

**Community Foundations of  
the Hudson Valley**

Financial Statements

June 30, 2016

## Independent Auditors' Report

### Board of Trustees Community Foundations of the Hudson Valley

We have audited the accompanying financial statements of the Community Foundations of the Hudson Valley (the "Foundations"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses 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.

### Auditors' 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 of 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundations of the Hudson Valley as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*PKF O'Connor Davies, LLP*

Newburgh, New York  
November 4, 2016

## Community Foundations of the Hudson Valley

### Statement of Financial Position June 30, 2016

#### ASSETS

Cash and cash equivalents	\$ 1,036,899
Investments	51,492,526
Accounts and contributions receivable	176,268
Pledges receivable	221,348
Prepaid expenses	38,467
Beneficial interest - charitable remainder uni-trust	246,592
Beneficial interest - life insurance policies	439,411
Property and equipment, net	<u>20,019</u>
	<u>\$ 53,671,530</u>

#### LIABILITIES AND NET ASSETS

Liabilities	
Agency funds	\$ 7,335,594
Grants payable	594,869
Accounts payable and other liabilities	12,707
Deferred revenue	<u>62,744</u>
Total Liabilities	<u>8,005,914</u>

#### Net Assets

Unrestricted	
Donor advised	\$ 15,073,586
Donor designated	9,973,386
Field of interest	8,715,608
Board designated	5,667,339
Scholarship	4,931,947
Project	589,925
Pass through	<u>27,822</u>
Total Unrestricted	44,979,613
Temporarily restricted	<u>686,003</u>
Total Net Assets	<u>45,665,616</u>
	<u>\$ 53,671,530</u>

See notes to financial statements

**Community Foundations of the Hudson Valley**

Statement of Activities  
Year Ended June 30, 2016

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 3,393,593	\$ 60,145	3,453,738
Management fees	61,302	-	61,302
Grants	80,652	-	80,652
Special events	135,412	-	135,412
Investment return	(329,796)	-	(329,796)
Net Assets Released from Restriction	<u>60,145</u>	<u>(60,145)</u>	<u>-</u>
Total Revenue and Support	3,401,308	-	3,401,308
<b>EXPENSES</b>			
Program services	2,786,315	-	2,786,315
Special events	150,732	-	150,732
Management and general	195,592	-	195,592
Fundraising	<u>173,130</u>	<u>-</u>	<u>173,130</u>
Total Expenses	<u>3,305,769</u>	<u>-</u>	<u>3,305,769</u>
Excess of Revenue and Support Over Expenses	95,539	-	95,539
Change in value of beneficial interest - charitable remainder uni-trust	-	(9,408)	(9,408)
Change in value of beneficial interest - life insurance policies	<u>-</u>	<u>6,468</u>	<u>6,468</u>
Change in Net Assets	95,539	(2,940)	92,599
<b>NET ASSETS</b>			
Beginning of year	<u>44,884,074</u>	<u>688,943</u>	<u>45,573,017</u>
End of year	<u>\$ 44,979,613</u>	<u>\$ 686,003</u>	<u>\$ 45,665,616</u>

**Community Foundations of the Hudson Valley**

Statement of Functional Expenses  
Year Ended June 30, 2016

	<u>Program Services</u>	<u>Special Events</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants and program expense	\$ 2,244,042	\$ -	\$ -	\$ -	\$ 2,244,042
Salaries	372,728	-	49,697	74,545	496,970
Payroll taxes	31,325	-	4,177	6,264	41,766
Special events expense	-	150,732	-	-	150,732
Public relations	-	-	42,993	29,876	72,869
Occupancy	45,237	-	6,032	9,047	60,316
Office expense	54,104	-	7,213	10,821	72,138
Employee benefits	32,518	-	4,336	6,503	43,357
Professional fees	-	-	51,802	34,802	86,604
Dues and conferences	-	-	22,897	-	22,897
Depreciation	6,361	-	848	1,272	8,481
Insurance	-	-	3,659	-	3,659
Other	-	-	1,938	-	1,938
	<u>\$ 2,786,315</u>	<u>\$ 150,732</u>	<u>\$ 195,592</u>	<u>\$ 173,130</u>	<u>\$ 3,305,769</u>

See notes to financial statements

## Community Foundations of the Hudson Valley

### Statement of Cash Flows Year ended June 30, 2016

#### **CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 92,599
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	6,988
Loss on disposal of property and equipment	1,493
Realized and unrealized losses on investments	2,044,075
Change in fair value of beneficial interest - charitable remainder uni-trust	9,408
Change in fair value of beneficial interest - life insurance policies	(6,468)
Change in operating assets and liabilities	
Accounts and contributions receivable	360,957
Pledges receivable	21,347
Prepaid expenses	(15,543)
Agency funds	(210,140)
Grants payable	(515,425)
Accounts payable and other liabilities	9,798
Deferred revenue	(449,646)
Net Cash from Operating Activities	<u>1,349,443</u>

#### **CASH FLOWS FROM INVESTING ACTIVITIES**

Acquisition of property and equipment	(15,290)
Purchases of investments	(7,512,212)
Proceeds from sale of investments	<u>6,315,219</u>
Net Cash from Investing Activities	<u>(1,212,283)</u>
Net Change in Cash and Cash Equivalents	137,160

#### **CASH AND CASH EQUIVALENTS**

Beginning of year	<u>899,739</u>
End of year	<u>\$ 1,036,899</u>

See notes to financial statements

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 1. Organization and Taxation

Community Foundations of the Hudson Valley, (the "Foundations"), formerly the Area Fund, was established in 1969 as a Community Foundation in Dutchess County, New York, to administer and invest charitable funds and to assist in matching community resources with community needs. Community Foundations of the Hudson Valley secured a d/b/a and on July 1, 1997, officially began using Community Foundation of Dutchess County as its business name. During 2005, Community Foundations of the Hudson Valley increased its donor services into Ulster County by securing the d/b/a Ulster County Community Foundation, and during 2008, Community Foundations of the Hudson Valley increased its donor services into Putnam County securing the d/b/a Community Foundation of Putnam County. The legal name of the Community Foundations changed in 2010 from The Area Fund to Community Foundations of the Hudson Valley.

The Foundations has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3). Accordingly no provision for federal and state income taxes has been recognized in the accompanying financial statements. The Foundations has been classified as an organization that is not a private foundation under Section 509(a) and has been designated as a publicly supported organization under Section 170(b)(1)(A)(vi). Contributions to the Foundations are tax-deductible within the limitations prescribed by the Internal Revenue Code.

### 2. Correction of Classification of Net Assets

During the year ended June 30, 2016, the Foundations corrected misstatements of its classification of net assets as of July 1, 2015. Historically, the Foundations has erroneously classified certain unrestricted contributions as temporarily restricted net assets and permanently restricted net assets. This error occurred as a result of the Foundations recording its contributions as an endowment in following the donor's designated intent of the fund. However, since the Foundations has both variance power and the ability to invade corpus, the Foundations' endowment contributions are unrestricted in accordance with U.S. GAAP. The effect of the correction of this error on the net assets as of July 1, 2015 is as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net assets
Beginning balance as of July 1, 2015	\$ 18,211,447	\$ 3,161,648	\$ 24,199,922	\$ 45,573,017
Restatement	26,672,627	(2,472,705)	(24,199,922)	-
Restated balance as of July 1, 2015	<u>\$ 44,884,074</u>	<u>\$ 688,943</u>	<u>\$ -</u>	<u>\$ 45,573,017</u>

There was no net effect on the change in net assets as of July 1, 2015.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 3. Significant Accounting Policies

#### **Endowment Fund Management and Variance Power**

To ensure observation of limitations and restrictions placed on the use of resources available to the Foundations, the funds of the Foundations are managed as individual charitable funds, according to their nature and purpose. Endowment funds are subject to the restriction of the gift instruments. The bylaws of the Foundations include a variance provision giving the Board of Trustees the power, whenever any restriction or condition on the distribution of funds becomes, in effect, unnecessary or incapable of fulfillment, to modify any restriction or condition placed on the distribution of funds and to apply the whole principal or income of funds as in its judgment is necessary to serve more effectively the charitable and educational purposes of the Foundations in line with the original donor's intent.

#### ***Basis of Presentation***

The accompanying financial statements have been prepared in accordance with U.S. GAAP. The Foundations is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets of the Foundations and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – These net assets are defined as assets that are free of donor-imposed restrictions or are subject to the Foundations' variance power and the power to invade corpus and includes all investment income and appreciation not subject to donor-imposed restrictions. Included in unrestricted net assets are the following:

*Donor Advised* – funds which allow the donor advisors to make recommendations to the Board of Trustees regarding grants to charities.

*Discretionary* – funds which allow the Foundations' Board of Trustees to use its discretion to award grants that respond to either critical community needs or needs within a particular area of charitable interest.

*Designated* – funds which allow donors to support specific organizations they identify in their fund agreements.

*Scholarship* – funds that provide financial assistance to support students' educational needs.

*Temporarily Restricted Net Assets* – These net assets include contributions, unconditional promises to give and other inflows of assets whose use by the Foundations is limited by donor imposed stipulations that either expire by the passage of time or can be fulfilled by actions of the Foundations. This classification includes investment income and appreciation, which can be expended when the applicable restrictions are met. Included in the temporarily restricted net assets are one charitable remainder uni-trust and the cash surrender value of two life insurance policies. This classification also includes accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure.



## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 3. Significant Accounting Policies (*continued*)

#### **Basis of presentation (*continued*)**

The Foundations does not have any permanently restricted net assets.

#### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

#### **Accounts, Contributions and Pledge Receivables**

Accounts, contributions and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in receivables. As of June 30, 2016, no allowance for doubtful accounts has been deemed necessary. All receivables are due within one year.

#### **Fair Value Measurements**

The Foundations follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### **Investments Valuation**

Investments are carried at fair value.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 3. Significant Accounting Policies (*continued*)

#### ***Investment Income Recognition***

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Investment gain and losses, both realized and unrealized, are reported in the statement of activities as increases or decreases in unrestricted net assets.

#### **Beneficial Interest - Charitable Remainder Uni-trust**

The Foundations is the beneficiary of an irrevocable charitable remainder uni-trust. The assets are placed in a trust held by an unrelated third party for the benefit of the Foundations and another beneficiary. The present value of the future payments to be received by the Foundations has been recorded as an asset and contribution revenue in the year the agreement was formed. The recorded value of the trust is subsequently revalued at the end of each fiscal year. The discount rate for the year ended June 30, 2016 was 1.8%. The charitable remainder uni-trust is valued at fair value each reporting period using Level 2 inputs.

#### **Beneficial Interest - Life Insurance Policies**

The Community Foundations is the beneficiary of two life insurance policies. The donors have been making annual gifts to cover the amount of the annual premiums due on these policies. These policies are recorded at their current cash surrender value. The policies are recorded as an asset and contribution revenue in the year the policies have been transferred to the Foundations. The recorded value of these policies is subsequently revalued at the end of each fiscal year.

#### **Property and Equipment**

Property and equipment is stated at cost when purchased and at fair value when donated. Depreciation is provided on the straight-line method over estimated useful lives of the assets which range from three to seven years. The Foundations capitalizes property and equipment with a cost in excess of \$250 and a useful life longer than one year.

#### **In-Kind Support**

A number of the members of the Board of Trustees of the Foundations have contributed significant amounts of their time to the affairs of the Foundations; however, these services, if not professional in nature, have not been reflected in the financial statements unless the services provided represent the value of services provided by an otherwise salaried employee.

Donated goods and other services used in operations are reflected in the statement of activities at their estimated fair value on the date of receipt.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 3. Significant Accounting Policies (*continued*)

#### **Deferred Revenue**

Revenue received for specific activities, programs or events that have not yet occurred are reported as deferred revenue.

#### **Agency Funds**

Agency funds represent assets held for investments on behalf of other unrelated organizations. Because the funds are custodial and pooled and invested along with the Foundations' investments on behalf of such organizations, a liability is recorded equal to the underlying assets. The additions, expenses, gains, and losses are not reported in the statement of activities.

#### **Grants**

All grants made are in accordance with the terms of the various governing instruments and are subject to the approval of the Board of Trustees and are recorded when approved.

#### **Rent Expense**

Rent expense under an operating lease is recognized on a straight-line basis over the life of the underlying lease.

#### **Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

#### **Accounting of Uncertainty in Income Taxes**

The Foundations recognizes the effect of income tax positions when they are more likely than not to be sustained. Management has determined that the Foundations had no uncertain tax positions that would require financial statement recognition or disclosure. The Foundations is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2013.

#### **Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date these financial statements were available to be issued, which date is November 4, 2016.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 4. Concentrations of Credit Risk

Financial instruments that potentially subject the Foundations to significant concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Infrequently, cash balances held at financial institutions are in excess of Federally insured limits. Management has reduced the concentration of credit risk with respect to cash and cash equivalents through use of the Certificate of Deposit Account Registry Services. The Foundations believes that no significant concentration of credit risk exists with respect to receivables. Concentration of credit risk with respect to investments is reduced by diversification, professional management, and limited exposure to any single investment.

### 5. Investments and Investment Return

The following are the major categories of investments measured at fair value on a recurring basis categorized by the fair value hierarchy at June 30, 2016:

	Level 1	Level 2	Total
Equities			
Mutual funds	\$ 35,018,545	\$ -	\$ 35,018,545
Preferred	396,975	-	396,975
Fixed Income			
Corporate bonds	-	10,650,585	10,650,585
Government bonds	2,447,315	-	2,447,315
Total Investments at Fair Value	\$ 37,862,835	\$ 10,650,585	48,513,420
Cash and Cash Equivalents			2,979,106
Total Investments			\$ 51,492,526

The Foundations utilizes a total return investment approach with its asset allocation diversified over multiple asset classes. Investments are managed by independent fund managers under guidelines established by the Board of Trustees and executed by the Foundations' Investment Committee.

At June 30, 2016, concentration of the Foundations' investments in excess of 15% of the fair value of its portfolio included two publicly traded mutual funds representing approximately 30% of the Foundations' investments.

Investment return for the year ended June 30, 2016 consists of the following:

Realized and unrealized losses, net	\$ (2,044,075)
Interest and dividends	1,080,728
Capital gain distributions	687,390
Investment fees	(53,839)
	\$ (329,796)

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 6. Property and Equipment, net

Property and equipment, net consists of the following at June 30, 2016:

Furniture	\$ 20,654
Equipment	41,926
Computer Software	670
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	\$ 63,250
Less accumulated depreciation	(43,231)
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	<u>\$ 20,019</u>

### 7. Agency Funds

The following is a reconciliation of the activity in the agency funds for the year ended June 30, 2016:

Agency funds, beginning of year	\$7,545,734
Additions to funds	281,852
Net investment loss	(32,352)
Grant expense	(398,338)
Fees	(61,302)
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Agency funds, end of year	<u>\$7,335,594</u>

### 8. Grants Payable

Grants payable consists of the following at June 30, 2016:

Scholarship	\$ 383,468
Donor advised funds	109,240
Designated funds	71,280
Field of interest	3,450
Agency	4,700
Operating	2,500
Pass-through	20,231
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	<u>\$ 594,869</u>

Grants are expected to be paid during the year ended June 30, 2017.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 9. Lease Commitments

The Foundations leases its office space and certain equipment under operating leases expiring through June 2020. Rent expense for the year ended June 30, 2016 amounted to \$49,003. Future minimum payments required under the agreements at June 30, 2016 are as follows:

2017	\$ 47,074
2018	48,486
2019	49,941
2020	<u>51,439</u>
	<u>\$ 196,940</u>

### 10. Endowment

The Foundations maintains various donor-designated endowment funds and Board designated endowment funds whose purpose is to provide long term support for its charitable programs and operations. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### ***Interpretation of Law***

The Board of Trustees has interpreted the New York State Uniform Prudent Management of Institutional Funds Act (NYPMIFA) as allowing the Foundations to appropriate for expenditures or accumulate so much of the donor-designated endowment fund as the Foundations determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to the intent of the donors as expressed in their gift instruments. The assets in the endowment funds are classified as donor designated assets until appropriated for expenditure by the Board of Trustees.

In accordance with U.S. GAAP guidance, donor-designated endowment funds subject to the limited invasion of corpus over time may be an endowment fund within the meaning of NYPMIFA, but are not a permanent endowment fund subject to classification within permanently restricted net assets. A significant portion of the Foundations' endowment funds, as authorized under the Foundations' governing documents and gift instruments, are held subject to both variance power and limited invasion of corpus power and, as such, are classified as unrestricted net assets.

#### ***Return Objectives and Risk Parameters***

The Foundations has adopted investment and spending policies that provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. The long term management goal is to maintain the purchasing power of the portfolio so that support for the operating budget remains consistent in real terms over time (i.e. inflation-adjusted). The portfolio is subject to various risks, including volatility of asset prices, liquidity risk, and risk of failing to meet return thresholds.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 10. Endowment (continued)

#### **Spending Rate Methods**

Endowment appropriations and distributions on endowment funds are governed by a gift instrument and are based on pre-determined percentages (spending rates) of the market value of the endowment, using the average market value over the prior twenty-quarter period ending March 31<sup>st</sup> of the prior fiscal year. Spending rates are limited to 4.0% of such market value of the endowment. Specific rates are recommended periodically by the Finance Committee of the Board of Trustees, and final rates are approved each fiscal year by the Board of Trustees.

The following is a reconciliation of the activity in the endowment funds for 2016:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets, beginning of year	\$ 29,340,127	\$ 688,943	\$ 30,029,070
Contributions	896,350	60,145	956,495
Investment income, net	1,243,365	-	1,243,365
Capital depreciation	(1,486,682)	-	(1,486,682)
Appropriation for expenditures	(1,493,019)	(60,145)	(1,553,164)
Change in value of:			
Charitable remainder uni-trust	-	6,468	6,468
Life insurance policies	-	(9,408)	(9,408)
Endowment net assets, end of year	\$ 28,500,141	\$ 686,003	\$ 29,186,144

### 11. Related Parties

In 2015, the Foundations formed Community Foundation Real Estate, LLC ("CFRE") a wholly-owned subsidiary, for the purpose of receiving real estate gifts. U.S. GAAP requires the accounts of CFRE to be consolidated with those of the Foundations and material intercompany transactions eliminated. There have been no transactions executed by CFRE through June 30, 2016. Accordingly consolidated financial statements have not been presented because there are no assets, liabilities, equity, revenue, or expenses for CFRE for the year ended June 30, 2016.

The Foundations is a member of the Foundation for Community Health, Inc. ("FCH"), a type I supporting organization of the Foundations and two other local community foundations. FCH maintains a donor advised fund with the Foundations approximating \$1,012,000. FCH is a separate, independent corporation governed by its own board of directors.

## Community Foundations of the Hudson Valley

Notes to Financial Statements  
June 30, 2016

### 12. Retirement Plan

The Foundations has a "SIMPLE IRA" retirement plan (the "Plan") for all eligible employees. Under the terms of the Plan, employees may contribute any percentage of their salary up to the maximum allowed by IRS guidelines. The Foundations is obligated to make a contribution of 2% of an eligible employee's salary. Retirement expense for the year ended June 30, 2016 amounted to \$7,614.

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