



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

Hendersonville, North Carolina

Financial Statements and  
Supplementary Information

Years Ended June 30, 2018 and 2017



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

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Cindy D. Causby  
David Marshall  
Shirley McGee  
John Bell, Jr.

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018

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

Statements of Financial Position  
June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 6,419,216	\$ 6,077,268
Current portion of contributions receivable	80,739	253,614
Receivables	9,950	13,785
Asset available-for-sale	100,000	100,000
Prepaid expenses	42,281	55,699
Total current assets	6,652,286	6,500,366
Contributions receivable, net of current portion	175,513	543,617
Investments	100,916,684	89,842,763
Property and equipment	579,052	564,594
Total assets	\$ 108,323,435	\$ 97,451,340
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,404	\$ 9,885
Grants and scholarships payable	519,102	476,700
Liability under trust agreements, current portion	199,818	209,440
Total current liabilities	734,324	696,025
Liability under trust agreements, less current portion	1,532,715	1,454,426
Funds held as organizational endowments	7,249,572	6,399,016
Total liabilities	9,516,611	8,549,467
Net assets:		
Unrestricted:		
Undesignated	(886,585)	(336,305)
Board designated	2,673,261	2,298,532
Total unrestricted	1,786,676	1,962,227
Temporarily restricted	26,342,294	21,955,377
Permanently restricted	70,677,854	64,984,269
Total net assets	98,806,824	88,901,873
Total liabilities and net assets	\$ 108,323,435	\$ 97,451,340

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>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public support and other revenues</b>				
Contributions	\$ 39,868	\$ 1,579,038	\$ 6,128,232	\$ 7,747,138
Less, amounts received for organizational endowments			<u>567,552</u>	<u>567,552</u>
Contributions, net	<u>39,868</u>	<u>1,579,038</u>	<u>5,560,680</u>	<u>7,179,586</u>
Investment income	109,944	2,234,919		2,344,863
Management fees	50,028			50,028
Change in value of split interest agreements	(343,197)	(69,489)		(412,686)
Fundraising income, net	60,694			60,694
Other income	14,605			14,605
Net assets released from restrictions	<u>4,248,389</u>	<u>(4,248,389)</u>		
Total public support and other revenues	<u>4,180,331</u>	<u>(503,921)</u>	<u>5,560,680</u>	<u>9,237,090</u>
<b>Expenses</b>				
Grants	3,585,591			3,585,591
Less, organizational grants	<u>218,046</u>			<u>218,046</u>
Grants, net	3,367,545			3,367,545
Annuity payments	202,432			202,432
Program services	433,269			433,269
Supporting services	<u>605,053</u>			<u>605,053</u>
Total expenses	<u>4,608,299</u>			<u>4,608,299</u>
Change in net assets before other gains and transfers	<u>(427,968)</u>	<u>(503,921)</u>	<u>5,560,680</u>	<u>4,628,791</u>
<b>Other gains and transfers</b>				
Net realized and unrealized gains on investments	140,999	5,135,161		5,276,160
Transfers	<u>111,418</u>	<u>(244,323)</u>	<u>132,905</u>	<u>5,276,160</u>
Total other gains and transfers	<u>252,417</u>	<u>4,890,838</u>	<u>132,905</u>	<u>5,276,160</u>
Increase (decrease) in net assets	<u>(175,551)</u>	<u>4,386,917</u>	<u>5,693,585</u>	<u>9,904,951</u>
Net assets at beginning of year	<u>1,962,227</u>	<u>21,955,377</u>	<u>64,984,269</u>	<u>88,901,873</u>
Net assets at end of year	<u>\$ 1,786,676</u>	<u>\$ 26,342,294</u>	<u>\$ 70,677,854</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 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
Fundraising income, net	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>4,205,818</u>	<u>(1,499,139)</u>	<u>1,107,223</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 other gains and transfers	<u>162,740</u>	<u>(1,499,139)</u>	<u>1,107,223</u>	<u>(229,176)</u>
<b>Other gains and transfers</b>				
Net realized and unrealized gains on investments	244,424	9,111,341		9,355,765
Transfers	<u>150,057</u>	<u>(40,659)</u>	<u>(109,398)</u>	<u>9,355,765</u>
Total other gains and transfers	394,481	9,070,682	(109,398)	9,355,765
Increase in net assets	<u>557,221</u>	<u>7,571,543</u>	<u>997,825</u>	<u>9,126,589</u>
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 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	<u>37,271</u>	<u>38,710</u>	<u>14,967</u>	<u>53,677</u>	<u>90,948</u>
Total salaries and related expenses	256,003	265,891	102,801	368,692	624,695
Advertising	472	4,498	4,026	8,524	8,996
Investment consulting fees	42,285	42,284		42,284	84,569
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
Investment management fees	44,625				44,625
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	<u>3,771</u>	<u>6,846</u>		<u>6,846</u>	<u>10,617</u>
Total expenses before depreciation	422,393	446,972	124,688	571,660	994,053
Depreciation	<u>10,876</u>	<u>33,393</u>		<u>33,393</u>	<u>44,269</u>
Total expenses	<u>\$ 433,269</u>	<u>\$ 480,365</u>	<u>\$ 124,688</u>	<u>\$ 605,053</u>	<u>\$ 1,038,322</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	Fundraising	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.**

Statements of Cash Flows  
Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 9,904,951	\$ 9,126,589
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	44,269	37,523
Change in value of split interest agreements	412,686	(142,603)
Receipt of donated stock	(1,629,001)	(87,182)
Net realized and unrealized gains on investments	(5,276,160)	(9,355,765)
Working capital changes - sources (uses):		
Contributions receivable	197,782	297,031
Receivables	3,835	(12,803)
Prepaid expenses	13,418	(20,940)
Accounts payable and accrued liabilities	5,519	(14,633)
Grants and scholarships payable	42,402	56,200
Liability under trust agreements	(822)	(43,282)
Restricted contributions	<u>(7,139,718)</u>	<u>(1,659,214)</u>
Net cash used by operating activities	<u>(3,420,839)</u>	<u>(1,819,079)</u>
 <b>Cash flows from investing activities</b>		
Proceeds from sale of investments	6,945,172	5,367,214
Purchase of investments	(11,113,932)	(5,527,690)
Purchase of equipment	<u>(58,727)</u>	<u>(60,929)</u>
Net cash used by investing activities	<u>(4,227,487)</u>	<u>(221,405)</u>
 <b>Cash flows from financing activities</b>		
Funds held as organizational endowments	850,556	740,615
Restricted contributions	<u>7,139,718</u>	<u>1,659,214</u>
Net cash provided by financing activities	<u>7,990,274</u>	<u>2,399,829</u>
 Net increase in cash and equivalents	341,948	359,345
 Cash and equivalents at beginning of year	<u>6,077,268</u>	<u>5,717,923</u>
 Cash and equivalents at end of year	<u>\$ 6,419,216</u>	<u>\$ 6,077,268</u>

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

# COMMUNITY FOUNDATION OF HENDERSON COUNTY, INC.

Notes to Financial Statements  
June 30, 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.

### Basis of Accounting

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

### 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.

### Basis of Presentation

Net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets*: Net assets that are not subject to donor-imposed stipulations.

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

### Basis of Presentation (continued)

- *Temporarily restricted net assets*: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets*: Net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on the related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed stipulations. 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. Expenses are recorded as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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 also 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 Board of Directors has determined that the majority of the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

### 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.

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

### Cash and Equivalents

For the purpose of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with initial maturities 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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Realized and unrealized gains and losses are reflected 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)**

### Investment Income and Gains

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 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 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 the 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.

## **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 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.

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

The Foundation applies the 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.

## **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, approximate the carrying values of such amounts.

Significant estimates included in or affecting the presentation of the accompanying financial statements include the fair value of investments, contributions receivable, liability under trust agreements, and funds held as organizational endowments.

### 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 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 financial statements since the recognition criteria were not met.

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

### 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.

### 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, 2018 and 2017, was \$8,996 and \$10,246, respectively. In addition, in-kind advertising in the amount of \$23,840 and \$25,635, is included in net fundraising income in the accompanying statements of activities.

### Functional 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

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Foundation regularly assesses these estimates and, while actual results could differ, management believes that the estimates are reasonable.

### 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.

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

### **Recently Issued Accounting Pronouncements**

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. 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 fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The Foundation is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

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.

## **Note 2 - Contributions Receivable**

Contributions receivable are described as follows:

<u>At June 30</u>	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 80,739	\$ 253,614
One to five years	96,008	507,751
More than five years	<u>151,089</u>	<u>165,416</u>
Total contributions receivable	327,836	926,781
Less, discount to net present value	<u>(71,584)</u>	<u>(129,550)</u>
<u>Contributions receivable</u>	<u>\$ 256,252</u>	<u>\$ 797,231</u>

The percentage of discount to net present value ranges from 0.38% to 1.9%.

### **Note 3 - Fair Value Measurements**

The fair value of investments in investment companies have a value of their capital account or net asset value (NAV) calculated in accordance with, or in a manner consistent with U.S. generally accepted accounting principles. As a practical expedient, the Foundation is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with U.S. GAAP. The Foundation's investments in certain alternative investments are generally valued based on the most current NAV received, adjusted for cash flows when the reported NAV is not at the measurement date. At June 30 2018, the Foundation adopted FASB Accounting Standards Update (ASU) No. 2015-07. *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, and therefore is not required to assign a level in the hierarchy to investments measured using NAV as a practical expedient. The adoption of this ASU is applied retrospectively.

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. Securities held in corporate stocks, daily traded mutual funds, and exchange-traded funds 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.

#### *Alternative Investments*

Alternative investments consist of interests in life estates, as well as various portfolios and strategies. The fund managers invest in a variety of securities based on the strategy of the fund. Alternative investments are valued at fair value and categorized as Level 3, or NAV.

### **Note 3 - Fair Value Measurements (continued)**

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

<u>At June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Value</u>
Cash and money market funds	\$ 846,477	\$	\$	\$ 846,477
Equity investments:				
Equity securities	2,769,700			2,769,700
Mutual funds	93,444,092			93,444,092
Exchange-traded funds	83,992			83,992
Alternative investments			388,000	388,000
 Total investments in fair value hierarchy	 97,144,261		 388,000	 97,532,261
 Alternative investments measured at NAV as a practical expedient*				 3,384,423
<u>Total investments</u>	<u>\$ 97,144,261</u>	<u>\$</u>	<u>\$ 388,000</u>	<u>\$ 100,916,684</u>

<u>At June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Value</u>
Cash and money market funds	\$ 268,798	\$	\$	\$ 268,798
Equity investments:				
Equity securities	2,063,416			2,063,416
Mutual funds	83,403,079			83,403,079
Exchange-traded funds	89,413			89,413
Alternative investments			388,000	388,000
 Total investments in fair value hierarchy	 85,824,706		 388,000	 86,212,706
 Alternative investments measured at NAV as a practical expedient*				 3,630,057
<u>Total investments</u>	<u>\$ 85,824,706</u>	<u>\$</u>	<u>\$ 388,000</u>	<u>\$ 89,842,763</u>

\* In accordance with 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 statement of financial position.

### **Note 3 - 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>Fair Value</u>	<u>Redemption</u>	<u>Notice</u>
	<u>2018</u>	<u>2017</u>	<u>Frequency</u>	<u>Period</u>
Multi-strategy hedge funds	\$ 3,288,393	\$ 3,104,083	Mtly/Semi-An	91-95 days
Relative value fund	<u>96,030</u>	<u>525,974</u>	N/A	N/A
Total investments measured at NAV as a practical expedient	<u>\$ 3,384,423</u>	<u>\$ 3,630,057</u>		

The redemption frequency and notice period are not applicable for the relative value fund, as it is in liquidation. At June 30, 2018 and 2017, there were no unfunded commitments.

### **Note 4 - Endowment Funds**

The Foundation's endowments consist of approximately 540 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. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

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 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 as stipulated by the applicable donor gift instrument.

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 the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.

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

##### 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.

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

At June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Donor-restricted endowment funds	\$ (2,412,788)	\$ 23,371,521	\$ 70,677,854	\$ 91,636,587
Board designated endowment funds	<u>2,673,261</u>			<u>2,673,261</u>
<u>Total funds</u>	<u>\$ 260,473</u>	<u>\$ 23,371,521</u>	<u>\$ 70,677,854</u>	<u>\$ 94,309,848</u>

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

At June 30, 2017

	<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>
<b>Total funds</b>	<b>\$ 437,548</b>	<b>\$ 19,428,978</b>	<b>\$ 64,984,269</b>	<b>\$ 84,850,795</b>

Changes in endowment net assets are as follows:

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 437,548	\$ 19,428,978	\$ 64,984,269	\$ 84,850,795
Contributions	36,818	10,425	5,560,680	5,607,923
Transfers	3,289,627	(2,793,273)	132,905	629,259
Investment income	63,478	2,134,656		2,198,134
Management and consulting fees	(1,103,943)			(1,103,943)
Grant disbursements	(2,597,618)			(2,597,618)
Other income (expense)	(12,485)	(343,197)		(355,682)
Net appreciation	<u>147,048</u>	<u>4,933,932</u>	<u>                    </u>	<u>5,080,980</u>
Endowment net assets, <u>end of year</u>	<u>\$ 260,473</u>	<u>\$ 23,371,521</u>	<u>\$ 70,677,854</u>	<u>\$ 94,309,848</u>

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

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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	\$ 437,548	\$ 19,428,978	\$ 64,984,269	\$ 84,850,795

**Note 5 - Property and Equipment**

A description of property and equipment is as follows:

<u>At June 30</u>	<u>2018</u>	<u>2017</u>
Buildings	\$ 848,935	\$ 848,935
Land	24,300	24,300
Leasehold improvements	296,632	284,094
Office equipment	<u>158,782</u>	<u>112,703</u>
	1,328,649	1,270,032
Less, accumulated depreciation	<u>749,597</u>	<u>705,438</u>
<u>Property and equipment</u>	<u>\$ 579,052</u>	<u>\$ 564,594</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$44,269 and \$37,523, 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 \$257,696 and \$100,000 for the years ended June 30, 2018 and 2017, respectively. Assets held under trust agreements totaled \$2,960,295 and \$2,936,126 at June 30, 2018 and 2017, 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 designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments at June 30, 2018 and 2017, was \$1,669,308 and \$1,599,819, respectively. The liability is calculated using a discount rate of 5% to 10% and applicable mortality tables.

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

In accordance with U.S. GAAP, the Foundation has reclassified to liabilities in 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, 2018 and 2017, the Foundation was the owner of 74 agency endowment funds with a combined value of \$7,249,572 and \$6,399,016, respectively. The following table summarizes the activity in such funds during the years.

<u>Years Ended June 30</u>	<u>2018</u>	<u>2017</u>
Funds held as organizational endowments, beginning	\$ 6,399,016	\$ 5,658,401
Contributions	567,552	169,504
Investment income	171,488	130,789
Net realized and unrealized gains	389,963	695,517
Grants	(218,046)	(202,265)
Management and consulting fees	<u>(60,401)</u>	<u>(52,930)</u>
<u>Funds held as organizational endowments, ending</u>	<u>\$ 7,249,572</u>	<u>\$ 6,399,016</u>

## **Note 8 - Concentrations 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, 2018.

### **Note 8 - Concentrations of Credit Risk (continued)**

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, 2018 was \$9,728.

### **Note 9 - Pension Plan**

The Foundation participates in a 403(b) defined contribution retirement plan managed by Mutual of America. 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, 2018 and 2017, were \$27,362 and \$24,080, 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, 2017, 2016, and 2015, 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, 2018, the date on which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

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

Schedule of Grants

<u>Years Ended June 30</u>	<u>2018</u>	<u>2017</u>
Animal care	\$ 124,346	\$ 119,002
Arts and culture	211,953	136,505
Civic and community	237,166	204,805
Conservation	73,695	75,360
Education	229,919	169,793
Health	638,951	499,093
Human services	1,177,140	1,081,654
Religious programs	237,941	179,027
Scholarships	<u>436,434</u>	<u>422,515</u>
<u>Total</u>	<u>\$ 3,367,545</u>	<u>\$ 2,887,754</u>