COMMUNITY FOUNDATION OF THE NORTHERN SHENANDOAH VALLEY

Winchester, Virginia

FINANCIAL STATEMENTS

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Foundation of the Northern Shenandoah Valley
Winchester, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Foundation of the Northern Shenandoah Valley ("the Foundation"), which comprise the statement of financial position as of December 31, 2018, the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of the Northern Shenandoah Valley as of December 31, 2018, and the change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 18, 2019

COMMUNITY FOUNDATION OF THE NORTHERN SHENANDOAH VALLEY

Statement of Financial Position
December 31, 2018

Assets		
Cash and cash equivalents	$	146,364
Prepaid expenses		5,275
Fixed assets, net		1,379
Intangible asset, net		8,000
Investments, at fair value		4,798,521
Total assets	$	4,959,539
Liabilities		
Accounts payable and accrued liabilities	$	90
Funds held for others		91,736
Agency funds		1,145,757
Total liabilities	$	1,237,583
Net Assets		
Net assets without donor restrictions		
Donor advised endowment	$	1,531,494
Scholarship endowment		295,292
Designated endowment		1,617,741
Other endowment without donor restrictions		219,928
Other		57,501
Total net assets without donor restrictions	$	3,721,956
Total liabilities and net assets	$	4,959,539

See Notes to Financial Statements.

COMMUNITY FOUNDATION OF THE NORTHERN SHENANDOAH VALLEY

Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	$ 620,805	$ - -	$ 620,805
Special events, net of expenses of $9,545	(325)	- -	(325)
Investment return, net of fees of $18,766	(343,076)	- -	(343,076)
Net assets released from restriction	1,942	(1,942)	- -
Total revenue	$ 279,346	$ (1,942)	$ 277,404
Expenses			
Grants and distributions	$ 107,151	$ - -	$ 107,151
Contract services	27,836	- -	27,836
Amortization expense	4,000	- -	4,000
Depreciation expense	495	- -	495
Dues and subscriptions	1,780	- -	1,780
Fees and other	1,970	- -	1,970
Insurance	1,633	- -	1,633
Office expenses	9,375	- -	9,375
Professional fees	5,600	- -	5,600
Rent	2,731	- -	2,731
Total expenses	$ 162,571	$ - -	$ 162,571
Change in net assets	$ 116,775	$ (1,942)	$ 114,833
Net assets, beginning of year, previously stated	3,905,181	1,942	3,907,123
Prior period adjustment	(300,000)	- -	(300,000)
Net assets, beginning of year, as restated	$ 3,605,181	$ 1,942	$ 3,607,123
Net assets, end of year	$ 3,721,956	$ - -	$ 3,721,956

See Notes to Financial Statements.

COMMUNITY FOUNDATION OF THE NORTHERN SHENANDOAH VALLEY

Statements of Cash Flows
For the Year Ended December 31, 2018

Cash Flows from Operating Activities		
Change in net assets	$	114,833
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		4,495
Net realized and unrealized loss on investments		477,716
Changes in assets and liabilities:		
(Increase) in prepaid expenses		(4,525)
Increase in accounts payable, accrued liabilities and funds held for others		5,510
(Decrease) in deferred revenue		(2,025)
Increase in agency endowment funds		456,781
Net cash provided by operating activities	$	1,052,785
Cash Flows from Investing Activities		
Proceeds from sale of investments	$	923,545
Purchase of investments		(1,974,491)
Purchase of fixed assets		(1,242)
Net cash (used in) investing activities	$	(1,052,188)
Net change in cash and cash equivalents	$	597
Cash and Cash Equivalents		
Beginning		145,767
Ending	$	146,364

See Notes to Financial Statements.

Note 1. The Organization

The Community Foundation of the Northern Shenandoah Valley ("the Foundation") is a non-profit, non-stock corporation located in Winchester, Virginia. The Community Foundation of the Northern Shenandoah Valley was organized in 2001 and operates as a public foundation. The Organization enhances the quality of life in Winchester and the Northern Shenandoah Valley in Virginia by inspiring philanthropy and civic engagement, empowering donors and community partners and providing stewardship of community resources.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

The Foundation's cash is maintained at one bank which, at times, may exceed federally insured limits. The Foundation has not experienced any losses on its account and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Prepaid Expenses

Prepaid expenses include amounts paid in advance for office space rent and website redesign costs.

Fixed Asset

The Foundation records any fixed asset purchased at cost. Any fixed asset that is donated to the Foundation is stated at its fair market value at the time of donation. Depreciation is determined by the straight-line method. The estimated useful life for the Foundation's equipment is 3 years. Depreciation expense for the year ended December 31, 2018 was $495.

Intangible Asset

The Foundation's intangible asset relates to software implementation costs. Amortization is determined by the straight-line method. The estimated useful life for the Foundation's software is 3 years. Amortization expense for the year ended December 31, 2018 was $4,000.

Investments

Investments are measured at fair value in the statement of financial position. Investment return is included in the statement of activities, net of any fees.

Fair Value Measurement

Accounting standards 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Agency Funds

Agency funds are established for transactions in which a community foundation accepts a contribution from a charitable agency donor and agrees to transfer those assets, the return on investment of those assets or both back to the charitable agency donor.

The Foundation maintains variance power and legal ownership of agency funds and, as such, continues to report the funds as assets of the Foundation. Corresponding liability accounts have been established for these funds.

Net Assets

According to the Foundation’s governing documents, the Foundation has the right and power to vary the use of gifts from their original donor prescribed purpose. Based on this variance power, the Foundation classifies all net assets as net assets without donor restrictions, unless otherwise noted below.

The Foundation reports information regarding its financial position and activities according to the "net asset" concept. Net assets are segregated among two categories: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions consists of net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation’s management and Board of Directors. Net assets with donor restrictions consist of net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation, the passage of time, or maintained in perpetuity.

Net assets released from restriction during 2018 related to software expenses ($1,417) and the Community Stars event ($525).

Income Taxes

Income taxes are not provided for in the financial statements since the Foundation is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Foundation is not classified as a private foundation.

Advertising

The Foundation follows the policy of charging the costs of advertising to expense as incurred. The Organization did not incur any advertising costs during the year ending December 31, 2018.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Allocation Methodology for the Schedule of Functional Expenses

The costs of providing program and other activities are summarized on a functional basis in the schedule of functional expenses. Certain costs have been allocated among program, management and general and fundraising. Such allocations have been made by management on an equitable basis. These expenses that are allocated include the following:

Expense	Method of Allocation
Grants and distributions	Direct Allocation
Contract services	Time and Effort
Amortization expense	Direct Allocation
Depreciation expense	Direct Allocation
Dues and subscriptions	Direct Allocation
Fees and other	Direct Allocation
Insurance	Direct Allocation
Office expenses	Direct Allocation
Professional fees	Direct Allocation
Rent	Direct Allocation

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The Foundation adopted the provisions of this new standard in the current year. In addition to changes in terminology used to describe categories of net assets throughout the financials, new disclosures were added regarding liquidity and availability of resources (Note 3), the allocation methodology for the schedule of functional expenses (Note 2) and the schedule of functional expenses (Note 7). Adoption of this standard had no effect on the change in net assets or in total.

Note 3. Liquidity and Availability

The Foundation has the following financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure:

Financial assets, at year-end:	
Cash and cash equivalents	$ 146,364
Investments, at fair market value	4,798,521
Total financial assets	$ 4,944,885
Less those unavailable for general expenditure within one year, due to:	
Agency funds	$ 1,145,757
Donor advised endowment	1,531,494
Scholarship endowment	295,292
Designated endowment	1,617,741
Other endowment without donor restrictions	219,928
Funds held for others	91,736
Financial assets not available to be used within one year	$ 4,901,948
Financial assets available to meet cash needs for general expenditures within one year	$ 42,937

In the case of unexpected cash needs, the Foundation has a line of credit in the amount of $30,000.

Note 4. Investments

Investments as of December 31, 2018 are as follows:

Summary by Type of Investment	Cost	Fair Market Value	Unrealized (Depreciation)
Cash and cash equivalents	$ 128,937	$ 128,937	$ - -
Mutual funds	4,709,777	4,507,018	(202,759)
Exchange traded funds	167,423	162,566	(4,857)
	$ 5,006,137	$ 4,798,521	$ (207,616)

Investment return, net consisted of the following for the year end December 31, 2018:

Interest and dividends	$ 153,406
Realized gain	34,768
Unrealized loss	(512,484)
Investment fees	(18,766)
	$ (343,076)

Note 5. Fair Value Measurements

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2018:

Summary by Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 128,937	$ --	$ --	$ 128,937
Mutual funds	4,507,018	--	--	4,507,018
Exchange traded funds	162,566	--	--	162,566
	$ 4,798,521	$ --	$ --	$ 4,798,521

Note 6. Commitments and Contingencies and Related Party Transaction

The Foundation entered into a five-year office space lease on July 1, 2017. This lease was amended in 2018 to include rent payable in equal monthly installments of $229 and a period of three years. Total rent expense for the year ended December 31, 2018 was $2,731. Maturities under the lease are as follows:

December 31,	
2019	$ 2,833
2020	1,431
	$ 4,264

A board member of the Foundation owns the company that leases the office space to the Foundation.

Note 7. Schedule of Functional Expenses

The schedule of functional expenses as of December 31, 2018 is as follows:

	Program	Management and General	Fundraising	Total
Grants and distributions	$ 107,151	$ - -	$ - -	$ 107,151
Contract services	- -	25,052	2,784	27,836
Amortization expense	- -	4,000	- -	4,000
Depreciation expense	- -	495	- -	495
Dues and subscriptions	1,780	- -	- -	1,780
Fees and other	- -	1,970	- -	1,970
Insurance	- -	1,633	- -	1,633
Office expenses	4,688	4,687	- -	9,375
Professional fees	- -	5,600	- -	5,600
Rent	- -	2,731	- -	2,731
	$ 113,619	$ 46,168	$ 2,784	$ 162,571

Note 8. Line of Credit

The Foundation has a $30,000 unsecured revolving line of credit with First Bank. The line of credit matures on April 24, 2019. The interest rate fluctuates based on changes in the prime rate. The interest rate on this line of credit can be no less than 4.5% per annum or more than the maximum rate allowed by applicable law. The line of credit had a zero balance as of December 31, 2018.

Note 9. Funds Held as Agency Funds

The following table summarizes activity in agency funds for the year ended December 31, 2018:

Agency fund balance, beginning of the year	$ 388,976
Amounts raised	560,490
Investment return, net of fees	(95,116)
Expenses	(8,593)
Prior period adjustment	300,000
Agency fund balance, end of the year	$ 1,145,757

Note 10. Contributed Services

Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are providing by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation did not receive any contributions of services during 2018.

Note 11. Administrative Income

The Foundation's policy is to assess each component fund a total annual fee up to 2 percent. The fee is calculated and assessed monthly based on current fair market value. Such amounts are transferred to a discretionary fund without donor restrictions to offset administrative costs.

Note 12. Prior Period Adjustment

The Foundation recorded a prior period adjustment to properly classify agency fund revenue as a liability instead of contributions. The effect on the change in net assets is a decrease of $300,000.

Note 13. Subsequent Events

The Foundation has evaluated all subsequent events through April 18, 2019, the date the financial statements were available to be issued. The Foundation has determined there are no subsequent events that require recognition or disclosure.

Note 14. Upcoming Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Foundation in calendar year 2020. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. Specifically, the update assists entities in determining whether a transaction should be accounted for as a contribution or an exchange transaction. If a transaction is accounted for as an exchange transaction, other accounting guidance, for example, in Topic 606, Revenue from Contracts with Customers, should be followed. If, however, a transaction is accounted for as a contribution, guidance in Subtopic 958-605 should be followed. Additionally, the update assists entities in determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received by the Foundation in calendar year 2019. ASU 2018-08 is effective for contributions made, if applicable, by the Foundation in calendar year 2020. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of Topic 958 will have on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative transition method. In August 2015, the FASB issued No. 2015-14 which defers the effective date of ASU No. 2014-09 one year making it effective for the Foundation in calendar year 2019. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.