

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

Fredericksburg, Virginia

FINANCIAL STATEMENTS

June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
Community Foundation of the Rappahannock River Region, Inc.
Fredericksburg, Virginia

Opinion

We have audited the accompanying financial statements of the Community Foundation of the Rappahannock River Region, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of the Rappahannock River Region, Inc. as of June 30, 2022, and the changes 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Community Foundation of the Rappahannock River Region, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Community Foundation of the Rappahannock River Region, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Community Foundation of the Rappahannock River Region, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Community Foundation of the Rappahannock River Region, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Community Foundation of the Rappahannock River Region, Inc.'s June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schulen, Patchett & Edwards P.C.

November 11, 2022
Warrenton, Virginia

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 435,111	\$ 374,452
Investments	45,131,306	45,850,876
Unconditional promises to give	18,227	21,137
Office furniture and equipment, net	<u>3,743</u>	<u>10,849</u>
Total Assets	\$ <u>45,588,387</u>	\$ <u>46,257,314</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 958	\$ 236
Agency funds	1,056,367	1,239,272
Payroll liabilities	108	108
Grants payable	62,500	107,000
Note payable, SBA	<u>-</u>	<u>72,725</u>
Total Liabilities	<u>1,119,933</u>	<u>1,419,341</u>

NET ASSETS

Without donor restrictions	44,336,002	44,742,311
With donor restrictions	<u>132,452</u>	<u>95,662</u>
Total Net Assets	<u>44,468,454</u>	<u>44,837,973</u>

Total Liabilities and Net Assets	\$ <u>45,588,387</u>	\$ <u>46,257,314</u>
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See Notes to Financial Statements

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

(with comparative totals for the year ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2022	2021
Revenues, Gains and Losses:				
Contributions	\$ 8,747,600	\$ 45,865	\$ 8,793,465	\$ 15,917,249
Special events	17,678	-	17,678	-
Employee retention tax credit	31,416	-	31,416	-
Paycheck Protection Program loan forgiveness	72,725	-	72,725	69,100
	<u>8,869,419</u>	<u>45,865</u>	<u>8,915,284</u>	<u>15,986,349</u>
Investment Income:				
Interest and dividends	1,586,799	-	1,586,799	797,718
Net unrealized gains (losses)	(9,678,888)	-	(9,678,888)	5,701,656
Net realized gains (losses)	1,651,288	-	1,651,288	1,493,095
Total investment income	<u>(6,440,801)</u>	<u>-</u>	<u>(6,440,801)</u>	<u>7,992,469</u>
Total revenues, gains and losses	2,428,618	45,865	2,474,483	23,978,818
 Net assets released from restrictions	 <u>9,075</u>	 <u>(9,075)</u>	 <u>-</u>	 <u>-</u>
Total revenues, gains, losses and reclassifications	<u>2,437,693</u>	<u>36,790</u>	<u>2,474,483</u>	<u>23,978,818</u>
Grants and Other Expenses:				
Grants and scholarships	2,184,747	-	2,184,747	1,799,999
Other program services	368,261	-	368,261	334,276
General and administrative	207,188	-	207,188	178,510
Fund-raising	83,806	-	83,806	66,510
	<u>2,844,002</u>	<u>-</u>	<u>2,844,002</u>	<u>2,379,295</u>
Total grants and other expenses	2,844,002	-	2,844,002	2,379,295
Change in net assets	(406,309)	36,790	(369,519)	21,599,523
Net assets, beginning of year	<u>44,742,311</u>	<u>95,662</u>	<u>44,837,973</u>	<u>23,238,450</u>
Net assets, end of year	<u>\$ 44,336,002</u>	<u>\$ 132,452</u>	<u>\$ 44,468,454</u>	<u>\$ 44,837,973</u>

See Notes to Financial Statements

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

(with comparative totals for the year ended June 30, 2021)

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising & Development</u>	<u>Totals 2022</u>	<u>Totals 2021</u>
Grants awarded	\$ 2,184,747	\$ -	\$ -	\$ 2,184,747	\$ 1,799,999
Annual report	1,761	-	-	1,761	3,900
Bank and credit card fees	-	3,611	-	3,611	4,428
Board expenses	816	1,400	117	2,333	403
Community Leadership Programs	256	-	-	256	23,730
Computer expenses	2,331	4,661	2,331	9,323	6,115
Depreciation	1,224	5,710	1,224	8,158	5,884
Donor appreciation	-	-	45	45	-
Donor development	-	-	3,334	3,334	2,617
Dues and subscriptions	1,850	2,220	1,216	5,286	4,034
Information technology	7,580	15,159	7,580	30,319	28,771
Insurance	-	3,691	-	3,691	1,146
Marketing	1,641	-	11,885	13,526	7,848
Newsletters	1,295	-	555	1,850	3,851
Occupancy	2,269	10,587	2,269	15,125	14,684
Office supplies and expenses	2,962	2,048	1,965	6,975	4,658
Payroll processing	-	1,716	-	1,716	1,734
Payroll, taxes, and benefits	304,650	129,120	34,099	467,869	410,249
Printing and copying	7,274	1,039	2,078	10,391	7,054
Postage and mailings	3,131	482	1,205	4,818	3,839
Professional development	5,944	-	-	5,944	-
Professional fees	14,598	19,800	-	34,398	24,512
Scholarship program	5,519	-	-	5,519	1,402
Special events	-	-	13,394	13,394	9,417
Taxes - other	-	1,564	-	1,564	-
Telephone and internet	2,011	1,005	435	3,451	4,775
Training	-	2,497	-	2,497	-
Website management	512	878	74	1,464	4,245
Youth in Philanthropy	637	-	-	637	-
Total expenses	\$ 2,553,008	\$ 207,188	\$ 83,806	\$ 2,844,002	\$ 2,379,295

See Notes to Financial Statements

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (369,519)	\$ 21,599,523
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated value of non-cash donations received	(2,221,972)	(13,714,449)
Discount on promises to give	(85)	341
Permanent restricted contribution received	(200)	(3,660)
Write-off of promise to give	2,225	3,650
Depreciation	8,158	5,884
Net realized (gains) losses on investments	(1,651,288)	(1,493,095)
Net unrealized (gains) losses on investments	9,678,888	(5,701,656)
Forgiveness of Paycheck Protection Program loan	(72,725)	(69,100)
Decrease (Increase) in Operating Assets:		
Unconditional promises to give	2,825	3,450
Increase (Decrease) in Operating Liabilities:		
Grants payable	(44,500)	9,666
Accounts payable	722	(209)
Agency funds	(182,905)	337,372
Payroll liabilities	-	(240)
	<u>5,149,624</u>	<u>977,477</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(1,052)	(2,123)
Purchases of investments, advisory fees	(20,705,519)	(26,020,442)
Proceeds from sales of investments	15,617,406	24,876,040
	<u>(5,089,165)</u>	<u>(1,146,525)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	72,725
Contribution permanently restricted for long-term purpose	200	3,660
	<u>200</u>	<u>76,385</u>
Net Cash Provided by (Used in) Financing Activities	<u>200</u>	<u>76,385</u>
Increase (Decrease) in Cash	60,659	(92,663)
CASH, beginning of year	<u>374,452</u>	<u>467,115</u>
CASH, end of year	\$ <u><u>435,111</u></u>	\$ <u><u>374,452</u></u>

See Notes to Financial Statements

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Incorporated under the laws of Virginia in 1997, the Community Foundation of the Rappahannock River Region, Inc. (the Foundation) is a philanthropic organization established to create a collection of charitable funds to improve the quality of life in Fredericksburg and the surrounding Rappahannock River region. By attracting contributions and distributing funds, the Foundation matches the charitable intentions of donors with the community's social, cultural, and educational needs.

The Foundation is a non-profit Corporation organized under the laws of the Commonwealth of Virginia. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes on exempt income included in the accompanying financial statements. However, if there is an income tax provision due to unrelated business income, it is included in program expenses. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Significant Accounting Policies

Basis of Accounting

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

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor or time restrictions.

Agency Obligations

The Foundation accepts assets from unaffiliated nonprofit organizations that name themselves or their affiliates as the beneficiaries of the funds created. In accordance with generally accepted accounting principles, a liability has been established for the fair value of the funds and no contribution revenue was recognized for the period in which the agency funds are received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the statement of activities. Investment income, gains, and losses are reported as increases or decreases in net assets without donor restrictions or net assets with donor restrictions based upon donor or time restrictions. Donated investments are recorded at their fair value on the date of the contribution.

Support and Revenue Recognition

The Foundation reports most contributions received as net assets without donor restrictions because the bylaws and fund agreements of the Foundation include a Variance Provision giving the Board of Governors the power to vary the use of funds. While the Foundation attempts to meet the desires of the donors or advisors, the Foundation reserves the right to modify any recommended distributions from funds if, in the sole judgment of the Foundation's Board, such distributions become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or if a distribution requested by a donor would result in use of funds contrary to the intent originally understood. Based on the Variance Provision, almost all contributions received by the Foundation are reported as net assets without donor restrictions, except for assets related to unconditional promises to give (pledges), charitable remainder trusts, and receivables from estates, which are classified as net assets with donor restrictions due to the time restrictions on the assets. Occasionally, a contribution is received with a donor restriction for a particular program activity.

Charitable remainder trusts and receivables from estates are reported as net assets with donor restrictions until collected. When a time restriction or purpose restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received.

Cash and Cash Equivalents

The Foundation considers cash in demand deposits, money market accounts and other highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents, except for those short-term investments managed as part of long-term investment strategies. Thus, cash in operating accounts is included in the statement of financial position as cash and other cash and equivalents are included in investments. The balances in these accounts at times may exceed federally insured limits. However, the Foundation maintains their cash in high quality financial institutions in the United States.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture and Equipment and Depreciation

The Foundation capitalized all acquisitions of property and equipment in excess of \$2,500. Equipment and software are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method over a period of 3 to 7 years. Depreciation expense was \$8,158 and \$5,884 for 2022 and 2021, respectively.

Promises to Give (Pledges)

Unconditional promises to give are recognized as receivables in the period in which the Foundation receives a commitment to make a contribution. Promises to give that are due in subsequent years are reported as net assets with donor restrictions.

Contributed Services

Many individuals volunteer their time by assisting with committee assignments and campaign solicitations, but these services do not meet the criteria for recognition as contributed services.

Grants Payable

Grants are recorded as expenses in the year they are approved by the Board when the probability of not meeting any conditions is remote.

Functional Allocation of Expenses

The costs of providing support to local charities and non-profits have been summarized on a functional basis in the statement of functional expenses. Management allocates costs directly when possible. Certain other costs have been allocated among the program services and supporting services on the basis of the activity benefited based on management's estimate of time and effort.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2021, from which the summarized information was derived.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - The asset or liability fair values are based on inputs to the valuation methodology which are unadjusted quoted prices for identical assets or liabilities in active markets such as the NYSE.

Level 2 - The asset or liability fair values are based on observable inputs to the valuation methodology that include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; other inputs that are observable and can be corroborated by observable market data for substantially the full term of the asset or liability by correlation or other means.

Level 3 - The asset or liability fair values are based on other valuation methodologies including pricing models, discounted cash flows models, or similar techniques rather than observable market exchange, broker, or dealer transactions. Thus, these values may require assumptions and estimates.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Equity securities and mutual funds: Valued at closing prices reported on the active market on which the individual securities are traded.

Government bonds, corporate bonds, and bond index funds: Valued at quoted market prices of similar investments in active markets or quoted prices for identical or similar instruments in inactive markets.

REITs: Valued at the net asset value of shares held at year-end as shown on broker statements.

Interests in Trusts: Valued using the present value of discounted cash flows as described in the note on trusts.

Promises to Give (Pledges): Valued using management's estimates of amounts to be collected discounted to present value.

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.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment cash and money market accounts	\$ 1,422,817	\$	\$	\$ 1,422,817
Marketable equity securities:				
Basic materials	678,335			678,335
Communication services	906,360			906,360
Consumer cyclical	1,625,098			1,625,098
Consumer defensive	849,955			849,955
Consumer Staples	11,430			11,430
Energy	896,251			896,251
Financial services	2,885,515			2,885,515
Healthcare	2,230,780			2,230,780
Industrials	2,015,297			2,015,297
Real estate	303,357			303,357
Technology	2,398,184			2,398,184
Utilities	576,207			576,207
Marketable mutual funds:				
Domestic real estate	825,461			825,461
Emerging markets	200,142			200,142
Energy	607,567			607,567
International large & small cap	3,942,720			3,942,720
Global real estate	332,992			332,992
Large cap growth & value	5,652,544			5,652,544
Mid cap	846,301			846,301
Natural resources	697,267			697,267
Small cap growth & value	2,388,354			2,388,354
Treasury inflation protected	713,458			713,458
Marketable bond funds	4,666,962			4,666,962
Alternative investments	259,791			259,791
Real estate investment trusts	288,735			288,735
Exchange Traded Funds				
Corporate bond	889,922			889,922
Government bond	45,835			45,835
International small cap	462,234			462,234
Premium income	86,169			86,169
Large cap value	949,837			949,837
Small cap value	693,522			693,522
Marketable debt securities:				
US Treasury		164,323		164,323
Corporate bonds		3,617,584		3,617,584
Promises to give (pledges)			18,227	18,227
Totals	<u>\$ 41,349,399</u>	<u>\$ 3,781,907</u>	<u>\$ 18,227</u>	<u>\$ 45,149,533</u>

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment cash and money market accounts	\$ 1,717,562	\$	\$	\$ 1,717,562
Marketable equity securities:				
Basic materials	845,676			845,676
Communication services	1,238,232			1,238,232
Consumer cyclical	2,001,976			2,001,976
Consumer defensive	1,006,313			1,006,313
Consumer Staples	22,248			22,248
Consumer discretionary	47,111			47,111
Energy	1,112,468			1,112,468
Financial services	2,534,301			2,534,301
Healthcare	1,831,274			1,831,274
Industrials	2,561,864			2,561,864
Information technology	721,763			721,763
Real estate	164,323			164,323
Technology	2,808,331			2,808,331
Utilities	398,234			398,234
Marketable mutual funds:				
Domestic mutual funds	6,232,200			6,232,200
Domestic real estate	818,072			818,072
International large & small cap	3,819,374			3,819,374
Global real estate	336,439			336,439
Large cap growth & value	5,338,422			5,338,422
Natural resources	639,340			639,340
Small cap growth & value	2,564,285			2,564,285
Treasury inflation protected	606,164			606,164
Marketable bond funds	1,214,731			1,214,731
Real estate investment trusts	405,400			405,400
Exchange Traded Funds	422,387			422,387
Marketable debt securities:				
Corporate bonds		4,442,386		4,442,386
Promises to give (pledges)			21,137	21,137
Totals	<u>\$ 41,408,490</u>	<u>\$ 4,442,386</u>	<u>\$ 21,137</u>	<u>\$ 45,872,013</u>

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Level 3 Asset Changes:

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 21,137	\$ 48,223
Pledge discounts	(85)	341
New promises to give	13,000	9,000
Collections of promises to give	(13,600)	(32,777)
Write-off of promises to give	(2,225)	(3,650)
Balance, end of year	<u>\$ 18,227</u>	<u>\$ 21,137</u>

Investment management fees for the years ended June 30, 2022 and 2021 were \$266,764 and \$185,060, respectively, which are deducted from realized gains and losses on the statements of activities. Investment management fees include foreign taxes paid of \$15,080 and \$10,022 for the years ended June 30, 2022 and 2021, respectively.

Note 3. PROMISES TO GIVE (PLEDGES)

The Foundation has received unconditional promises to give at June 30, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 14,316	\$ 11,650
Due in one to five years	4,147	9,637
	<u>18,463</u>	<u>21,287</u>
Less discount to present value	236	150
Total	<u>\$ 18,227</u>	<u>\$ 21,137</u>

The effective rate for pledge discounts is 4% for the years ended June 30, 2022 and 2021. At June 30, 2022 and 2021, all promises to give were considered fully collectible by the Foundation; therefore, no provision for uncollectible pledges has been made.

Note 4. FURNITURE AND EQUIPMENT

The following is a summary of furniture and equipment as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 45,079	\$ 44,027
Software	14,548	14,548
Website costs	27,500	27,500
	<u>87,127</u>	<u>86,075</u>
Less accumulated depreciation	83,384	75,226
Total	<u>\$ 3,743</u>	<u>\$ 10,849</u>

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. NOTE PAYABLE – PAYCHECK PROTECTION PROGRAM

In April 2020, the Foundation borrowed \$69,100 from a bank under the Small Business Administration's Paycheck Protection Program. The program was established in response to the pandemic declared in March 2020 and is designed to assist small businesses and non-profits with payroll, rent, and utilities during the uncertain times expected as a result of the pandemic. Under the Paycheck Protection Program, a borrower may have the loan forgiven if the proceeds are used as prescribed by the terms of the program. The Foundation used the entire loan for eligible expenses and the loan was forgiven in July 2021 and reported in the statement of activities under revenue without donor restrictions.

In April 2021, the Foundation received a second Paycheck Protection Program loan in the amount of \$72,725. As with the first Paycheck Protection Program loan, a borrower may have the loan forgiven if the proceeds are used as prescribed by the terms of the program. The Foundation used the entire loan for eligible expenses and the loan was forgiven in November 2021 and is reported in the statement of activities under revenue without donor restrictions.

Note 6. NET ASSETS WITH DONOR RESTRICTIONS

For the year ended June 30, 2022, there were net assets with temporary donor restrictions resulting from the implied time restriction related to unconditional promises to give (pledges) of \$18,227, for a software consultant of \$7,500, and for fall event sponsorships of \$32,000, totaling \$57,727. For the year ended June 30, 2021, there were net assets with temporary donor restrictions resulting from the implied time restriction related to unconditional promises to give (pledges) of \$21,137.

Net assets with permanent donor restrictions of \$74,725 and \$74,525 as of June 30, 2022 and 2021, respectively, represent the historic gift amounts of three funds accepted with the donors' stipulation that the principal be held in perpetuity. The income from these net assets is expendable.

Net assets released from donor restrictions as a result of the expiration of time restrictions in the amounts of \$9,075 and \$33,426 for the years ended June 30, 2022 and 2021, respectively.

Note 7. CONCENTRATION OF CONTRIBUTIONS

During 2022, approximately 75 percent of contributions received were provided by three donors. During 2021, the Foundation received a major donation from one donor totaling \$13.5 million.

Note 8. CONCENTRATION OF CREDIT AND MARKET RISK

As of June 30, 2022, the Foundation had cash in the amount of \$347,945 that exceeded the FDIC insured limitation. The Foundation has not experienced any losses in such accounts and believes that it is not subject to any significant credit risk as a result of this excess. The Foundation does not require collateral or other security to support its credit risk.

The Foundation has significant investments in equity and debt securities and is, therefore, subject to concentrations of market risk. The Foundation's investments are managed by investment advisors who are overseen by the Board of Governors. Though the market value of investments is subject to fluctuations, the Board believes that the Foundation's investment portfolio is adequately diversified among issuers, industries, and geographic regions to be prudent for the long-term welfare of the Foundation.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. RETIREMENT PLAN

The Foundation offers a SIMPLE IRA plan for employees. The Foundation's contributions to the plan during 2022 and 2021 were \$11,111 and \$9,668, respectively.

Note 10. CASH FLOW INFORMATION

The Foundation presents its cash flows using the indirect method. Non-cash financing activities for the year ended June 30, 2022 and 2021 consists of the forgiveness of the Small Business Administration's Paycheck Protection Program loan in the amounts of \$72,725 and \$69,100, respectively.

Non-cash investing activities for the years ended June 30, 2021 consisted of a pledge payment with securities in the amounts of \$20,326.

Note 11. OPERATING LEASE COMMITMENT

The Foundation has a one year operating lease for its office space. The lease automatically renews annually and includes an annual 3% rent increase. Rent expense for the years ending June 30, 2022 and 2021 was \$15,125 and \$14,684, respectively.

Note 12. INCOME TAX STATUS AND UNCERTAINTY IN INCOME TAX POSITIONS

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Foundation adopted the provisions of accounting standards regarding uncertainty in income tax positions, however, management does not believe it is exposed to any such positions as they are defined in the accounting standards. The Foundation files IRS Form 990, *Return of Organization Exempt From Income Tax* annually and IRS Form 990-T, *Exempt Organization Business Income Tax Return*, when necessary. Such tax returns for 2019, 2020, and 2021 remain open to potential examination by the IRS. There were no penalty and interest charges in the year ended June 30, 2022.

Note 13. ENDOWED NET ASSETS

Endowment is a commonly used term to refer to resources that have been restricted by the donor or designated by the Board (quasi-endowment) that will be invested to provide future revenue to support the Foundation's activities.

The Foundation's endowment consists of donor advised, scholarship, field of interest, designated, and unrestricted funds established for a variety of purposes. The endowment does not include organizational (agency) funds or pass through funds (non-endowed funds), which, under the terms of the fund agreement can have part or all of the fund's principal distributed. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 13. ENDOWED NET ASSETS (continued)

In accordance with Uniform Prudent Management of Institutional Funds Acts as adopted by the Commonwealth of Virginia (UPMIFA-VA), the Foundation considers the following in making a determination to appropriate or accumulate board-designated endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Foundation and the 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.

The endowment net assets include net assets without donor restrictions and with donor restrictions. Given the variance power included in fund agreements, all but three of the funds are considered to be without donor restrictions. Changes in the endowment funds during the fiscal years ended June 30, 2022 and 2021 were as follows:

	2022	2021
Endowment net assets, beginning	\$ 32,823,304	\$ 14,370,348
Investment return:		
Interest and dividend income	1,096,083	540,899
Net appreciation (depreciation) in fair value of investments	(6,412,763)	3,871,662
Realized gains (losses)	872,616	977,631
Total investment return	(4,444,064)	5,390,192
Contributions	1,827,714	13,816,889
Appropriation of endowment assets for expenditure	(1,323,155)	(754,125)
Endowment net assets, ending	\$ 28,883,799	\$ 32,823,304

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets.

Endowment assets include board-designated funds. Under this policy, as approved by the Investment Committee, the endowment assets are invested in a manner that is intended to have growth of funds and ensure preservation of capital. Investments are sufficiently liquid to enable the Foundation to meet all reasonable anticipated operating requirements, and return objectives are set based on a standard market rate of return, taking into account the cash flow characteristics of the investments.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 13. ENDOWED NET ASSETS (continued)

Investment Objectives: The primary long-term objective of the Foundation is to accrue investment returns that exceed the annualized rate of inflation by approximately 5% over the long-term. The Foundation seeks long-term principal growth while preserving capital by means of minimizing the risk of substantial loss in asset value through investment in a diversified portfolio of quality investment securities. The primary investment goals are:

- Growth of the funds
- Preservation of principal
- Current distribution of 4%

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation's current spending policy regarding endowment income is based on a recommendation from the Foundation's Investment Committee to the Board and is revisited on an annual basis. The Investment Committee will examine the endowment funds' earnings and establish an earnings spending plan for the upcoming fiscal year based on anticipated investment earnings. Spending may be taken from current income or, if current income is less than planned spending, from prior periods' retained earnings. The target annual distribution rate, not including administrative fees, is currently estimated at 4% of the twelve quarter moving average market value of each fund. Distributions for Foundation administrative fees is approximately 1% annually depending on the fund type in accordance with the Foundation's fee policy. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Note 14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation's financial assets as of June 30, 2022 available for general expenditures that include management expenses, fundraising expenses, and some program expenses are:

Cash and cash equivalents	\$ <u>375,845</u>
Total financial assets and liquidity resources available within one year	\$ <u>375,845</u>

In addition to these funds available for general expenditures, the Foundation charges an administrative fee to all funds based on the funds' average rolling quarterly balance to cover general expenditures. Estimated administrative fees available for general expenditures for the 2022 – 2023 fiscal year are \$422,600. The Foundation also has an operating endowment fund, which will provide approximately \$13,200 of distributions available for general expenditures for the 2022 – 2023 fiscal year.

As part of the Foundation's liquidity management, cash in excess of the daily requirements is maintained in a money market account.

COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 15. EMPLOYEE RETENTION CREDIT

The Foundation qualified for employee retention credits totaling \$31,416. These credits were received by the Foundation and included on the statement of activities under revenue without restrictions.

Laws and regulations concerning government programs, including the Employee Retention Credit (ERC) established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Institute's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Foundation.

Note 16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 11, 2022, which was the date the financial statements were available to be issued.