



# **Culpeper Wellness Foundation, Inc. and Subsidiary**



## **Consolidated Financial Statements**

**Years Ended December 31, 2020 and 2019**



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## Independent Auditors' Report

Board of Directors  
Culpeper Wellness Foundation, Inc. and Subsidiary  
Culpeper, VA

We have audited the accompanying consolidated financial statements of Culpeper Wellness Foundation, Inc. and Subsidiary which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culpeper Wellness Foundation, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Dixon Hughes Goodman LLP*

Tysons, VA  
June 1, 2021

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalent	\$ 299,690	\$ 343,332
Accounts receivable, net	230,658	88,945
Pledges receivable, current	500,000	500,000
Prepaid expenses and other current assets	82,280	86,865
Total current assets	<u>1,112,628</u>	<u>1,019,142</u>
Pledges receivable, long-term	<u>978,000</u>	<u>1,456,000</u>
Prepaid expenses and other assets	<u>1,724</u>	<u>1,724</u>
Investments	<u>22,958,093</u>	<u>23,717,668</u>
Property and equipment:		
Land and land improvements	2,463,088	2,179,288
Buildings and leasehold improvements	16,851,743	14,922,727
Equipment	914,226	914,226
Construction in progress	20,961	7,608
	<u>20,250,018</u>	<u>18,023,849</u>
Accumulated depreciation	<u>(8,001,500)</u>	<u>(7,393,470)</u>
Property and equipment, net	<u>12,248,518</u>	<u>10,630,379</u>
Goodwill, net	<u>38,200</u>	<u>43,930</u>
Total assets	<u>\$ 37,337,163</u>	<u>\$ 36,868,843</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 29,470	\$ 92,921
Current portion of annuity payable	2,450	2,450
Accrued expenses	87,458	134,713
Deferred revenue	59,325	14,399
Total current liabilities	<u>178,703</u>	<u>244,483</u>
Annuity payable	<u>22,121</u>	<u>22,862</u>
Total liabilities	<u>200,824</u>	<u>267,345</u>
Net assets:		
Without donor restrictions	35,638,678	34,645,498
With donor restrictions	<u>1,497,661</u>	<u>1,956,000</u>
Total net assets	<u>37,136,339</u>	<u>36,601,498</u>
Total liabilities and net assets	<u>\$ 37,337,163</u>	<u>\$ 36,868,843</u>

See accompanying notes.

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and support:			
Membership dues	\$ 1,110,133	\$ -	\$ 1,110,133
Ancillary revenue	319,076	-	319,076
Contributions	2,287,727	76,500	2,364,227
Grants	186,557	-	186,557
PPP grant income	372,900	-	372,900
Special events	37,338	-	37,338
Rental income	759,668	-	759,668
Net assets released from restrictions	534,839	(534,839)	-
	<u>5,608,238</u>	<u>(458,339)</u>	<u>5,149,899</u>
Total revenues, gains and support			
Expenses:			
Program services	5,092,975	-	5,092,975
Management and general	621,126	-	621,126
Fundraising	19,310	-	19,310
Rental property	165,427	-	165,427
	<u>5,898,838</u>	<u>-</u>	<u>5,898,838</u>
Total expenses			
Change in net assets from operations	(290,600)	(458,339)	(748,939)
Non-operating activities:			
Net investment return	1,283,780	-	1,283,780
	<u>1,283,780</u>	<u>-</u>	<u>1,283,780</u>
Change in net assets from non-operating activities			
Change in net assets	993,180	(458,339)	534,841
Net assets, beginning of year	34,645,498	1,956,000	36,601,498
Net assets, end of year	<u>\$ 35,638,678</u>	<u>\$ 1,497,661</u>	<u>\$ 37,136,339</u>

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and support:			
Membership dues	\$ 1,900,468	\$ -	\$ 1,900,468
Ancillary revenue	559,932	-	559,932
Contributions	2,619,451	85,000	2,704,451
Grants	59,471	-	59,471
Special events	87,239	-	87,239
Rental income	715,072	-	715,072
Net assets released from restrictions	500,000	(500,000)	-
Total revenues, gains and support	<u>6,441,633</u>	<u>(415,000)</u>	<u>6,026,633</u>
Expenses:			
Program services	6,790,892	-	6,790,892
Management and general	542,731	-	542,731
Fundraising	29,372	-	29,372
Rental property	213,191	-	213,191
Total expenses	<u>7,576,186</u>	<u>-</u>	<u>7,576,186</u>
Change in net assets from operations	(1,134,553)	(415,000)	(1,549,553)
Non-operating activities			
Gain on sale of fixed assets	975,847	-	975,847
Net investment return	3,850,085	-	3,850,085
Change in net assets from non-operating activities	<u>4,825,932</u>	<u>-</u>	<u>4,825,932</u>
Change in net assets	3,691,379	(415,000)	3,276,379
Net assets, beginning of year	<u>30,954,119</u>	<u>2,371,000</u>	<u>33,325,119</u>
Net assets, end of year	<u>\$ 34,645,498</u>	<u>\$ 1,956,000</u>	<u>\$ 36,601,498</u>

Culpeper Wellness Foundation, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Rental Property</u>	<u>Total</u>
Personnel costs	\$ 1,357,630	\$ 391,246	\$ 14,713	\$ 34,115	\$ 1,797,704
Supplies and services	2,090,906	-	-	-	2,090,906
Depreciation and amortization	494,592	9,678	-	109,490	613,760
Occupancy	324,020	70,566	-	4,791	399,377
Grants awarded	414,832	-	-	-	414,832
Utilities	174,176	6,458	-	-	180,634
Professional fees	23,944	106,086	-	3,095	133,125
Taxes and licenses	55,952	2,638	-	13,366	71,956
Marketing and promotion	14,106	4,478	4,597	-	23,181
Insurance	49,442	10,472	-	570	60,484
Office supplies and expense	27,899	12,892	-	-	40,791
Bank charges	37,306	412	-	-	37,718
Travel and conferences	5,933	1,085	-	-	7,018
Bad debt expense	12,857	-	-	-	12,857
Dues and subscriptions	8,748	5,115	-	-	13,863
Equipment rental	632	-	-	-	632
Total expenses	<u>\$ 5,092,975</u>	<u>\$ 621,126</u>	<u>\$ 19,310</u>	<u>\$ 165,427</u>	<u>\$ 5,898,838</u>



Culpeper Wellness Foundation, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Rental Property</u>	<u>Total</u>
Personnel costs	\$ 1,672,251	\$ 339,332	\$ 12,418	\$ 34,903	\$ 2,058,904
Supplies and services	2,415,563	-	-	-	2,415,563
Depreciation and amortization	488,424	13,948	-	140,435	642,807
Occupancy	384,253	51,512	-	18,904	454,669
Grants awarded	1,187,077	-	-	-	1,187,077
Utilities	214,748	5,694	-	-	220,442
Professional fees	33,896	99,279	-	1,577	134,752
Taxes and licenses	56,201	3,351	-	16,740	76,292
Marketing and promotion	32,716	4,389	16,954	-	54,059
Insurance	50,833	7,906	-	582	59,321
Office supplies and expense	165,103	11,136	-	-	176,239
Bank charges	54,080	993	-	-	55,073
Travel and conferences	19,929	2,513	-	-	22,442
Bad debt expense	10,603	-	-	-	10,603
Dues and subscriptions	5,215	2,678	-	50	7,943
	<u>\$ 6,790,892</u>	<u>\$ 542,731</u>	<u>\$ 29,372</u>	<u>\$ 213,191</u>	<u>\$ 7,576,186</u>

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 534,841	\$ 3,276,379
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	613,760	642,807
Disposal of property - donated	-	548,000
Gain on sale of assets	-	(975,847)
Bad debt expense	12,857	10,603
Realized and unrealized (gain) on investments	(974,204)	(3,526,881)
Change in assets and liabilities:		
Accounts and pledges receivable	323,430	374,849
Prepaid expenses and other current assets	4,585	(49,678)
Unbilled rent receivable	-	11,477
Accounts payable	(63,451)	36,500
Accrued expenses	(47,255)	11,237
Deferred revenue	44,926	4,310
Net cash provided by operating activities	<u>449,489</u>	<u>363,756</u>
Cash flows from investing activities:		
Proceeds from sale of investments	2,345,000	-
Purchase of investments	(611,221)	(1,772,357)
Proceeds from sale of property and equipment	-	1,374,308
Purchase of property and equipment	(2,226,169)	(186,298)
Net cash used by investing activities	<u>(492,390)</u>	<u>(584,347)</u>
Cash flows from financing activities:		
Annuity payments	(741)	(707)
Net cash used by financing activities	<u>(741)</u>	<u>(707)</u>
Change in cash and cash equivalents	(43,642)	(221,298)
Cash and cash equivalents, beginning of year	<u>343,332</u>	<u>564,630</u>
Cash and cash equivalents, end of year	<u>\$ 299,690</u>	<u>\$ 343,332</u>
Supplemental disclosure of noncash transactions:		
Donation of property	\$ -	\$ 548,000
Donation of stock	<u>\$ 28,355</u>	<u>\$ -</u>

## Notes to Consolidated Financial Statements

### 1. Nature of the Organization and Summary of Significant Accounting Policies

#### ***Nature of organization***

Culpeper Wellness Foundation, Inc. (CWF) is a not-for-profit organization supporting the communities in and around Culpeper, Virginia. CWF is the parent of Powell Wellness Center L.L.C. (PWC), operates the Culpeper Free Clinic, provides various community grant programs, and leases real estate to physicians and support operations and is referred to collectively, as the (“Organization”). PWC owns and operates Culpeper Sport & Fitness.

The Organization receives support through wellness center memberships, donations from individuals, businesses, churches, and other organizations in the Culpeper area and through grants obtained from local governments and other charitable organizations.

Significant accounting policies are as follows:

#### ***Principles of consolidation***

The consolidated financial statements include the accounts of CWF and its wholly-owned subsidiary, PWC. All significant intercompany accounts and transactions are eliminated in consolidation.

#### ***Basis of accounting***

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

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Under the standards for not-for-profit organizations, the Organization is required to report information regarding its financial position and activities in two classes of net assets as follows:

Net assets without donor restrictions – not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions – subject to stipulations imposed to donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

#### ***Support and revenue recognition***

PWC and CSF membership revenue is recognized over the period during which the membership is active. Membership at CSF and PWC is on a month-to-month basis with no annual contract. Ancillary revenue, which consists of pro shop sales, assessment fees, locker rental revenue, café revenue, gift card revenue, late fees and PWC and CSF wellness program fees, is recognized at the point of sale or as services are rendered. Special event revenue is recognized in the period the event takes place. Rental income is recognized over the period facilities are available to tenants. Payments received in advance are deferred and recognized over the period to which they relate. Contributions are recognized as revenue when they are received or unconditionally pledged.

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Non-cash donations are recorded as support at their estimated fair value at the date of donations. Such donations are reported as unrestricted support unless the donor has restricted the donation for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support.

Membership dues are recognized over time totaling \$1,110,133 and \$1,900,468 in 2020 and 2019, respectively. Membership dues collected in advance as of December 31, 2020 and 2019 totaled \$59,325 and \$14,399, respectively were recorded as deferred revenue on the consolidated statements of financial position. Ancillary revenue is recognized at a point in time totaling \$319,076 in 2020 and \$559,932 in 2019.

***Contract balances (deferred revenue)***

In certain instances, the Organization collects deposits from members in advance of delivery of the item or service given. The Organization recognizes a liability when a member provides payment prior to the Organization transferring control of the goods or services ("contract liabilities"). Contract liabilities are relieved, and revenue is recognized upon the transfer of control of promised goods to members.

***Donated services and supplies***

The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would have been purchased if not contributed, are recorded at their fair values in the period received.

The Organization receives contributed medical services, including lab and diagnostic services, as well as professional medical volunteers who assist the Organization in providing health and welfare services. The volunteer services are provided primarily by medical doctors and nurses. During the year ended December 31, 2020, \$14,644 was recorded related to donated services. During the year ended December 31, 2019, \$27,435 of in-kind donated services were recognized.

The free clinic also receives donated diagnostic services as well as pharmaceuticals for distribution to patients, as prescribed. For the year ended December 31, 2020 and 2019, the value of donated pharmaceuticals and diagnostic services was approximately \$1,993,535 and \$2,269,582, respectively and is recorded as in-kind contribution support in the accompanying consolidated statements of activities.

***Measure of operations***

The Organization defines its measure of operations to include Board appropriated funds from investments and funds functioning as endowments to be used for general operations. The change in net assets from operations excludes unallocated net investment income or loss.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash in banks and short-term debt instruments with original maturities of three-months or less. Cash and cash equivalents are stated at cost. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

***Accounts receivable and allowance for doubtful accounts***

Accounts receivable consists primarily of member billings over time for the PWC and are recorded at the invoiced amount, net any estimated allowance for doubtful accounts. The allowance for doubtful accounts is the Organization's best estimate of the amount of probable credit losses in the Organization's existing accounts receivable. The Organization determines the allowance based on historical write-off experience and member specific data. The allowance for doubtful accounts was \$1,281 and \$1,283 at December 31, 2020 and 2019, respectively.

***Pledges receivable***

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flow. Amortization of the resultant discount is recognized as contribution revenue. The need for an allowance for uncollectible pledges receivable is determined based on an evaluation of the collectability of individual promises. All pledges were considered fully collectible at December 31, 2020 and 2019; accordingly, no allowance for doubtful pledges receivable were recorded.

***Investments***

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statement of financial position. Realized and unrealized gains and losses are included in the change in net assets. Investments consist of money market funds and cash equivalents, mutual funds, fixed income securities, and government and agency bonds that are publicly traded.

***Inventories***

Inventories consist primarily of apparel and snack items available for sale at PWC and are initially recorded at cost (if purchased), using the average cost method, or fair value at date of donation (if donated), and subsequently valued at the lower of cost or net realizable value. Inventory is included in prepaid expenses and other current assets on the consolidated statements of financial position.

***Property and equipment***

Property and equipment are stated at cost or fair value at the date of the donation. Depreciation and amortization are provided by the straight-line method based on estimated useful lives as follows:

Land improvements	10 years
Buildings	5 to 40 years
Leasehold improvements	8 to 15 years
Equipment	7 to 15 years

Depreciation expense was \$600,263 and \$637,077 for the years ended December 31, 2020 and 2019, respectively.

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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***Goodwill***

The Organization, under PWC, purchased the business and assets of Culpeper Sport & Racquet Club, which has since been renamed to Culpeper Sport & Fitness (CSF), during the year ended December 31, 2017. The Organization disposed of most of the assets included in the purchase prior to placing in service, and the net purchase price was capitalized as goodwill. The goodwill related to CSF is being amortized on a straight-line basis over 10 years, and amortization expense was \$13,497 and \$5,730 for 2020 and 2019, respectively.

***Impairment of long-lived assets***

Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or estimated fair value less costs to sell, and no longer depreciated. There was no impairment expense on long-lived assets during 2020 or 2019.

***Advertising***

Advertising expenses are charged to expense as incurred and are not material.

***Functional allocation of expenses***

Program, management and general, fundraising, and rental property costs have been summarized on a functional basis in the consolidated statement of functional expenses. Certain indirect costs have been allocated to programs and supporting services on the basis of the activity benefited.

The expenses that are allocated include the following:

<b><u>Expense</u></b>	<b><u>Method of Allocation</u></b>
Personnel costs	Time and effort
Depreciation & amortization	Square footage
Occupancy	Square footage
Professional fees	Actual usage
Taxes & licenses	Square footage
Marketing and promotion	Actual usage
Insurance	Square footage
Office supplies	Actual usage
Bank charges	Actual usage
Travel and conferences	Time and effort
Dues and subscriptions	Actual usage

***Income tax status***

CWF is exempt from federal income taxes under Code Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, CWF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code and has been classified as an organization that is not a private organization under Code Section 509(a)(2). PWC is a limited liability company that has not elected to be taxed as a Corporation under current

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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Internal Revenue Service regulations. As such, PWC is a disregarded entity for federal income tax purposes and does not have to file an annual federal return. Rather, its tax results are reflected on the annual tax filings of its member as if the activities of PWC were activities of the member.

Management evaluated CWF's tax positions and determined that CWF has no uncertain tax positions that require adjustment to the consolidated financial statements at December 31, 2020 and 2019. CWF files Form 990, *Return of Organization Exempt from Income Tax*, annually with the United States Department of the Treasury.

***Estimates and assumption***

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

***New accounting pronouncement***

Intangibles-Goodwill and Other

On March 31, 2021, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2021-03, *Intangibles-Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. This ASU allows private companies and not-for-profit entities to evaluate triggering events at the end of each reporting period rather than the date a triggering event occurs. The Organization elected to adopt this accounting alternative effective January 1, 2020. The adoption of this ASU did not have a material impact on the accompanying financial statements.

***Recent accounting pronouncement***

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standards, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For income statement purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. Extensive quantitative and qualitative disclosures will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard will be effective for the Foundation January 1, 2022, and the Organization is currently evaluating the effect this accounting standard may have on its consolidated financial statements.

***Subsequent events***

Subsequent events have been evaluated through June 1, 2021, which was the date the consolidated financial statements were available to be issued.

On January 26, 2021, the Foundation was granted a loan from Blue Ridge Bank in the aggregate amount of \$372,958 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the Coronavirus Aid, Relief and Economy Security (CARES) Act, which was enacted on March 17, 2020. A feature of this program is that a portion or all of loans under PPP may effectively be converted to a grant through a special loan forgiveness provision if certain criteria is met.

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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The Foundation entered into a \$2,860,000 contract for building renovations and new construction at its Crossroad Parkway site. The Foundation was also in the process of securing a \$3,800,000 loan with a bank to fund the project. Once completed, the Crossway Parkway site will be the home of a recreation center that includes a fitness facility, activity rooms, and two full-size multi-purpose courts.

**2. Availability and Liquidity**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 299,690	\$ 343,332
Accounts receivable	230,658	88,945
Pledges receivable	500,000	500,000
Prepaid expenses and other current assets	82,280	86,865
Investments	<u>22,958,093</u>	<u>23,717,668</u>
Total assets available within one year	<u>\$ 24,070,721</u>	<u>\$ 24,736,810</u>
Less: amounts not available to be used within one year:		
Net assets with donor restrictions	<u>1,497,661</u>	<u>1,956,000</u>
Financial assets available to meet general expenditures Over the next twelve months	<u>\$ 22,573,060</u>	<u>\$ 22,780,810</u>

The Organization has investments functioning as a board-designated endowment, which is available for general use.

**3. Pledges Receivable**

Pledges receivable are carried at net realizable value at December 31, 2020 and 2019 and consisted of the following:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Amounts due in:		
One to five years	\$ 1,000,000	\$ 1,500,000
Less present value discount	<u>(22,000)</u>	<u>(44,000)</u>
	<u>\$ 978,000</u>	<u>\$ 1,456,000</u>

A discount rate of 1.5% was used to calculate the present value of the pledges receivable at December 31, 2020 and 2019.



#### 4. Board Designated Endowment

The Organization's endowment is a fund designated by the Board of Directors to function to act as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no donor-imposed restrictions on this fund; therefore, it is classified in net assets without donor restrictions in the accompanying consolidated financial statements.

The Organization has adopted investment and spending policies for the Board Designated endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Organization's Board of Directors committed to hold the corpus of the endowment funds in perpetuity. The Organization distributes funds from the endowments as needed in accordance with its spending policy. The Organization has a policy of appropriating for distribution each year 4% of value of the endowment fund.

A summary of the activity in endowment funds for the year ended December 31, 2020 and 2019 is as follows:

Endowment Net Assets without Donor Restrictions, December 31, 2018	\$ 2,662,346
Investment return:	
Investment income, net	111,564
Net appreciation in fair value of investments	<u>504,108</u>
Total investment return	615,672
Funds deposited during the year	232,000
Appropriated for expenditures	<u>-</u>
Endowment Net Assets without Donor Restrictions, December 31, 2019	3,510,018
Investment return:	
Investment income, net	<b>252,484</b>
Net depreciation in fair value of investments	<u><b>(47,391)</b></u>
Total investment return	<b>205,093</b>
Funds deposited during the year	<b>44,000</b>
Appropriated for expenditures	<u><b>(375,200)</b></u>
Endowment Net Assets without Donor Restrictions, December 31, 2020	<u><b>\$ 3,383,911</b></u>

## 5. Investments

Marketable securities at December 31, 2020 and 2019 carried at fair value as determined by quoted market prices are as follows:

	<u>2020</u>	<u>2019</u>
Money market funds and cash equivalents	\$ 578,866	\$ 1,095,945
Mutual funds	16,985,513	17,590,565
Fixed income	5,071,585	4,428,431
Government and agency bonds	<u>322,129</u>	<u>602,727</u>
	<u>\$ 22,958,093</u>	<u>\$ 23,717,668</u>

The following schedule summarizes investment income and gains, in the consolidated statement of activities at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 482,934	\$ 484,563
Investment fees	(173,358)	(161,359)
Net realized and unrealized gains on investments	<u>974,204</u>	<u>3,526,881</u>
	<u>\$ 1,283,780</u>	<u>\$ 3,850,085</u>

## 6. Fair Value Measurements

Fair Value, as defined under Generally Accepted Accounting Principles (GAAP), is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1:** Observable inputs such as quoted prices in active markets.
- Level 2:** Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3:** Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

There have been no changes in the methodologies used at December 31, 2020 and 2019. The following is a description of the valuation methodologies used for instruments measured at fair value:

**Culpeper Wellness Foundation, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

***Money market funds and cash equivalents***

Money market funds and other cash equivalents are recorded at cost which approximates fair value. Both observable inputs are used to value these investments.

***Mutual funds and fixed income securities***

Mutual funds and fixed-income securities are valued using quoted market prices.

***Government and agency bonds***

Government and agency bonds are valued using model-based valuation techniques.

The following tables set forth by level within the fair value hierarchy the Organization's assets accounted for at fair value on a recurring basis as of December 31, 2020 and 2019.

	<b>Assets at Fair Value as of December 31, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Totals</b>
Money market funds and cash equivalents	\$ 578,866	\$ -	\$ -	\$ 578,866
Mutual funds	16,985,513	-	-	16,985,513
Fixed income securities	5,071,585	-	-	5,071,585
Government and agency bonds	-	322,129	-	322,129
	<b>\$ 22,635,964</b>	<b>\$ 322,129</b>	<b>\$ -</b>	<b>\$ 22,958,093</b>

	<b>Assets at Fair Value as of December 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Totals</b>
Money market funds and cash equivalents	\$ 1,095,945	\$ -	\$ -	\$ 1,095,945
Mutual funds	17,590,565	-	-	17,590,565
Fixed income securities	4,428,431	-	-	4,428,431
Government and agency bonds	-	602,727	-	602,727
	<b>\$ 23,114,941</b>	<b>\$ 602,727</b>	<b>\$ -</b>	<b>\$ 23,717,668</b>

**7. Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of a pledge from Novant Health UVA Health System Culpeper Medical Center and other contributions with donor restrictions for specific projects as of December 31, 2020 and 2019. Due to the satisfaction of time and purpose restrictions as pledge payments were received and donor-imposed stipulations were met, net assets of \$534,839 and \$500,000 were released to meet charitable community wellness needs during the years ended December 31, 2020 and 2019, respectively.

**8. Annuity Obligation**

The Organization is a party to a gift annuity agreement with a donor requiring annual payments of \$2,450. The recorded obligation represents the present value of expected payments over the donor's remaining life expectancy measured according to IRS annuity tables using a discount rate of 6%.

## 9. Compensated Absences

Employees who have met length-of-service requirements (as defined by the Organization's policies) earn compensatory leave. Employees may carry a maximum of 180 hours of compensatory leave. At termination or retirement, employees who have met separation-of-service requirements (as defined by the Organization's policies) will be paid for compensatory leave balances, as follows: 100% of the first 50% of eligible hours and 50% of the remaining eligible hours. At December 31, 2020 and 2019, the Organization's accrual for compensated absences was \$34,894 and \$44,381, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position.

## 10. Rental Income

The Organization is the lessor of various real estate properties under operating leases expiring in various years. In addition, PWC and CWF both lease property to a related party. Rental income for the year ended December 31, 2020 was approximately \$760,000, of which approximately \$528,000 was income from related parties. Rental income for the year ended December 31, 2019 was approximately \$715,000, of which approximately \$513,000 was related party income. There is also approximately \$95,000 of in-kind rental income presented as a part of contributions in the accompanying consolidated statements of activities related to use of rental space the Organization donates to other non-profits at December 31, 2019. There was no in-kind rental income for the year ended December 31, 2020. Several of the Organization's leases have various renewal options and escalating lease clauses that are not included in the amounts below.

Expected annual rental income on these leases are as follows:

2021	\$ 841,373
2022	647,749
2023	498,703
2024	64,899
2025	64,899
Thereafter	<u>259,596</u>
	<u>\$ 2,377,219</u>

## 11. Related-Party Transactions

Throughout the year, the Organization reimburses certain expenses to Novant Health UVA Health System Culpeper Medical Center, which was formerly majority-owned by the Organization and is considered a related party. There is \$0 outstanding for reimbursable expenses, which is included in accounts payable, as of December 31, 2020 or 2019. Pledges receivable from Novant Health UVA Health System Culpeper Medical Center were \$1,478,000 and \$1,956,000 net of the pledge discount as of December 31, 2020 and 2019, respectively. The pledge is receivable in annual installments of \$500,000 over 10 years. The pledge is to be used by the Organization, as it deems appropriate, to meet charitable community wellness needs. The pledge is more fully described in Note 3 and Note 7.

## 12. Operating Leases

Effective February 1, 2016, the Organization entered into a three-year lease agreement for office space in Culpeper, Virginia. The lease requires initial monthly rent of \$2,735, increasing to \$2,985 after six months; and provides for 2% increases in monthly rent at each anniversary date. The lease contains a renewal provision at the Organization's option for an additional two-year term. The Organization did not renew the lease after expiration on January 31, 2021.

The Organization also entered into a three-year lease agreement effective September 1, 2017 for CSF operations. The lease requires initial monthly payments of \$6,134, with scheduled increases of approximately 4% at each anniversary date and an option for an additional two-year term. The organization did not exercise the option and the lease expired in 2020. Rent expense totaled \$119,689 and \$116,718 for the years ended December 31, 2020 and 2019, respectively.

Minimum lease payments for future years ending December 31 are as follows:

2021	\$ <u>3,231</u>
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## 13. Defined Contribution Plan

The Organization has a defined contribution plan covering all employees who are over 21 years of age and have three months of service. Employees' matching contributions are based on a percentage of salary contributed by participants who have attained one year of service. Employee contributions are fully vested and employer contributions are 100% vested after one year of service. The employer match was not material in 2020 or 2019.

## 14. Donation of Property

On December 30, 2019, the Organization donated a property in Madison County with a book value of \$548,000 for strategic initiative purposes. The donation is subject to reversion for a period of twenty years if the grantee or its successor uses the property for any purpose other than general community health and wellness.

## 15. Paycheck Protection Program Loan

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. The CARES Act provides for the establishment of the Payroll Protection Program (PPP), a new loan program under the Small Business Administration's 7(a) program providing loans to qualifying businesses. Additionally, loans originated under this program may be forgiven, in whole or in part, if certain criteria are met.

The Organization received \$372,900 under the PPP. The Organization believes that it was eligible under the PPP to receive the funds and received notice from the SBA on December 30, 2020 that the loan had been forgiven. Therefore, management has concluded that the receipt of these funds represents a government grant. The Organization elected to account for the receipt of these funds as a government grant under ASC 958-605. These funds were recognized as a refundable advance when received and classified in accordance with the scheduled maturity outlined in the PPP loan agreement assuming a ten-month deferral of payments from the end of the Organization's covered period. Grant income under this method of accounting may only be recognized when the conditions attached to the grant have been substantially met. The Organization has fully utilized the proceeds of the loan for qualifying expenses under the PPP and the Organization's covered period was closed as of the consolidated statement of financial position date. A forgiveness calculation has been prepared and submitted to the Organization's lender indicating that the full amount of the loan qualifies for forgiveness. The Organization believes it has substantially met the conditions attached to the grant as of the consolidated statement of financial position date. Grant income has been recognized in the consolidated statement of activities in the PPP grant income line item.

## **16. Contingencies**

In March 2020, the World Health Organization declared the outbreak and spread of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering of certain nonessential businesses.

The COVID-19 pandemic has disrupted the operations of our organization and there is significant uncertainty in the nature and degree of its continued effects on our organization over time. The extent to which it will impact our business going forward will depend on a variety of factors including the duration and continued spread of the outbreak, impact on our donors, employees and vendors, as well as governmental, regulatory and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates and assumptions.