

**BERKS COUNTY COMMUNITY
FOUNDATION, INC.
AND SUPPORTING
ORGANIZATIONS**

**Combined Financial Statements
June 30, 2020 and 2019**

**Kreischer
Miller**

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BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS
June 30, 2020 and 2019

CONTENTS

INDEPENDENT AUDITORS' REPORT

COMBINED FINANCIAL STATEMENTS

Combined Statements of Financial Position	1
Combined Statements of Activities	2-3
Combined Statements of Cash Flows	4
Combined Statements of Functional Expenses	5-6
Notes to Combined Financial Statements	7-26

Independent Auditors' Report

The Board of Directors
Berks County Community Foundation, Inc. and Supporting Organizations
Reading, Pennsylvania

We have audited the accompanying combined financial statements of Berks County Community Foundation, Inc. and Supporting Organizations (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2020 and 2019, and the related combined statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Berks County Community Foundation, Inc. and Supporting Organizations as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Krenisher Miller".

Horsham, Pennsylvania

October 9, 2020

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Combined Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 2,854,235	\$ 3,625,416
Accounts receivable	27,262	21,084
Contributions receivable, net	208,575	33,870
Beneficial interest in trusts	883,301	873,118
Property and equipment, net	40,871	54,538
Building, net	4,441,030	4,578,776
Land	243,754	243,754
Loans and interest receivable, net	910,908	1,001,326
Investments, at fair value	77,123,472	81,252,552
Total assets	<u>\$ 86,733,408</u>	<u>\$ 91,684,434</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 22,718	\$ 62,642
Grants payable, net	3,091,439	3,510,239
Accrued expenses	97,716	100,721
Notes payable	1,992,973	1,903,763
Annuity payment liabilities	90,095	369,008
Funds held as agency endowments	489,780	501,490
Total liabilities	<u>5,784,721</u>	<u>6,447,863</u>
Net assets:		
Without donor restrictions	80,065,386	84,363,453
With donor restrictions	883,301	873,118
Total net assets	<u>80,948,687</u>	<u>85,236,571</u>
Total liabilities and net assets	<u>\$ 86,733,408</u>	<u>\$ 91,684,434</u>

See accompanying notes to combined financial statements.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Combined Statements of Activities
Years Ended June 30, 2020 and 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	\$ 6,590,689	\$ -	\$ 6,590,689
Other revenues and gains:			
Investment income	1,720,738	-	1,720,738
Net realized gain on investments	1,133,945	-	1,133,945
Net unrealized loss on investments	(6,265,380)	-	(6,265,380)
Net unrealized gain from beneficial interest in trusts	-	10,183	10,183
Other income	85,720	-	85,720
Total revenues and other support	3,265,712	10,183	3,275,895
Expenses:			
Program services	6,641,340	-	6,641,340
General and administrative	598,512	-	598,512
Fundraising	323,927	-	323,927
Total expenses	7,563,779	-	7,563,779
Increase (decrease) in net assets	(4,298,067)	10,183	(4,287,884)
Net assets, beginning of year	84,363,453	873,118	85,236,571
Net assets, end of year	\$ 80,065,386	\$ 883,301	\$ 80,948,687

See accompanying notes to combined financial statements.

2019

Without Donor Restrictions	With Donor Restrictions	Total
\$ 15,475,716	\$ -	\$ 15,475,716
1,584,269	-	1,584,269
3,563,592	-	3,563,592
(923,124)	-	(923,124)
-	19,105	19,105
97,580	-	97,580
19,798,033	19,105	19,817,138
6,325,404	-	6,325,404
544,127	-	544,127
333,088	-	333,088
7,202,619	-	7,202,619
12,595,414	19,105	12,614,519
71,768,039	854,013	72,622,052
\$ 84,363,453	\$ 873,118	\$ 85,236,571

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Combined Statements of Cash Flows
Years Ended June 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (4,287,884)	\$ 12,614,519
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Bad debt allowance	(1,837)	(68,583)
Depreciation	174,433	179,322
Net unrealized loss on investments	6,265,380	923,124
Net realized gain on investments	(1,133,945)	(3,563,592)
Discount on contributions receivable	2,247	450
Discount on grants payable	(9,042)	2,263
Write off of loan receivable	-	111,159
Increase in value of beneficial interest in trusts	(10,183)	(19,105)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(6,178)	(18,223)
Contributions receivable	(176,952)	(14,500)
Loans and interest receivable	87	3,166
Increase (decrease) in liabilities:		
Accounts payable	(39,924)	2,202
Grants payable	(409,758)	813,847
Accrued expenses	(3,005)	10,060
Annuity payment liabilities	(278,913)	(20,716)
Funds held as agency endowments	(11,710)	27,029
Net cash provided by operating activities	72,816	10,982,422
Cash flows from investing activities:		
Purchase of investments	(9,023,853)	(38,953,752)
Purchase of property and equipment	(23,019)	(31,130)
Proceeds from sale of investments	8,021,497	28,555,123
Loan principal and interest receivable payments	114,668	125,982
Loans advanced	(22,500)	(159,500)
Net cash used in investing activities	(933,207)	(10,463,277)
Cash flows from financing activities:		
Proceeds from the issuance of notes payable	154,670	430,000
Repayments on notes payable	(65,460)	(66,490)
Net cash provided by financing activities	89,210	363,510
Net increase (decrease) in cash and cash equivalents	(771,181)	882,655
Cash and cash equivalents, beginning of year	3,625,416	2,742,761
Cash and cash equivalents, end of year	\$ 2,854,235	\$ 3,625,416
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 60,085	\$ 74,244

See accompanying notes to combined financial statements.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Combined Statements of Functional Expenses
Years Ended June 30, 2020 and 2019**

	2020			
	Program Services	General and Administrative	Fundraising	Total
Grants to others	\$ 5,557,819	\$ -	\$ -	\$ 5,557,819
Bad debt expense (recovery)	(1,838)	-	-	(1,838)
Salaries	437,671	322,267	140,390	900,328
Office supplies	15,863	3,707	1,694	21,264
Publicity	12,289	2,854	36,002	51,145
Depreciation	104,660	34,886	34,887	174,433
Payroll taxes	30,344	22,344	9,733	62,421
Interest	36,051	12,017	12,017	60,085
Conferences and meetings	49,316	5,517	2,522	57,355
Professional fees	95,735	71,432	-	167,167
Employee benefits	45,260	33,323	14,518	93,101
Postage	1,907	1,906	-	3,813
Travel and parking	6,404	358	164	6,926
Special events	95,494	-	6,327	101,821
Professional dues and subscriptions	10,459	7,471	3,415	21,345
Telephone	4,384	3,131	1,432	8,947
Insurance	12,864	8,760	22,004	43,628
Small equipment and fixtures	1,794	2,860	-	4,654
Equipment maintenance	20,943	14,959	6,839	42,741
Software maintenance	42,874	30,623	14,000	87,497
Rent	3,209	-	-	3,209
Utilities	20,386	8,237	6,124	34,747
Cleaning, maintenance and repair	37,452	11,860	11,859	61,171
Total expenses	\$ 6,641,340	\$ 598,512	\$ 323,927	\$ 7,563,779

See accompanying notes to combined financial statements.

2019

Program Services	General and Administrative	Fundraising	Total
\$ 5,254,785	\$ -	\$ -	\$ 5,254,785
(68,583)	-	-	(68,583)
430,358	270,463	141,430	842,251
12,482	2,950	1,543	16,975
30,590	2,588	24,718	57,896
97,619	53,649	28,054	179,322
31,384	19,724	10,313	61,421
44,546	14,849	14,849	74,244
37,149	11,075	5,790	54,014
143,858	61,854	-	205,712
44,501	27,967	14,624	87,092
1,568	1,567	-	3,135
11,542	564	295	12,401
111,382	-	28,535	139,917
10,993	6,908	3,612	21,513
3,856	2,424	1,267	7,547
12,581	7,228	21,780	41,589
153	5,564	-	5,717
24,881	15,636	8,176	48,693
30,482	19,156	10,017	59,655
3,280	-	-	3,280
21,438	8,466	6,590	36,494
34,559	11,495	11,495	57,549
\$ 6,325,404	\$ 544,127	\$ 333,088	\$ 7,202,619

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(1) Nature of Business

Berks County Community Foundation, Inc. and Supporting Organizations (the Foundation) are nonprofit organizations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Foundation qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under IRC Section 509(a) because it is an organization of the type described in Section 509(a)(1) of the Code and in the case of its supporting organizations, 509(a)(3). The Foundation was incorporated in 1994 to develop, manage, and distribute funding to meet existing and changing community needs in Berks County, Pennsylvania. See Note 4 for discussion of supporting organizations.

The Foundation operates as a family of component funds established by donors. All the Foundation's funds represent gifts of capital from individuals, families, corporations, trusts, private foundations and other nonprofit organizations. The Foundation serves its donors in many ways, from ensuring the efficient processing of grant recommendations to structuring complex, multi-year philanthropic initiatives. The Foundation uses its local knowledge and philanthropic leadership to improve the quality of life in the community and, in so doing, demonstrates its capacity and ability to fulfill donor intent and be a good steward of all its resources.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Foundation prepares its financial statements in accordance with generally accepted accounting principles. The basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned and expenses and losses are recognized when incurred.

Financial Statement Presentation

In accordance with the Not-for-Profit Entities Topic 958 of the Financial Accounting Standards Board ("FASB") *Accounting Standards Codification* ("ASC"), the Foundation is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions.

Net Assets without Donor Restrictions represent funds available for grants and expenses which are not otherwise limited by donor restrictions.

Net Assets with Donor Restrictions consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Financial Statement Presentation, Continued

The Foundation enters into individual agreements with donors to reflect the types of funds to be created and the purpose for which the contribution is intended. Pursuant to the Foundation's articles of incorporation and by-laws, the Board of Directors (the "Board") has the power to modify any restriction or condition on distribution of funds for any specified charitable purpose or to specified organizations, if in the sole judgement of the Board, such restriction or condition becomes, in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. As a result of this "variance power," the Foundation has no assets that are permanently restricted. Net assets encumbered by a time stipulation are with donor restrictions as explained below.

The Foundation's assets consist of more than 360 component funds established by donors for a variety of purposes. The Board has designated the assets as follows:

Without Donor Restrictions:

Endowment: Board-designated endowment assets include all contributions to the Foundation with the intention of the donor that the assets remain in perpetuity with the Foundation, subject to the Board's variance power. The Board intends to spend from these assets only an amount allowable under its spending policy. The spending policy is established and maintained by the Board at a level consistent with the donors' intention for assets to remain in perpetuity.

Available for grant making: Available for grant making assets include all non-endowed funds and that portion of endowed funds determined under the Foundation's spending policy to be available for grant making.

Operating: Operating assets include all assets used to provide for support services for the Foundation and to produce income to offset administrative and operating expenses.

With Donor Restrictions:

Restricted to the passage of time: In accordance with ASC 605, *Revenue Recognition*, contributions received as well as collectible unconditional promises to give are recognized in the period received. Contributions with donor-stipulated time restrictions are reported as revenues with donor restrictions. When the time restrictions expire, net assets with donor restrictions are released to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Combined Financial Statements

Supporting organizations under common control of the Berks County Community Foundation are reported as one economic entity with the Foundation. As such, inter-organizational transactions and balances are eliminated in preparing the combined financial statements.

Income Taxes

The Foundation accounts for uncertain tax positions in accordance with ASC 740, *Income Taxes*. ASC 740 prescribes a recognition threshold and measurement attribute for combined financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in tax expense. There were no interest and penalties related to unrecognized tax benefits for the years ended June 30, 2020 and 2019.

The Foundation is no longer subject to examination by the Internal Revenue Service (IRS) and Pennsylvania Department of Revenue for years prior to June 30, 2017.

Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Contributions Receivable

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period received and as assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions receivable are reflected at a discount of 3% per year on long-term pledges receivable.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Beneficial Interest in Trusts

Beneficial interest in trusts consists of beneficial interests in charitable remainder trusts. Donors established and funded trusts under which specified distributions are made to a designated beneficiary or beneficiaries over the trusts' terms. Upon termination of the trusts, the Foundation receives the assets or a percentage of the assets remaining in the trusts. Beneficial interest in charitable remainder trusts are recorded at the fair value of the trusts' assets calculated based on the present value of future cash flows expected to be received under the agreements. Changes in fair value of net assets of the trusts are recorded as gains or losses in the combined statements of activities. Net assets and changes in net assets are recorded as with donor restrictions.

Property and Equipment, Building and Land

Property and equipment are stated at cost, or if donated, at fair market value at the date of donation. Donations of depreciable assets in excess of \$5,000 are subject to appraisal. Property and equipment acquisitions are capitalized if they are in excess of \$1,000. Items that are less than the capitalization threshold are expensed in the year acquired. Donations of long-lived assets, received without stipulations as to use, are classified as unrestricted contributions in the year received. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Equipment	3 - 5 Years
Furniture and fixtures	7 Years
Software	3 Years
Building	39 Years

Loans and Interest Receivable

Loans extended from several funds are reported in the combined statements of financial position at the outstanding principal adjusted for any charge-offs. Management intends, and has the ability, to hold these loans for the foreseeable future or until maturity or payoff. Interest income is recognized when earned. See Note 6.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Investments

The Foundation accounts for investments under ASC 320, *Investments - Debt and Equity Securities*. Under ASC 320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the combined statements of financial position.

Investment management fees, custodial fees, and investment consulting fees are netted against unrealized gains or added to unrealized losses on the marketable securities. For fiscal years ended June 30, 2020 and 2019, investment management fees of \$150,601 and \$136,556, respectively, are included in net unrealized gains (loss).

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1: Quoted market prices for identical assets or liabilities in active markets.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The asset'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.

For a description of the valuation methodologies used for assets measured at fair value, see Note 9. There have been no changes in the methodologies used at June 30, 2020 and 2019.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Contributions

Contributions received are recorded as without donor restriction or with donor restriction depending on the existence and/or nature of donor restrictions.

Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as with donor restriction. When a donor restriction expires, with donor restriction net assets are reclassified to without donor restriction net assets and reported in the combined statement of activities as net assets released from restrictions.

The Foundation reports donated marketable securities as contributions at their fair value at the date of donation, upon which they are immediately converted into cash.

Donated Services

Under ASC 605, *Revenue Recognition*, the Foundation recognizes services requiring specialized skills such as those provided by accountants, attorneys, marketing consultants, and other professionals if the services would need to be purchased if not donated. There were no donated services that met the criteria for recognition for the years ended June 30, 2020 and 2019.

Concentrations of Risk

Financial instruments that potentially subject the Foundation to concentrations of risk consist primarily of unconditional promises to give, as these originate within Berks County, as well as cash and cash equivalents and investments. The Foundation places its cash and cash equivalents with quality credit institutions and, at times, such balances may be in excess of FDIC limits.

The Foundation invests in various investment securities that are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect investment account balances.

Functional Expense Allocations

Functional expenses are those expenses incurred by the Foundation in the accomplishment of its stated mission. They can further be categorized as follows:

- Program services, including awarded grants and scholarships, services to nonprofits, philanthropic leadership and civic leadership;

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Functional Expense Allocations, Continued

- General and administrative, including expenses that benefit the Foundation as an entity and the management and accounting for funds;
- Fundraising, including originating and maintaining relationships with donors.

The cost of providing the various programs and supporting services has been summarized on a functional basis in the combined statements of activities and combined statements of functional expenses. These statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel expenses are allocated on the basis of estimate of time and effort; occupancy expenses are allocated on the basis of square footage.

Use of Estimates

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

Accounting Pronouncement Adopted

Revenue Recognition

On July 1, 2019, the Foundation adopted FASB Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires that an entity evaluate whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. A contribution is a gift made to an entity where the donor is not expecting anything of commensurate value in return from the entity. An exchange transaction is a gift made to an entity where the donor is expecting something of commensurate value in return from the entity. In many instances the value in return requires the entity to meet a performance obligation.

The Foundation adopted ASU 2018-08 using a modified prospective application to agreements not completed as of July 1, 2019 and to agreements entered into after July 1, 2019. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2018-08 on July 1, 2019.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(2) Summary of Significant Accounting Policies, Continued

Accounting Pronouncement Adopted

Subsequent Events

Management has performed an evaluation of subsequent events through October 9, 2020, which is the date the combined financial statements were available to be issued.

(3) Liquidity

Financial assets available for grants and other expenses within one year of the statements of financial position date comprise the following at June 30:

	2020	2019
Cash and cash equivalents	\$ 2,854,236	\$ 3,625,416
Accounts receivable and other assets	582,315	176,191
Long-term investments made available for current use	5,052,567	4,648,104
	<u>\$ 8,489,118</u>	<u>\$ 8,449,711</u>

As described in Note 16, the Foundation's board-designated endowments are subject to an annual spend rate of 4.5%. A spendable amount of \$5,052,567 at June 30, 2020 will be made available for grant making and administrative expenses from these endowments within the next 12 months.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its awarded grants, general expenditures, liabilities, and other obligations are due. The Foundation invests cash in excess of daily requirements in money market accounts, certificates of deposit, treasuries and short-term investments.

Endowment assets are pooled for investment, with liquidity managed through the pools' target allocations to illiquid investments, and periodic review of current illiquidity and projected total exposure to managers with lock-up provisions.

(4) Supporting Organizations of and Disregarded Entities Owned by Berks County Community Foundation, Inc.

During the fiscal year ended June 30, 2004, Berks County Foundation Properties II, Inc. (Properties II, Inc.) was formed as a supporting organization of the Foundation under IRC Section 509(a)(3). Properties II, Inc. was formed specifically to accept gifts of real property for the benefit of Berks County Community Foundation, Inc.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(4) Supporting Organizations of and Disregarded Entities Owned by Berks County Community Foundation, Inc., Continued

Community General Hospital Foundation (the Hospital Foundation) previously transferred its assets to Berks County Community Foundation, Inc. The Hospital Foundation exists to capture specific bequests for the former Community General Hospital. During the fiscal year ended June 30, 2006, the IRS determined that the Hospital Foundation is a Type 1 supporting organization under IRC section 509(a)(3). In fiscal year ended June 30, 2016, Boyertown Area Community Trust, another supporting organization of the Foundation was merged into the Hospital Foundation. The Hospital Foundation, being the surviving corporation, was then renamed Berks Community Health Alliance (the Health Alliance).

South Mountain Camps Foundation (SM Camps) transferred its assets to Berks County Community Foundation, Inc. in January 2009. SM Camps exists to capture specific bequests for South Mountain YMCA. During fiscal year ended June 30, 2011, the IRS determined that the SM Camps is a Type 1 supporting organization under IRC section 509(a)(3).

During the fiscal year ended June 30, 2016, Berks County Community Foundation, Inc. became the sole member of BCCF Properties, LLC (Properties, LLC), a newly formed limited liability company. Properties, LLC was formed specifically to accept gifts of real property and to liquidate them for the benefit of Berks County Community Foundation, Inc. Contributions to a disregarded single member limited liability company wholly-owned or controlled by a foundation described in IRC Section 170(b)(1) are treated as a charitable contribution to its controlling member.

During the fiscal year ended June 30, 2016, Berks County Community Foundation, Inc. became the sole member of Community Properties, LLC, a newly formed limited liability company. Community Properties, LLC was formed specifically to hold land not held for resale for the benefit of Berks County Community Foundation, Inc. In January 2016, a small parcel of land was purchased by Community Properties, LLC and in May 2019, another small parcel of land was purchased. The land is located next to the Foundation headquarters and will eventually be used for parking for Foundation staff and visitors.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(4) Supporting Organizations of and Disregarded Entities Owned by Berks County Community Foundation, Inc., Continued

Properties II, Inc., the Health Alliance, SM Camps, Properties, LLC, Community Properties, LLC and the Foundation are under common control. Financial statements of these organizations are included in the combined statements of financial position, activities, functional expenses, and cash flows. The components of net assets of the Foundation and Supporting Organizations are as follows as of June 30:

	2020	2019
Net assets:		
Without donor restrictions:		
Berks County Community Foundation, Inc.	\$ 79,942,504	\$ 84,245,571
Berks County Community Foundation Properties II, Inc.	111,269	111,269
Community Properties, LLC	11,600	6,600
BCCF Properties, LLC	13	13
Total net assets without donor restrictions	<u>\$ 80,065,386</u>	<u>\$ 84,363,453</u>
With donor restrictions:		
Berks County Community Foundation, Inc.	<u>\$ 883,301</u>	<u>\$ 873,118</u>

(5) Contributions Receivable

Contributions receivable consist of unconditional promises to give for operations, endowments, and the building. Contributions receivable are as follows at June 30:

	2020	2019
Receivable in less than one year	\$ 98,213	\$ 17,178
Receivable in one to five years	117,417	21,500
Total contributions receivable	<u>215,630</u>	<u>38,678</u>
Less: allowance for uncollectible contributions	4,178	4,178
Less: discounts to net present value	2,877	630
Net contributions receivable	<u>\$ 208,575</u>	<u>\$ 33,870</u>

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(6) Loans and Interest Receivable

As of June 30, 2020, the Foundation has loans outstanding to businesses, students, and nonprofit organizations from several funds. Repayment terms vary from two to ten years with interest rates ranging from 0% to 12%.

Management has evaluated the need for an allowance for loan losses based on the risks inherent in the portfolio, the estimated value of any underlying collateral and the guarantees, if any, of the principal borrowed. Management has established an allowance for loan losses of \$73,312 and \$75,149 as of June 30, 2020 and 2019, respectively.

During the years ended June 30, 2020 and 2019, the Foundation received principal payments of \$114,668 and \$125,982, respectively, and interest income of \$26,141 and \$30,363, respectively.

Loans and interest receivable are as follows at June 30:

	2020	2019
Receivable in less than one year	\$ 541,874	\$ 142,108
Receivable in one to five years	261,909	727,550
Receivable in more than five years	175,524	201,817
Total loans receivable	979,307	1,071,475
Less: allowance for loan losses	73,312	75,149
Net loans receivable	905,995	996,326
Interest receivable	4,913	5,000
Net loans and interest receivable	\$ 910,908	\$ 1,001,326

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(7) Property and Equipment

Property and equipment summarized by major classification are as follows at June 30:

	2020	2019
Equipment	\$ 162,795	\$ 159,363
Furniture and fixtures	164,865	164,865
Software	18,926	26,468
Total property and equipment	346,586	350,696
Less: accumulated depreciation	305,715	296,158
Property and equipment, net	<u>\$ 40,871</u>	<u>\$ 54,538</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$17,098 and \$22,778, respectively.

(8) Building

Building is as follows at June 30:

	2020	2019
Building	\$ 6,124,814	\$ 6,105,225
Less: accumulated depreciation	1,683,784	1,526,449
Building, net	<u>\$ 4,441,030</u>	<u>\$ 4,578,776</u>

Depreciation expense was \$157,335 and \$156,544 for the years ended June 30, 2020 and 2019, respectively.

(9) Fair Value Measurements

The Foundation uses prices and inputs that are current as of the measurement date, obtained through multiple third-party custodians from independent pricing services. To differentiate between the varying degrees of certainty of these fair market valuations, the Foundation identifies three levels covering securities with a ready market (Level 1 measurements) to securities which may have a specific or illiquid market (Level 3 measurements). A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below.

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(9) Fair Value Measurements, Continued

Equity and fixed income mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Corporate and U.S. government debt securities and certificates of deposit: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Beneficial interest in trusts: Valued at present value based on the Foundation's interest in the quoted market prices of the underlying assets contained in the trusts at year end. Control of the assets is held by a trustee, not the Foundation. Additionally, the Foundation's beneficial interest in these trusts is invested in assets whose fair value is determined using NAV of the respective trust's investments. Although the investments in these trusts are exclusively identified as Level 3 of the fair value hierarchy, the underlying holdings of the trusts comprise Level 1, 2 and 3 securities. The trustees report the NAV of these trusts on a periodic basis.

Partnership interests and hedge funds: Valued at NAV of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less than observable in the market, the determination of fair value requires more judgment.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(9) Fair Value Measurements, Continued

The fair value hierarchy table presenting the Foundation's investments measured at fair value is as follows at June 30:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash	\$ 1,831,122	\$ -	\$ -	\$ 1,831,122
Corporate debt securities	-	461,088	-	461,088
Equity securities	1,794,289	-	-	1,794,289
Equity mutual funds	42,238,237	-	-	42,238,237
Fixed income mutual funds	14,094,875	-	-	14,094,875
Total investments in fair value hierarchy	59,958,523	461,088	-	60,419,611
Investments measured at NAV (a)	-	-	-	16,703,861
Total investments at fair value	59,958,523	461,088	-	77,123,472
Beneficial interest in trusts	-	-	883,301	883,301
Total assets at fair value	\$ 59,958,523	\$ 461,088	\$ 883,301	\$ 78,006,773

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash	\$ 1,152,707	\$ -	\$ -	\$ 1,152,707
Certificates of deposit	-	298,376	-	298,376
Corporate debt securities	-	503,646	-	503,646
Equity securities	1,968,231	-	-	1,968,231
Equity mutual funds	46,102,792	-	-	46,102,792
Fixed income mutual funds	14,059,684	-	-	14,059,684
Total investments in fair value hierarchy	63,283,414	802,022	-	64,085,436
Investments measured at NAV (a)	-	-	-	17,167,116
Total investments at fair value	63,283,414	802,022	-	81,252,552
Beneficial interest in trusts	-	-	873,118	873,118
Total assets at fair value	\$ 63,283,414	\$ 802,022	\$ 873,118	\$ 82,125,670

(a) The Foundation invests in private equity investments and hedge funds which trade at the NAV per share practical expedient of the fund. These funds are not categorized within the fair value hierarchy.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(9) Fair Value Measurements, Continued

The following table summarizes investments measured at fair value on the NAV per share as a practical expedient as of June 30:

Investment	Fair Value at June 30,		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2020	2019			
Hedge funds:					
Lighthouse Diversified Fund	\$ 6,784,973	\$ 7,174,320	\$ -	Monthly	91 days, 1 year lock provision
Private equity partnerships:					
Falcon Strategic Partners V	712,236	720,337	-	Not applicable	Not applicable
Falcon Strategic Partners VI	-	-	1,500,000	Not applicable	Not applicable
Gem Realty Fund	650,508	926,602	130,000	Not applicable	Not applicable
Strategic Value SP SIT II	353,718	516,895	80,891	Not applicable	Not applicable
Steadfast Long Capital, Ltd.	4,879,285	4,971,552	-	Not applicable	Not applicable
WCP Newcold	1,336,344	1,082,708	-	Not applicable	Not applicable
Strategic Value SP SIT III	895,899	1,176,351	90,000	Not applicable	Not applicable
Strategic Value SP SIT IV	577,145	270,539	480,000	Not applicable	Not applicable
Strategic Value Dislocation Feeder Fund, LP	150,000	-	1,350,000	Not applicable	Not applicable
Truebridge Capital Partners Fund	47,279	-	950,000	Not applicable	Not applicable
RCP Fund XIV, LP	10,000	-	990,000	Not applicable	Not applicable
WIS Limited Partnership	306,474	327,812	-	Not applicable	Not applicable
Total	<u>\$ 16,703,861</u>	<u>\$ 17,167,116</u>	<u>\$ 5,570,891</u>		

The Foundation uses one privately-held hedge fund-of-funds whose primary focus is investing in funds specializing in equities, both long-term and short-term. The Foundation uses this hedge fund-of-fund and private equity partnerships strategy to generate superior risk-adjusted returns with a low correlation to both the equity and fixed income markets. The Foundation's risk management policy of providing a more stable long-term yield as documented in its Investment Policy Statement is obtained by this blending of different strategies and asset classes.

The following table sets forth a reconciliation of changes in the fair value of investments classified as Level 3 in the fair value hierarchy noted above for the years ended June 30:

	Beneficial Interest in Trusts
Balance as of June 30, 2018	<u>\$ 854,013</u>
Total unrealized gains for assets held at year end included in changes in net assets	19,105
Balance as of June 30, 2019	<u>873,118</u>
Total unrealized gains for assets held at year end included in changes in net assets	10,183
Balance as of June 30, 2020	<u>\$ 883,301</u>

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(10) Beneficial Interest in Trusts

The Foundation is a beneficiary of several irrevocable charitable remainder trusts, six of which are quantifiable as of June 30, 2020 and 2019. The net present value of these receivables was determined using the fair value of the trust assets, single or joint life expectancies from IRS tables, and discount rates at the time the trusts were established ranging from 4.8% to 7.8%. On an annual basis, the Foundation revalues the receivables based on changes in the value of the trusts' assets and these assumptions. Revaluation adjustments are reported in the statements of activities as net unrealized gain from beneficial interest in trusts. The balance of these receivables at June 30, 2020 and 2019 is \$883,301 and \$873,118, respectively. These receivables are classified as a component of net assets with donor restrictions until the future cash flows are received.

(11) Grants Payable

Grants authorized but unpaid at year end are reported as liabilities in accordance with ASC 605, *Revenue Recognition*. Grants to be paid in more than one year are discounted 3% per year. The following is a summary of grants authorized and payable as of June 30:

	2020	2019
To be paid in less than one year	\$2,178,383	\$2,728,580
To be paid in one to five years	971,934	831,498
Gross grants authorized and unpaid	3,150,317	3,560,078
Less: discounts on long-term grants	58,878	49,839
Net grants authorized and unpaid	<u>\$3,091,439</u>	<u>\$3,510,239</u>

(12) Employee Benefits

The Foundation maintains a 403(b) retirement plan for its employees. The Foundation matches 50% of eligible employee contributions up to a maximum of 6% of salary. The Foundation contributed \$23,669 and \$21,594 to the 403(b) plan in fiscal years 2020 and 2019, respectively.

(13) Notes Payable

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Foundation's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult considering the rapidly evolving landscape.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(13) Notes Payable, Continued

In April 2020, the Foundation applied for, was approved for and received disbursement of a loan in the amount of \$154,670 from its primary lender pursuant to the Paycheck Protection Program administered by the United States Small Business Administration and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020. There can be no assurance that any portion of the loan will be forgiven pursuant to the terms of the Paycheck Protection Program and the Foundation may be responsible for repayment of the entire principal balance in equal monthly installments, plus interest accruing at an annual rate of 1%, over a term of two years. Future maturities on the loan are \$68,023 and \$86,647 for the 12 months ending June 30, 2021 and 2022, respectively.

As the pandemic continues to evolve into a worldwide health crisis, the disease could have an adverse effect on the Foundation's activities, results of operations, financial condition, and cash flow.

Notes payable are summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to local bank in monthly principal installments of \$1,194 plus interest at LIBOR plus 1.5% (1.66% at June 30, 2020), and collateralized by land and property. All unpaid principal and interest are due July 2028.	\$ 402,528	\$ 416,862
Note payable to local bank in monthly principal installments of \$1,272, plus interest at LIBOR plus 1.5% (1.66% at June 30, 2020), and collateralized by land and property. All unpaid principal and interest are due July 2032.	428,638	443,901
Note payable to local bank in monthly principal installments of \$2,989, plus interest at LIBOR plus 1.5% (1.66% at June 30, 2020), and collateralized by land and property. All unpaid principal and interest are due August 2029.	1,007,137	1,043,000
Note payable, Paycheck Protection Program, to local bank in monthly payments of \$8,704 including interest at 1%. Payments due November 2020 through April 2021.	154,670	-
	<u>\$ 1,992,973</u>	<u>\$ 1,903,763</u>

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(13) Notes Payable, Continued

Future maturities of notes payable are as follows:

Year Ending June 30,	Amount
2021	\$ 133,482
2022	152,106
2023	65,459
2024	65,459
2025	65,459
Thereafter	1,511,008
	<u>\$1,992,973</u>

(14) Charitable Gift Annuities

The charitable gift annuities provide for the periodic payment of distributions to designated individuals (the annuitants) over a specified period of time. At the end of the specified term, the remaining assets will remain at the Foundation to benefit the donor-specified charity.

There were no contributions received under charitable gift annuity agreements for the years ended June 30, 2020 and 2019. Present value of future annuity payments is recognized as a liability in the combined statements of financial position. As of June 30, 2020 and 2019, the annuity payment liabilities totaled \$90,095 and \$369,008, respectively.

(15) Transfers of Assets to a Not-For-Profit Foundation or Charitable Trust That Raises or Holds Contributions for Others

The Foundation follows ASC 605, *Revenue Recognition*, which provides standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. ASC 605 specifically requires that if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(15) Transfers of Assets to a Not-For-Profit Foundation or Charitable Trust That Raises or Holds Contributions for Others, Continued

The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with ASC 605, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

At June 30, 2020 and 2019, the Foundation was the owner of thirteen agency endowment funds with a combined value of \$489,780 and \$501,490, respectively. The following table summarizes activity in such funds at June 30:

	2020	2019
Agency endowment fund balances at July 1	\$ 501,490	\$ 474,461
New contributions	26,872	18,887
Investment income	9,807	9,740
Net unrealized and realized investment gains	(31,006)	13,505
Grants made	(17,383)	(15,103)
Agency endowment fund balances at June 30	<u>\$ 489,780</u>	<u>\$ 501,490</u>

(16) Endowment Funds

ASC 205 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds of 2006 (UPMIFA). ASC 205 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Commonwealth of Pennsylvania has not adopted UPMIFA. The Commonwealth of Pennsylvania has enacted Act 141 (the Act). The Act allows the Foundation to elect a "total return investment policy". Income is defined by the Act to mean a fixed percentage of the "value of the assets" held by the Foundation, not less than 2% or more than 7%. The "value of the assets" for the purposes of the Act is the average fair market value of the assets over a three year period (or the average value of the assets over any shorter period in the cases of assets held less than three years). The Foundation has a total return investment policy with a spending policy of 4.5% for each of the years ended June 30, 2020 and 2019 on the trailing twelve quarter average value of the funds. This spending policy determines the funds available for grant making and administrative expenses.

**BERKS COUNTY COMMUNITY FOUNDATION, INC.
AND SUPPORTING ORGANIZATIONS**

**Notes to Combined Financial Statements
June 30, 2020 and 2019**

(16) Endowment Funds, Continued

The Foundation's investment objective is to maximize returns through a highly diversified portfolio of assets consisting of equity, fixed income and investments such as hedge funds. The return object of the Foundation is the desired annual payout, or spending policy, plus inflation as measured by the Consumer Price Index (CPI) and growth. The Foundation maintains a prudent risk policy through its Investment Policy Statement and the asset allocation described therein is consistent with the public nature and position of the Foundation.

Changes in the endowment net assets, which are all classified as without donor restrictions are as follows for the years ended June 30:

	<u>2020</u>
Endowment net assets, beginning of year	\$ 81,252,552
Contributions	4,475,449
Investment income	1,723,106
Net depreciation in fair value	(5,162,440)
Amounts appropriated for expenditures	(5,165,195)
Endowment net assets, end of year	<u>\$ 77,123,472</u>
	<u>2019</u>
Endowment net assets, beginning of year	\$ 68,213,456
Contributions	13,845,890
Investment income	1,594,009
Net appreciation in fair value	2,653,974
Amounts appropriated for expenditures	(5,054,777)
Endowment net assets, end of year	<u>\$ 81,252,552</u>