

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

Hendersonville, North Carolina

Financial Statements and  
Supplementary Information

Years Ended June 30, 2017 and 2016



**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, 2017 and 2016, 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, 2017 and 2016, 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 on page 24 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, 2017

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

Statements of Financial Position  
June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 6,077,268	\$ 5,717,923
Current portion of contributions receivable	253,614	253,026
Receivables	13,785	982
Asset available-for-sale	100,000	100,000
Prepaid expenses	55,699	34,759
Total current assets	6,500,366	6,106,690
Contributions receivable, net of current portion	543,617	728,362
Investments	89,842,763	80,239,340
Property and equipment	564,594	541,188
Total assets	<u>\$ 97,451,340</u>	<u>\$ 87,615,580</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,885	\$ 24,518
Grants and scholarships payable	476,700	420,500
Liability under trust agreements, current portion	209,440	211,440
Total current liabilities	696,025	656,458
Liability under trust agreements, less current portion	1,454,426	1,525,437
Funds held as organizational endowments	6,399,016	5,658,401
Total liabilities	<u>8,549,467</u>	<u>7,840,296</u>
Net assets:		
Unrestricted:		
Undesignated	(336,305)	(396,560)
Board designated	2,298,532	1,801,566
Total unrestricted	1,962,227	1,405,006
Temporarily restricted	21,955,377	14,383,834
Permanently restricted	64,984,269	63,986,444
Total net assets	<u>88,901,873</u>	<u>79,775,284</u>
Total liabilities and net assets	<u>\$ 97,451,340</u>	<u>\$ 87,615,580</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public support and other revenues</b>				
Contributions	\$ 31,879	\$ 571,991	\$ 1,256,727	\$ 1,860,597
Less, amounts received for organizational endowments		<u>20,000</u>	<u>149,504</u>	<u>169,504</u>
Contributions, net	31,879	551,991	1,107,223	1,691,093
Investment income	83,554	1,731,558		1,815,112
Management fees	43,150			43,150
Change in value of split interest agreements	112,874	29,729		142,603
Transfers	150,057	(40,659)	(109,398)	
Net fundraising income	67,311			67,311
Other income	54,633			54,633
Net assets released from restrictions	<u>3,812,417</u>	<u>(3,812,417)</u>		
Total public support and other revenues	<u>4,355,875</u>	<u>(1,539,798)</u>	<u>997,825</u>	<u>3,813,902</u>
<b>Expenses</b>				
Grants	3,090,019			3,090,019
Less, organizational grants	<u>202,265</u>			<u>202,265</u>
Grants, net	2,887,754			2,887,754
Annuity payments	209,394			209,394
Program services	397,678			397,678
Supporting services	<u>548,252</u>			<u>548,252</u>
Total expenses	<u>4,043,078</u>			<u>4,043,078</u>
Change in net assets before net realized and unrealized gains on investments	312,797	(1,539,798)	997,825	(229,176)
Net realized and unrealized gains on investments	<u>244,424</u>	<u>9,111,341</u>		<u>9,355,765</u>
Increase in net assets	557,221	7,571,543	997,825	9,126,589
Net assets at beginning of year	<u>1,405,006</u>	<u>14,383,834</u>	<u>63,986,444</u>	<u>79,775,284</u>
Net assets at end of year	<u>\$ 1,962,227</u>	<u>\$ 21,955,377</u>	<u>\$ 64,984,269</u>	<u>\$ 88,901,873</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public support and other revenues</b>				
Contributions	\$ 33,240	\$ 1,296,419	\$ 3,096,564	\$ 4,426,223
Less, amounts received for organizational endowments			182,391	182,391
Contributions, net	33,240	1,296,419	2,914,173	4,243,832
Investment income	83,188	1,733,138		1,816,326
Management fees	40,811			40,811
Change in value of split interest agreements	(16,739)	(103,835)		(120,574)
Transfers	41,816	(610,753)	568,937	
Net fundraising income	70,655			70,655
Other income	54,885			54,885
Net assets released from restrictions	2,371,013	(2,371,013)		
Total public support and other revenues	<u>2,678,869</u>	<u>(56,044)</u>	<u>3,483,110</u>	<u>6,105,935</u>
<b>Expenses</b>				
Grants	2,961,687			2,961,687
Less, organizational grants	203,525			203,525
Grants, net	2,758,162			2,758,162
Annuity payments	217,112			217,112
Program services	381,966			381,966
Supporting services	579,526			579,526
Total expenses	<u>3,936,766</u>			<u>3,936,766</u>
Change in net assets before net realized and unrealized losses on investments	(1,257,897)	(56,044)	3,483,110	2,169,169
Net realized and unrealized losses on investments	(97,096)	(4,804,416)		(4,901,512)
Increase (decrease) in net assets	(1,354,993)	(4,860,460)	3,483,110	(2,732,343)
Net assets at beginning of year	2,759,999	19,244,294	60,503,334	82,507,627
Net assets at end of year	<u>\$ 1,405,006</u>	<u>\$ 14,383,834</u>	<u>\$ 63,986,444</u>	<u>\$ 79,775,284</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, 2017

	Supporting Services				Total
	Program Services	Management & General	Fund- raising	Total Supporting Services	
Salaries	\$ 190,827	\$ 198,199	\$ 76,629	\$ 274,828	\$ 465,655
Payroll taxes	13,344	13,860	5,358	19,218	32,562
Benefits	<u>32,761</u>	<u>34,026</u>	<u>13,155</u>	<u>47,181</u>	<u>79,942</u>
Total salaries and related expenses	236,932	246,085	95,142	341,227	578,159
Advertising	1,924	5,123	3,199	8,322	10,246
Investment consulting fees	36,828	36,829		36,829	73,657
Dues and subscriptions	5,190	2,394	1,079	3,473	8,663
Insurance		7,800	352	8,152	8,152
Office expense	2,908	3,257	254	3,511	6,419
Investment management fees	40,191				40,191
Postage	1,651	3,806	889	4,695	6,346
Telephone	6,039	1,394	1,858	3,252	9,291
Professional services		16,687		16,687	16,687
Communications	1,484	20,136	2,167	22,303	23,787
Travel and training	4,473	9,847	2,298	12,145	16,618
Printing and publications	16,677	9,797	6,065	15,862	32,539
Occupancy	5,237	12,218		12,218	17,455
Technology	23,108	23,528	3,323	26,851	49,959
Other	<u>4,708</u>	<u>5,530</u>		<u>5,530</u>	<u>10,238</u>
Total expenses before depreciation	387,350	404,431	116,626	521,057	908,407
Depreciation	<u>10,328</u>	<u>27,195</u>		<u>27,195</u>	<u>37,523</u>
Total expenses	<u>\$ 397,678</u>	<u>\$ 431,626</u>	<u>\$ 116,626</u>	<u>\$ 548,252</u>	<u>\$ 945,930</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, 2016

	Supporting Services				Total
	Program Services	Management & General	Fund- raising	Total Supporting Services	
Salaries	\$ 187,086	\$ 194,314	\$ 75,127	\$ 269,441	\$ 456,527
Payroll taxes	13,245	13,756	5,318	19,074	32,319
Benefits	<u>36,359</u>	<u>37,764</u>	<u>14,601</u>	<u>52,365</u>	<u>88,724</u>
Total salaries and related expenses	236,690	245,834	95,046	340,880	577,570
Advertising	1,001	3,640	2,638	6,278	7,279
Investment consulting fees	36,870	36,870		36,870	73,740
Dues and subscriptions	4,144	2,378	792	3,170	7,314
Insurance		8,345	348	8,693	8,693
Office expense	4,052	4,586	359	4,945	8,997
Investment management fees	36,083				36,083
Postage	1,513	3,490	815	4,305	5,818
Telephone	4,467	1,374	1,031	2,405	6,872
Professional services		61,037		61,037	61,037
Communications		15,386	2,499	17,885	17,885
Travel and training	5,940	14,337	3,376	17,713	23,653
Printing and publications	16,188	9,612	5,886	15,498	31,686
Occupancy	6,445	15,037		15,037	21,482
Technology	15,746	16,292	2,435	18,727	34,473
Other	<u>1,127</u>	<u>2,907</u>		<u>2,907</u>	<u>4,034</u>
Total expenses before depreciation	370,266	441,125	115,225	556,350	926,616
Depreciation	<u>11,700</u>	<u>23,176</u>		<u>23,176</u>	<u>34,876</u>
Total expenses	<u>\$ 381,966</u>	<u>\$ 464,301</u>	<u>\$ 115,225</u>	<u>\$ 579,526</u>	<u>\$ 961,492</u>

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, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 9,126,589	\$ (2,732,343)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	37,523	34,876
Change in value of split interest agreements	(142,603)	120,574
Receipt of donated stock	(87,182)	(271,219)
Receipt of asset available-for-sale		(100,000)
Net realized and unrealized losses on investments	(9,355,765)	4,901,512
Working capital changes - sources (uses):		
Contributions receivable	297,031	35,502
Receivables	(12,803)	3,237
Prepaid expenses	(20,940)	(2,710)
Accounts payable and accrued liabilities	(14,633)	(9,813)
Grants and scholarships payable	56,200	108,800
Liability under trust agreements	(43,282)	56,559
Restricted contributions	<u>(1,659,214)</u>	<u>(4,210,592)</u>
Net cash used by operating activities	<u>(1,819,079)</u>	<u>(2,065,617)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	5,367,214	2,959,711
Purchase of investments	(5,527,690)	(5,467,729)
Purchase of equipment	<u>(60,929)</u>	<u>(30,392)</u>
Net cash used by investing activities	<u>(221,405)</u>	<u>(2,538,410)</u>
<b>Cash flows from financing activities</b>		
Funds held as organizational endowments	740,615	(321,184)
Restricted contributions	<u>1,659,214</u>	<u>4,210,592</u>
Net cash provided by financing activities	<u>2,399,829</u>	<u>3,889,408</u>
Net increase (decrease) in cash and equivalents	359,345	(714,619)
Cash and equivalents at beginning of year	<u>5,717,923</u>	<u>6,432,542</u>
Cash and equivalents at end of year	<u>\$ 6,077,268</u>	<u>\$ 5,717,923</u>

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

# COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Notes to Financial Statements

June 30, 2017

## **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.

### Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

### Income Tax Status

The Foundation is incorporated as a nonprofit corporation under the laws of the State of North Carolina. The Foundation has been classified as a publicly-supported charitable organization under Section 501(c)(3) of the Internal Revenue Code. As a publicly-supported charity, the Foundation is exempt from federal and state income taxes under Section 509(a)(1) of the Internal Revenue 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 statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions.

### Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### **Financial Statement Presentation (continued)**

- Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are reported in this class if the donor limited their use, as are promised contributions that are not yet due. The unspent appreciation of the Foundation's donor-restricted endowment funds is also reported as temporarily restricted net assets.
- Permanently restricted net assets are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Foundation's donor-restricted endowment funds that the Foundation is committed to maintaining in perpetuity are classified in this net asset class.

Professional standards also provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The standard requires additional disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds) and whether or not the organization is subject to UPMIFA.

The State of North Carolina enacted UPMIFA effective March 19, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors has determined the Organization's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

### **Restricted and Unrestricted Revenue**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### 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 gives the Board of Directors the ability to modify donor restrictions that become in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by the Foundation.

### Cash and Equivalents

For the purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and money market funds held by investment brokers are classified as investments.

### Contributions Receivable

Contributions receivable consist primarily of amounts due from charitable lead trusts and charitable remainder trusts. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their 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 revenue and other support. An allowance for doubtful accounts has not been established, as management believes all amounts are collectible. Additionally, management uses the direct write-off method for bad debts, as the results historically have approximated amounts prescribed by accounting principles generally accepted in the United States of America.

### 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

The Foundation reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Gains and losses are included in the change in net assets in the accompanying statement of activities. Contributed investments received that do not have readily determinable fair market values generally consist of closely held stock. Such investments are recorded at their appraised value at the date received, and no changes in carrying value are reflected in the financial statements for subsequent temporary increases or decreases in value.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Investments (continued)

Investment income and gains are accounted for within the unrestricted net asset class, or as temporarily or permanently restricted net asset classes if so stipulated by the donor as such assets. Unrealized appreciation (depreciation) from certain investments in securities and ordinary income earned from investments and similar sources is accounted for in the same manner as gains and losses.

### Investment Pools

The Foundation maintains master investment accounts for its donor-restricted and board-designated 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 master investment accounts, 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 master investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master 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.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Funds Held as Organizational Endowments (continued)

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 has been established at the fair value of 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.

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 accounting principles generally accepted in the United States of America.

### Fair Value Measurements and Disclosures

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under are described below:

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 by correlation or other means.

If an 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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.



## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Fair Value of Financial Instruments

The fair value of substantially all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate the carrying values of such amounts.

### Property and Equipment

All acquisitions of property and equipment in excess of \$2,000 and significant expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost and are depreciated using the straight-line method over a period of three to thirty-nine years.

### Donated Property and Equipment

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

### Donated Goods and Services

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

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 financial statements since the recognition criteria were not met.

### 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.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Administrative Charges

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.

### Advertising

Advertising costs are expensed as incurred. Advertising charged to expense for the years ended June 30, 2017 and 2016, was \$10,246 and \$7,279, respectively. In addition, in-kind advertising in the amount of \$25,635 and \$24,554, is included in net fundraising income in the accompanying statements of activities for the years ended June 30, 2017 and 2016, respectively.

### Allocation of Expenses

The Foundation allocates its expenses on a functional basis among its program and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their nature and expenditure classification. Other expenses that are common to several functions are allocated by statistical means.

### Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates

### 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.

### Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is intended to improve not-for-profit (NFP) financial statements and provide more useful information to donors, grantors, creditors, and other financial statement users. The standard will change the way all NFPs classify net assets and prepare financial statements, and will result in significant changes to financial reporting and disclosures for NFPs. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018.

## **Note 2 - Contributions Receivable**

Contributions receivable are described as follows:

<u>At June 30</u>	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 253,614	\$ 253,026
One to five years	507,751	738,866
More than five years	<u>165,416</u>	<u>181,046</u>
Total contributions receivable	926,781	1,172,938
Less, discount to net present value	<u>(129,550)</u>	<u>(191,550)</u>
<u>Contributions receivable</u>	<u>\$ 797,231</u>	<u>\$ 981,388</u>

The percentage of discount to net present value ranges from 4.5% to 7.6%.

## **Note 3 - Investments**

Long-term investments consist principally of investments in pooled investment funds, equity securities, government and corporate bonds, mutual funds, hedge funds, and money market funds that are recorded at fair value based on current quoted market prices provided by investment custodians or other models.

The fair value of each financial instrument in the table below was measured using FASB ASC 820 input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments.

<u>At June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Value</u>
Money market funds	\$ 268,798	\$	\$	\$ 268,798
Equity securities	2,063,416			2,063,416
Bonds		1,749,681		1,749,681
Exchange traded funds	89,413			89,413
Mutual funds	81,653,398			81,653,398
Hedge funds			3,630,057	3,630,057
Interest in life estates			<u>388,000</u>	<u>388,000</u>
<u>Total investments</u>	<u>\$ 84,075,025</u>	<u>\$ 1,749,681</u>	<u>\$ 4,018,057</u>	<u>\$ 89,842,763</u>

**Note 3 - Investments (continued)**

<u>At June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Value</u>
Money market funds	\$ 157,491	\$	\$	\$ 157,491
Equity securities	1,877,866			1,877,866
Bonds		1,755,609		1,755,609
Exchange traded funds	95,278			95,278
Mutual funds	70,324,808			70,324,808
Hedge funds			5,640,288	5,640,288
Interest in life estates			388,000	388,000
<u>Total investments</u>	<u>\$ 72,455,443</u>	<u>\$ 1,755,609</u>	<u>\$ 6,028,288</u>	<u>\$ 80,239,340</u>

Brokers holding alternative investments do not provide information on investment fees, therefore the above totals do not include such fees. Changes in alternative investments are included in net realized and unrealized gains (losses) on investments in the accompanying statements of activities.

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

<u>Year Ended June 30, 2017</u>	<u>Total</u>
Level 3 inputs, beginning of year	\$ 6,028,288
Sales	(1,558,487)
Net realized and unrealized losses	<u>(451,744)</u>
<u>Level 3 inputs, end of year</u>	<u>\$ 4,018,057</u>

**Note 4 - Endowment Funds**

The Foundation's endowments consist of approximately 500 individual funds established for a variety of purposes. Its endowments include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Note 4 - Endowment Funds (continued)**

Absent explicit donor stipulations to the contrary, the Board of Directors of the Foundation has interpreted North Carolina UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

#### **Investment Return Objectives, Risk Parameters, and Strategies**

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve 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. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, mutual funds, money market funds, alternative investments, and hedge funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. 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.

#### **Note 4 - Endowment Funds (continued)**

##### 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. The Foundation expects the current spending policy to allow its endowment funds to grow at an amount in excess 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.

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

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At June 30, 2017

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Donor-restricted endowment funds	\$ (1,860,984)	\$ 19,428,978	\$ 64,984,269	\$ 82,552,263
Board designated endowment funds	<u>2,298,532</u>	<u>                    </u>	<u>                    </u>	<u>2,298,532</u>
<u>Total funds</u>	<u>\$ 437,548</u>	<u>\$ 19,428,978</u>	<u>\$ 64,984,269</u>	<u>\$ 84,850,795</u>

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At June 30, 2016

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Donor-restricted endowment funds	\$ (1,976,394)	\$ 12,034,823	\$ 63,986,444	\$ 74,044,873
Board designated endowment funds	<u>1,801,566</u>	<u>                    </u>	<u>                    </u>	<u>1,801,566</u>
<u>Total funds</u>	<u>\$ (174,828)</u>	<u>\$ 12,034,823</u>	<u>\$ 63,986,444</u>	<u>\$ 75,846,439</u>

**Note 4 - Endowment Funds (continued)**

Changes in endowment net assets are as follows:

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Year Ended June 30, 2017

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ (174,828)	\$ 12,034,823	\$ 63,986,444	\$ 75,846,439
Contributions	30,389	91,848	1,107,223	1,229,460
Transfers	3,884,800	(3,191,585)	(109,398)	583,817
Investment income	45,096	1,648,230		1,693,326
Management and consulting fees	(979,869)			(979,869)
Grant disbursements	(2,596,067)			(2,596,067)
Other income (expense)	(11,210)	112,874		101,664
Net appreciation	<u>239,237</u>	<u>8,732,788</u>		<u>8,972,025</u>
Endowment net assets, end of year	<u>\$ 437,548</u>	<u>\$ 19,428,978</u>	<u>\$ 64,984,269</u>	<u>\$ 84,850,795</u>

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Year Ended June 30, 2016

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 1,418,526	\$ 16,757,816	\$ 60,503,334	\$ 78,679,676
Contributions	30,725	314,963	2,914,173	3,259,861
Transfers	1,924,297	(2,076,223)	568,937	417,011
Investment income	39,637	1,638,336		1,677,973
Management and consulting fees	(875,445)			(875,445)
Grant disbursements	(2,547,504)			(2,547,504)
Other income (expense)	(48,387)	(16,739)		(65,126)
Net depreciation	<u>(116,677)</u>	<u>(4,583,330)</u>		<u>(4,700,007)</u>
Endowment net assets, end of year	<u>\$ (174,828)</u>	<u>\$ 12,034,823</u>	<u>\$ 63,986,444</u>	<u>\$ 75,846,439</u>

### **Note 5 - Property and Equipment**

A description of property and equipment is as follows:

<u>At June 30</u>	<u>2017</u>	<u>2016</u>
Buildings	\$ 848,935	\$ 848,935
Land	24,300	24,300
Leasehold improvements	284,094	253,886
Office equipment	<u>112,703</u>	<u>81,982</u>
	1,270,032	1,209,103
Less, accumulated depreciation	<u>705,438</u>	<u>667,915</u>
<u>Property and equipment</u>	<u>\$ 564,594</u>	<u>\$ 541,188</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$37,523 and \$34,876, respectively.

### **Note 6 - Liability Under Trust Agreements**

The Foundation administers various trusts which provide for the payment of distributions to the grantor 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 \$100,000 and \$398,112 for the years ended June 30, 2017 and 2016, respectively. Assets held under trust agreements totaled \$2,936,126 and \$2,845,973 at June 30, 2017 and 2016, and are reported at fair value in the accompanying statements of financial position as investments. On an annual basis, the Foundation revalues the liability to make distributions to designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments at June 30, 2017 and 2016 was \$1,599,819 and \$1,629,548, respectively. The liability is calculated using a discount rate of 5% to 10% and applicable mortality tables.

### **Note 7 - Funds Held as Organizational Endowments**

The Foundation adopted FASB ASC 958-605 *Not-for-Profit Entities: Revenue Recognition* in 2001. This adoption was recorded as a cumulative effect of a change in accounting principle during that year. Thus, all additions and reductions to the funds held as organizational endowments recorded as contribution revenue, investment income, gains or losses, or grant expense were reclassified as liabilities.

At June 30, 2017 and 2016, the Foundation was the owner of 74 and 73, respectively, agency endowment funds with a combined value of \$6,399,016 and \$5,658,401, respectively. The following table summarizes the activity in such funds during the years.



**Note 7 - Funds Held as Organizational Endowments (continued)**

<u>Years Ended June 30</u>	<u>2017</u>	<u>2016</u>
Funds held as organizational endowments, beginning	\$ 5,658,401	\$ 5,979,585
Contributions	169,504	182,391
Investment income	130,789	133,006
Net realized and unrealized gains (losses)	695,517	(382,880)
Grants	(202,266)	(203,525)
Management and consulting fees	<u>(52,929)</u>	<u>(50,176)</u>
<u>Funds held as organizational endowments, ending</u>	<u>\$ 6,399,016</u>	<u>\$ 5,658,401</u>

**Note 8 - Concentration of Credit Risk**

Each brokerage balance is protected by the Securities Investor Protection Corporation (SIPC). The SIPC replaces missing stocks and other securities where it is possible to do so. The SIPC covers securities, including money market funds up to \$500,000 and cash up to \$250,000. No amount of funds are uninsured by SIPC at June 30, 2017.

The Foundation maintains cash and equivalents at institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. Additionally, one institution has secured two bonds to collateralize the Foundation's deposits. The bond amounts total \$3,500,000. Another institution has also secured a bond to fully collateralize the Foundation's uninsured balance. In addition, the Foundation has an account with a credit union that is insured by the National Credit Union Association. The uninsured balance at June 30, 2017 was \$9,469.

**Note 9 - Pension Plan**

The Foundation participates in a 403(b) defined contribution retirement plan managed by Mutual of America. For the years ended June 30, 2017 and June 30, 2016, for employees who meet certain minimum eligibility requirements, the Foundation contributed 3% of employee compensation, plus an additional match to employee deferrals of up to 3% of employee compensation. The Foundation's contributions for the years ended June 30, 2017 and 2016, were \$24,080 and \$23,630, 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.

**Note 10 - Income Taxes (continued)**

Open Tax Years

The Foundation's Return of Organization Exempt from Income Tax (Form 990) for the tax years ended June 30, 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

**Note 11 - Summary Disclosure of Significant Contingencies**

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 12 - Subsequent Events**

Management has evaluated subsequent events through September 25, 2017, the date on which the financial statements were available to be issued. During the period from the end of the fiscal year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

**SUPPLEMENTARY INFORMATION**

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

Schedule of Grants

<u>Years Ended June 30</u>	<u>2017</u>	<u>2016</u>
Animal care	\$ 119,002	\$ 105,365
Arts and culture	136,505	87,721
Civic and community	204,805	197,196
Conservation	75,360	16,037
Education	169,793	127,168
Health	499,093	609,245
Human services	1,081,654	1,110,206
Religious programs	179,027	138,166
Scholarships	<u>422,515</u>	<u>367,058</u>
<u>Total</u>	<u>\$ 2,887,754</u>	<u>\$ 2,758,162</u>