimated fair value in accordance with the fair value hierarchy. The Foundation's interests in alternative investment funds, such as hedge funds, are generally reported at the net asset value (NAV) reported by fund managers. NAV is used as a practical expedient to estimate fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2019 and 2018, the Foundation had no plans to sell investments at amounts different from NAV. In accordance with U.S. GAAP, funds measured using NAV as a practical expedient to estimate fair value are not assigned a level within the fair value hierarchy.

Fair values of investments are determined as follows:

Cash and Money Market Funds

Cash and money market funds are valued using observable market data and are categorized as Level 1 to the degree that they can be valued based on quoted market prices in active markets. Although these funds are readily available, it is the intent of the Foundation to hold them for investment purposes and therefore have classified them as investments.

Equity Investments

Equity investments consist of corporate stocks, daily traded mutual funds, and exchange-traded funds. These investments are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1, with no valuation adjustments applied. Corporate stocks that are traded in inactive markets are categorized as Level 2.

Debt Investments

Debt investments consist of U.S. Government obligations. All investments in debt securities are valued based on quoted market prices in active markets and are categorized as Level 2.

Interest in Life Estates

Interest in life estates consist of real property assets that are valued at estimated fair market value at the gift date and are categorized as Level 3.

Alternative Investments

Alternative investments consist of hedge funds, portfolios, and strategies. The fund managers invest in a variety of securities, bonds, debt, and other assets based on the strategy of the fund. All alternative investments are valued at NAV as reported by the fund manager.

Note 5 - Fair Value Measurements (continued)

The following tables sets forth carrying amounts and estimated fair values for financial instruments.

<u>At June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 871,020	\$	\$	\$ 871,020
Equity investments:				
Equity securities	369,634			369,634
Mutual funds	82,829,764			82,829,764
Exchange-traded funds	15,348,871			15,348,871
Debt investments		9,961		9,961
Total investments in fair value hierarchy	<u>\$ 99,419,289</u>	<u>\$ 9,961</u>	<u>\$</u>	99,429,250
Alternative investments measured at NAV as a practical expedient*				<u>3,359,836</u>
Total investments				<u>\$ 102,789,086</u>

<u>At June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 846,576	\$	\$	\$ 846,576
Equity investments:				
Equity securities	493,827			493,827
Mutual funds	79,874,469			79,874,469
Exchange-traded funds	15,929,389			15,929,389
Interest in life estates			388,000	388,000
Total investments in fair value hierarchy	<u>\$ 97,144,261</u>	<u>\$</u>	<u>\$ 388,000</u>	97,532,261
Alternative investments measured at NAV as a practical expedient*				<u>3,384,423</u>
Total investments				<u>\$ 100,916,684</u>

* In accordance with U.S. GAAP, certain investments that were measured at NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to amounts presented in the statements of financial position.

Note 5 - Fair Value Measurements (continued)

The following table sets forth information about alternative investments measured at NAV as a practical expedient:

<u>At June 30</u>				
	<u>Fair Value</u> <u>2019</u>	<u>Fair Value</u> <u>2018</u>	<u>Redemption</u> <u>Frequency</u>	<u>Notice</u> <u>Period</u>
Multi-strategy hedge funds	\$ 1,694,030	\$ 1,629,845	Quarterly	95 days
Multi-strategy hedge funds	1,665,806	1,658,548	Monthly	90 days
Relative value fund		96,030	N/A	N/A
Total investments measured at NAV as a practical expedient	<u>\$ 3,359,836</u>	<u>\$ 3,384,423</u>		

The redemption frequency and notice period are not applicable for the relative value fund, as it was in liquidation as of June 30, 2018.

As of June 30, 2019 and 2018, there were no unfunded commitments.

A reconciliation of changes in Level 3 inputs is as follows:

<u>Year Ended June 30, 2019</u>	<u>Total</u>
Level 3 inputs, beginning of year	\$ 388,000
Net gains on investments	93,944
Proceeds from sale of investments	<u>(481,944)</u>
<u>Level 3 inputs, end of year</u>	<u>\$</u>

Note 6 - Endowment Funds

The Foundation's endowments consist of approximately 400 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 6 - Endowment Funds (continued)

Interpretation of Relevant Law

Absent explicit donor stipulations to the contrary, the Board of Directors of the Foundation has interpreted the North Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by 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) expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) investment policies of the Foundation.

Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable, stable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of endowment assets. As authorized by the Board of Directors, these assets are invested to maximize long-term returns, while mitigating risk through a diversified portfolio.

The assets are invested in a manner that is intended to produce an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Foundation expects its endowment assets, over time, to produce an average rate of return in excess of inflation. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

Spending Policy

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average principal balance over the most recent 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Note 6 - Endowment Funds (continued)

Underwater Endowment Funds

The Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. These deficiencies could result from unfavorable market fluctuations. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Foundation has no material underwater endowment funds at June 30, 2019 and 2018.

Endowment net asset composition by type of fund is as follows:

At June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 2,809,279	\$	\$ 2,809,279
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor		78,512,736	78,512,736
Accumulated investment gains		<u>14,807,285</u>	<u>14,807,285</u>
Total funds	<u>\$ 2,809,279</u>	<u>\$ 93,320,021</u>	<u>\$ 96,129,300</u>

At June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 2,829,919	\$	\$ 2,829,919
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor		75,042,725	75,042,725
Accumulated investment gains		<u>16,437,204</u>	<u>16,437,204</u>
Total funds	<u>\$ 2,829,919</u>	<u>\$ 91,479,929</u>	<u>\$ 94,309,848</u>

Note 6 - Endowment Funds (continued)

Changes in endowment net assets are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 2,829,919	\$ 91,479,929	\$ 94,309,848
Transfers	15,659		15,659
Contributions	56,132	3,557,957	3,614,089
Investment returns, net	66,122	2,313,048	2,379,170
Appropriation of endowment assets for expenditure	(158,553)	(3,038,326)	(3,196,879)
Management fees	_____	(992,587)	(992,587)
<u>Endowment net assets, end of year</u>	<u>\$ 2,809,279</u>	<u>\$ 93,320,021</u>	<u>\$ 96,129,300</u>

Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 2,294,133	\$ 82,556,662	\$ 84,850,795
Transfers	629,259		629,259
Contributions	36,818	5,227,908	5,264,726
Investment returns, net	210,526	6,949,531	7,160,057
Appropriation of endowment assets for expenditure	(340,817)	(2,269,286)	(2,610,103)
Management fees	_____	(984,886)	(984,886)
<u>Endowment net assets, end of year</u>	<u>\$ 2,829,919</u>	<u>\$ 91,479,929</u>	<u>\$ 94,309,848</u>

Note 7 - Property and Equipment

A description of property and equipment is as follows:

<u>At June 30</u>	<u>2019</u>	<u>2018</u>
Buildings	\$ 848,935	\$ 848,935
Land	24,300	24,300
Leasehold improvements	296,632	296,632
Office equipment	<u>158,782</u>	<u>158,782</u>
	1,328,649	1,328,649
Less, accumulated depreciation	<u>796,302</u>	<u>749,597</u>
<u>Property and equipment</u>	<u>\$ 532,347</u>	<u>\$ 579,052</u>

Depreciation expense for the years ended June 30, 2019 and 2018, was \$35,829 and \$44,269, respectively.

Building and land with a carrying value of \$111,932 and \$122,808 as of June 30, 2019 and 2018, respectively, were contributed to the Foundation in a prior year. Under terms of the agreement, the facility, or any proceeds from its sale, must be used for the benefit of the community.

Note 8 - Funds Held as Organizational Endowments

In accordance with U.S. GAAP, the Foundation has reclassified to liabilities all additions and reductions to funds held as organizational endowments recorded as contribution revenue, investment income, gains or losses, and grant expenses. At June 30, 2019 and 2018, the Foundation was the owner of 74 agency endowment funds with a combined value of \$7,412,366 and \$7,249,572, respectively.

The following table summarizes the activity in such funds during the years.

<u>Years Ended June 30</u>	<u>2019</u>	<u>2018</u>
Funds held as organizational endowments, beginning	\$ 7,249,572	\$ 6,399,016
Contributions	280,657	567,552
Investment income, net	235,710	161,115
Net investment gains (losses)	(78,864)	389,963
Grants	(221,718)	(218,046)
Management fees	<u>(52,991)</u>	<u>(50,028)</u>
<u>Funds held as organizational endowments, ending</u>	<u>\$ 7,412,366</u>	<u>\$ 7,249,572</u>

Note 9 - Defined Contribution Plan

The Foundation participates in a 403(b) defined contribution retirement plan managed by Mutual of America. Employees are eligible to participate in the plan after six months of service and are 100% vested immediately upon participation. The Foundation contributes 3% of employee compensation, plus an additional 100% match of employee elective deferrals, up to a maximum of 3% of employee compensation. The Foundation amended the plan in August 2018 to increase employer contributions to 4% of employee compensation, plus an additional 100% match of employee elective deferrals, up to a maximum of 4% of employee compensation. Retirement benefit expenses under the plan for the years ended June 30, 2019 and 2018, were \$45,477, and \$27,362, respectively.

Note 10 - Income Taxes

Uncertain Tax Positions

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions material to the financial statements.

Open Tax Years

The Foundation's Return of Organization Exempt from Income Tax (Form 990) for the tax years ended June 30, 2018, 2017, and 2016, are subject to examination by the IRS, generally for three years after they were filed.

Note 11 - Concentrations of Credit Risk

The Foundation maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Additionally, the Foundation maintains insured cash sweep agreements with two financial institutions to protect against uninsured cash balances. The uninsured balance at June 30, 2019 was \$336,157.

Each brokerage balance is protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account with a limit of \$250,000 for claims of uninvested cash balances. The SIPC does not protect against market losses on investments. There were no SIPC uninsured cash balances at June 30, 2019.

The Foundation's investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the fair value of investments, it is at least reasonably possible that changes in the various risk factors could occur in the near term and materially affect the Foundation's investment account balances and amounts reported in the accompanying financial statements.

Note 12 - Summary Disclosure of Significant Contingencies

Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Foundation carries commercial insurance coverage for risks of loss. Claims have not exceeded coverage in any period since inception.

Note 13 - Subsequent Events

Management has evaluated subsequent events through September 25, 2019, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Schedule of Grants
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Animal care	\$ 132,074	\$ 124,346
Arts and culture	136,682	211,953
Civic and community	195,570	237,166
Conservation	170,066	73,695
Education	362,058	229,919
Health	660,029	638,951
Human services	1,826,732	1,177,140
Religious programs	255,459	237,941
Scholarships	<u>460,315</u>	<u>436,434</u>
Total	<u>\$ 4,198,985</u>	<u>\$ 3,367,545</u>