HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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Report of Independent Auditors

Board of Directors of
Hampton Roads Community Foundation

Opinion

We have audited the accompanying consolidated statement of net assets of the Hampton Roads Community Foundation and its supporting organization (collectively the Foundation) as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, and cash flows for each of the years in the three year period ended December 31, 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and its activities and changes in net assets, and cash flows for each of the years in the three year period ended December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued and, if such conditions or events are identified, disclose the details of the same and management's plans to mitigate their effects.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter

As discussed in Note 2 of the consolidated financial statements, in 2022 the Foundation adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02 – Leases (Topic 842). Our opinion is not modified with respect to this matter.

Carmack Nelson PLC

June 6, 2023

HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF NET ASSETS

	December 31, 2022	December 31, 2021
Assets		
Investments, at fair value:		
Cash equivalents	$ 42,264,655	$ 61,488,969
Fixed income funds	3,825,380	2,467,227
Equity funds	12,077,173	5,165,575
Investment partnerships	414,157,676	454,004,983
Other	378,409	600,522
Total investments	472,703,293	523,727,276
Cash and cash equivalents	1,763,548	1,138,864
Property and equipment, net	88,123	67,583
Operating lease right-of-use asset	1,867,216	-
Other assets	165,116	204,617
Restricted assets:		
Contributions receivable	6,233,064	7,196,919
Beneficial interest in insurance trusts	334,895	327,577
Total assets	$ 483,155,255	$ 532,662,836
Liabilities and net assets		
Funds held for others	$ 19,556,717	$ 20,226,032
Grants payable and other	1,075,132	849,953
Operating lease liability	1,940,260	-
Total liabilities	22,572,109	21,075,985
Net assets:		
Without donor restrictions	454,015,187	504,062,355
With donor restrictions	6,567,959	7,524,496
Total net assets	460,583,146	511,586,851
Total liabilities and net assets	$ 483,155,255	$ 532,662,836

The notes to consolidated financial statements are an integral part of these financial statements.

HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	For the years ended December 31, 2022	2021	2020
Changes in net assets without donor restrictions:			
Revenue and support:			
Contributions and bequests	$ 14,063,690	$ 46,392,576	$ 14,203,436
Investment income (loss)	(38,647,359)	72,249,924	64,729,593
Other income	369,126	264,429	116,887
Net assets released from restrictions	1,414,843	1,914,081	1,914,081
Total revenue and support	(22,799,700)	120,821,010	80,963,997
Expenses:			
Program services:			
Grants	23,359,427	20,022,637	23,143,698
Other	1,259,379	1,153,408	1,205,282
Total program services	24,618,806	21,176,045	24,348,980
Supporting services:			
Management and general	1,472,266	1,323,816	1,324,316
Development	1,100,765	965,283	812,998
Total supporting services	2,573,031	2,289,099	2,137,314
Total expenses	27,191,837	23,465,144	26,486,294
Change in net assets without donor restrictions	(49,991,537)	97,355,866	54,477,703
Changes in net assets with donor restrictions:			
Change in value of future interests	458,306	539,879	576,858
Net assets released from restrictions	(1,414,843)	(1,914,081)	(1,914,081)
Change in net assets with donor restrictions	(956,537)	(1,374,202)	(1,337,223)
Change in total net assets	(50,948,074)	95,981,664	53,140,480
Net assets at beginning of year, as originally presented	511,586,851	415,605,187	362,464,707
Restatement related to adoption of new lease standard (Note 2)	(55,631)	-	-
Net assets at beginning of year, as restated for 2022	511,531,220	415,605,187	362,464,707
Net assets at end of year	$ 460,583,146	$ 511,586,851	$ 415,605,187

The notes to consolidated financial statements are an integral part of these financial statements.

HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Change in net assets	$(50,948,074)	$ 95,981,664	$ 53,140,480
Net (gain)/loss on investments	39,797,052	(72,021,974)	(64,422,819)
Depreciation	32,106	39,438	44,742
Operating lease expense (noncash)	304,171	-	-
Operating lease payments	(286,758)	-	-
Changes in:			
Charitable gift annuity asset	222,113	(53,318)	(41,153)
Other assets	39,501	(95,341)	(48,875)
Contributions receivable	963,855	1,361,974	1,339,041
Beneficial interest in insurance trusts	(7,318)	12,228	(1,818)
Funds held for others	(669,315)	4,378,303	1,355,888
Grants payable and other	225,179	(519,952)	5,205
Net cash provided by (used for) operating activities	(10,327,488)	29,083,022	(8,629,309)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	761,234	1,522,214	9,587,627
Purchases of investments	(8,980,730)	(8,176,697)	(2,496,736)
Purchases of property and equipment	(52,646)	(6,149)	(6,619)
Net cash provided by (used for) investing activities	(8,272,142)	(6,660,632)	7,084,272
Change in cash	(18,599,630)	22,422,390	(1,545,037)
Cash and cash equivalents at beginning of year	62,627,833	40,205,443	41,750,480
Cash and cash equivalents at end of year	$ 44,028,203	$ 62,627,833	$ 40,205,443
Cash and cash equivalents at end of year consist of:			
Investments – cash equivalents	$ 42,264,655	$ 61,488,969	$ 38,646,023
Operating cash and cash equivalents	1,763,548	1,138,864	1,559,420
Cash and cash equivalents at end of year	$ 44,028,203	$ 62,627,833	$ 40,205,443

Supplemental noncash information:
Supplemental disclosures of cash flow information are presented in Note 15.

The notes to consolidated financial statements are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and purpose

The Hampton Roads Community Foundation is a non-profit, non-stock, tax exempt entity organized in 1950 to provide for the permanent administration of funds placed in trust by individuals, corporations, and other entities for charitable purposes. Its supporting organization, Foundation Realty, was organized in 2007 for the administration of certain real assets that support the Foundation's charitable purposes.

Financial statement presentation and fund accounting

The consolidated financial statements include the accounts of the Hampton Roads Community Foundation and its supporting organization, Foundation Realty (collectively the Foundation). All intercompany transactions and balances have been eliminated in consolidation.

The Foundation presents its consolidated financial statements in accordance with accounting principles generally accepted in the United States (GAAP) including the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, which classifies net assets into two categories based on the existence of donor-imposed restrictions – net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. The Foundation's net assets with donor restrictions consist primarily of contributions receivable, irrevocable charitable remainder trusts, and charitable lead trusts. When donor restrictions expire, that is, when a stipulated (or implied) time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Although the Foundation follows GAAP for financial reporting purposes, the Foundation continues to maintain donated assets in individual component funds established primarily by donors. Management of the Foundation believes that this framework classifies the Foundation’s resources into funds established in accordance with the Foundation’s objectives and ensures the observance of donor intentions. Grants charged to the individual funds are directed to purposes identified by donors and by the Foundation’s Board of Directors. In addition, the Foundation maintains an operating fund for current administrative purposes, which is funded primarily through an annual pro rata component fund assessment.

Classification of revenue and support, and net assets

Contributions received are classified as support without donor restrictions or with donor restrictions depending on the existence of donor-imposed restrictions. Contributions that have no donor-imposed use or time restrictions are classified as support without donor restrictions.

The bylaws of the Foundation include a variance provision giving the Board of Directors (the “Board”) the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Based on that provision, the Foundation classifies contributions, except as noted below, as support without donor restrictions for financial statement presentation. This classification does not alter the long-standing policy of the Foundation to distribute assets entrusted to the Foundation in accordance with the intentions of the Foundation’s donors and to manage the assets of the component funds in a manner similar to an endowment with only a portion of each component fund (see spending policy below) distributed annually, unless advised otherwise by the donor.

Support not subject to the variance provision that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other such donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Component fund investments and spending policy

Investments in short-term, fixed income and equity securities and funds are carried at quoted market prices, if available. Investment partnerships are stated at fair value as determined by the investment managers (see Note 5). Due to the inherent uncertainty of investment valuation, the partnership fair values may differ significantly from the values that would have been used had a readily determinable market for all investments existed, and the differences could be material.

The Foundation occasionally receives contributions of assets for which a readily determinable market value does not exist. In such instances, the Foundation estimates the value of the contribution and related asset based on, as applicable, real estate assessments, comparable sales data, and appraisals.

The Foundation manages the majority of the component funds on a total return basis in order to provide portfolio management flexibility, preserve the purchasing power (real value) of component funds and aid the Foundation's distribution process. Under the total return concept, the Foundation establishes a realistic return objective, including interest, dividends, and net investment appreciation. The Foundation then uses a spending-rate formula, applied to a twelve-quarter average of the specific fund's fair market value, to determine how much of the return will be used for annual distributions. Effective January 1, 2005, the spending policy was established at 4.5%. Accordingly, while actual returns in any given year will vary from the objective, income in excess of the spending-rate is available to maintain or increase the real value of the applicable component funds.

Credit risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, and certain investments, including those investments held in charitable trusts which form the basis for the Foundation's contributions receivable. To mitigate credit risk, the Foundation's cash and cash equivalents are placed with highly regarded financial institutions, and the Foundation's investments are managed by professional investment managers chosen for their expertise.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows includes cash and cash equivalents held by custodians and investment managers.

Property and equipment

Property and equipment are stated at cost less an allowance for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Gains and losses arising from retirements or dispositions are recognized currently.

Operating lease

For the year ended December 31, 2022, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02 – Leases (Topic 842) (see Note 2) and accounted for its operating lease by recognition of a right-of-use asset and a lease liability. The right-of-use asset is being amortized to expense over the expected term of the lease and the related liability is reduced as lease payments are made. The Foundation recognizes lease expense for its operating lease on the straight-line basis over the lease term. Prior to the adoption Accounting Standards Update No. 2016-02, no asset or liability for the operating lease was recognized.

Contributions receivable and beneficial interest in trusts

The Foundation is a beneficiary under various irrevocable charitable lead, remainder and insurance trusts, the assets of which are not controlled by management of the Foundation. Although the Foundation has no control over the administration or investment of the funds held in these trusts, the estimated present value of the expected future cash flows from such irrevocable trusts is recognized as a restricted contribution in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to the Foundation to receive benefits and the benefits are clearly measurable.

The Foundation is also a beneficiary under various wills, including several where the Foundation's interest is not presently determinable. Such amounts are recorded as contributions and restricted assets when the Foundation's interest is clearly established and measurable.

Funds held for others

The Foundation holds numerous funds as operating endowments for non-profit organizations. The Foundation accounts for such funds in accordance with GAAP and, accordingly, if the resource provider specifies itself or its affiliate as the beneficiary of such assets, the Foundation records the receipt of the assets and the subsequent earnings thereon as a liability titled "funds held for others" in the consolidated statement of net assets.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from such estimates and assumptions.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-02 – LEASES

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02 – Leases (Topic 842) (the Update) which amends various aspects of existing guidance for leases. The Update requires an entity to recognize assets and liabilities arising from a lease with terms greater than twelve months, along with additional qualitative and quantitative disclosures. The Foundation adopted the Update as of January 1, 2022, and as permitted under the Update, elected not to restate comparative periods. Information prior to adoption continues to be presented in accordance with the previous lease guidance.

Leases arise from contractual obligations that convey the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. Under the Update, at the inception of a contract, the Foundation determines if an arrangement contains a lease based on whether there is an identified asset and whether the Foundation controls the use of the identified asset (right-of-use asset). The Foundation also determines whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents the Foundation's right to use an underlying asset and a lease liability represents the Foundation's obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement for the present value of the lease liability, adjusted for initial direct costs incurred and lease incentives received. Lease liabilities are recorded at the present value of the future lease payments over the lease term at commencement. The Update allows entities to expense as paid leases with an initial term of twelve months or less (short-term leases) and leases determined to be immaterial.

Under the Update, the Foundation uses the rate implicit in the lease if known to determine the present value of future lease payments at the lease commencement date. If the implicit rate is not readily determinable, the Foundation uses its incremental borrowing rate which reflects the rate at which the Foundation could borrow an amount equal to the future lease payments over a similar term.

The Foundation uses the base, non-cancelable, lease term when recognizing lease assets and liabilities, unless it is reasonably certain that the Foundation will exercise options to extend or terminate the lease. The Foundation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In accordance with the Update, the Foundation recognizes lease expense for its operating lease on the straight-line basis over the lease term. Upon the adoption of the Update, the Foundation recognized a right-of-use asset of $2,129,903 and a lease liability of $2,185,534.

The Foundation's net assets at January 1, 2022 were restated to reflect the beginning balance of the Foundation's operating lease right-of-use asset and lease liability upon adoption of the Update. The following is the restatement that occurred at January 1, 2022:

	Net assets without donor restrictions	**Total Net assets**
Net assets, as previously reported on January 1, 2022	$ 504,062,355	$ 511,586,851
Restatement related to adoption of the Update	(55,631)	(55,631)
Net assets, as restated on January 1, 2022	$ 504,006,724	$ 511,531,220

NOTE 3 – ASSET LIQUIDITY

As part of liquidity management, the Foundation structures the availability of its financial assets to support Foundation operations, liabilities, and other obligations as they come due. To help manage unanticipated liquidity needs, the Foundation maintains an operating reserve equal to one half of the annual operating budget and maintains a $1.0 million line of credit if needed.

As part of the Foundation's investment in The Richmond Fund, L.P. (the Richmond Fund) (see Note 4), limitations exist on the Foundation's ability to redeem certain investments. The limitations on redemptions are governed by partnership agreements and generally exist for five years. Redemptions can be further delayed based on investee liquidity. At December 31, 2022, approximately 41% of the Foundation's investment partnership portfolio was available for redemption within the next twelve months. Additionally, at December 31, 2022 the Foundation had approximately $60 million in other financial assets available for general expenditure, if needed.

NOTE 4 – INVESTMENTS AND INVESTMENT INCOME

Investment allocation

The Foundation's investments were allocated among different investment classes as follows at December 31 (investments exceeding 5% of total investments are identified separately within each classification):

	Percent of total investments	
	2022	**2021**
Investment partnerships:		
The Richmond Fund, L.P.	87.2%	86.3%
Other	0.4	0.4
Total investment partnerships	87.6	86.7
Cash and cash equivalents	8.9	11.7
Fixed income funds	0.8	0.5
Equity funds	2.6	1.0
Other	0.1	0.1
Total	100.0%	100.0%

The Foundation did not have beneficial ownership of any investment funds at December 31, 2022 that exceeded 5.0% of the Foundation's total investments. At December 31, 2021, the Foundation had beneficial ownership of an investment fund that represented 5.0% of the Foundation's total investments.

The Richmond Fund

In order to diversify investment risk and avoid undue concentration in any one asset class or group of assets, Foundation management invests in investment partnerships and funds with demonstrated investment management expertise. Due in part to the University of Richmond's (the University) success in accomplishing these objectives, the Foundation has a substantial investment in the Richmond Fund, a Virginia limited partnership affiliated with the University's endowment manager, organized to provide an asset management vehicle for certain non-profit organizations. At December 31, 2022 and 2021, the Foundation held a 15.6% interest in the Richmond Fund. The General Partner of the Richmond Fund is managed by Spider Management Company, LLC, a controlled affiliate of the University. One of the goals of the Richmond Fund is to achieve gross investment returns for its investors that mirror the returns achieved by the University's endowment.

The Richmond Fund's investments are diversified globally and by sector, and at December 31, 2022 and 2021 were allocated among the following asset classes as a percentage of its partners' capital:

	2022	**2021**
Investments in investment funds:		
Hedge funds	43.6%	43.7%
Private equity	34.1	32.5
Real assets	10.6	10.1
	88.3	86.3
Investments in securities:		
Common and preferred stocks	4.6	5.1
Comingled funds	3.3	2.4
Fixed income funds	1.1	5.2
	9.0	12.7
The Richmond Fund's investments as a percentage of its total partners' capital	97.3%	99.0%

Investment income

Investment income for the years ended December 31, consists of the following:

	2022	2021	2020
Net gain (loss) on investments	$(39,797,052)	$ 72,021,974	$64,422,819
Interest and dividends (net of fees)	1,149,693	227,950	306,774
	$(38,647,359)	$ 72,249,924	$64,729,593

Activity for endowment type funds

A summary of activity for those funds that function in a manner similar to an endowment are as follows for the years ended December 31:

	2022	2021	2020
Balance at beginning of year	$ 432,886,405	$ 368,051,431	$ 312,727,142
Receipt of contributions and bequests	11,197,021	18,963,276	11,580,718
Investment income, net of fees	(35,287,134)	63,600,659	61,350,332
Program expenditures	(17,307,411)	(14,632,509)	(14,589,982)
Administrative assessment	(3,370,480)	(3,096,452)	(3,016,779)
Balance at end of year	$ 388,118,401	$ 432,886,405	$ 368,051,431

NOTE 5 – FAIR VALUE MEASUREMENTS

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a three-level fair value hierarchy that describes and prioritizes the inputs to valuation techniques used to measure fair value.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded, and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1: The asset and liability fair values are based on quoted prices in active markets for identical assets or liabilities.

Level 2: The asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable and can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange traded instruments.

Level 3: The asset and liability fair values are based on unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Foundation estimates the fair value of its investment in the Richmond Fund based on the Foundation's proportionate share of the Richmond Fund's audited net assets, a method equivalent to net asset value (NAV). Accordingly, the investment in the Richmond Fund is not subject to the aforementioned fair value hierarchy. Substantially all Richmond Fund investments in securities are recorded at fair value based upon quoted prices in active markets. The fair value of the Richmond Fund's investments in investment funds is based on NAV. When the NAV or its equivalent is not fair value based or is not calculated as of year-end, the Richmond Fund adjusts the same if necessary to estimate fair value. Such estimates when applicable are based upon valuations determined in good faith by the underlying investment managers and reviewed by the Richmond Fund, giving consideration to a variety of factors based on the specific investment. Such factors include the pricing of recent redemptions or purchases, restrictions on redemptions, pricing models and valuations, market inputs, recent sales and purchase data of comparable companies or securities. The use of observable inputs is maximized when available.

The following table presents the Foundation's assets that are measured at fair value on a recurring basis for each hierarchy level at December 31. Fair value measurements not valued using the practical expedient are categorized into the three-level hierarchy as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2022:				
Investment securities:				
Cash equivalents	$ 42,264,655	$ -	$ -	$ 42,264,655
Fixed income funds	-	3,825,380	-	3,825,380
Equity funds	12,006,731	-	70,442	12,077,173
Investment partnerships	-	-	1,829,066	1,829,066
Other	-	378,409	-	378,409
	$ 54,271,386	$ 4,203,789	$ 1,899,508	60,374,683
Investments measured at net asset value or its equivalent ①				412,328,610
Total investments				$ 472,703,293
Contributions receivable	$ -	$ 6,233,064	$ -	$ 6,233,064
Beneficial interest in insurance trusts	$ -	$ 334,895	$ -	$ 334,895

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2021:				
Investment securities:				
Cash equivalents	$ 61,488,969	$ -	$ -	$ 61,488,969
Fixed income funds	-	2,467,227	-	2,467,227
Equity funds	5,095,133	-	70,442	5,165,575
Investment partnerships	-	-	1,900,821	1,900,821
Other	-	600,522	-	600,522
	$ 66,584,102	$ 3,067,749	$ 1,971,263	71,623,114
Investments measured at net asset value or its equivalent ①				452,104,162
Total investments				$ 523,727,276
Contributions receivable	$ -	$ 7,196,919	$ -	$ 7,196,919
Beneficial interest in insurance trusts	$ -	$ 327,577	$ -	$ 327,577

① Fair value amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated financial statements.

The following table presents a reconciliation of investment securities in which significant unobservable inputs (Level 3) were used to determine fair value for the years ended December 31:

	2022	2021
Balance, beginning of year	$ 1,971,263	$ 1,974,407
Change in unrealized losses, net	(71,755)	(3,144)
Balance, end of year	$ 1,899,508	$ 1,971,263

NOTE 6 – IRREVOCABLE TRUSTS

Charitable Lead Trusts

The Foundation is named as a beneficiary of certain charitable lead trusts. Under the terms of the trust agreements, the Foundation received $1,414,843, $1,914,081, and $1,914,081 during the years ended December 31, 2022, 2021 and 2020, respectively. The trusts will provide the Foundation $1,300,000 for the years ending December 31, 2023 through 2027, and $650,000 for the year ending December 31, 2028. The Foundation records the contributions and related receivables of such trusts at the estimated present value of the future payments on the date of gift using discount rates at date of gift that range from 4.8% to 7.0%. The change in value of these gifts is included in the consolidated statement of activities as restricted revenue and support.

Charitable Remainder Trusts

The Foundation is the named residual beneficiary under certain charitable remainder trust agreements (CRT). Under these trust agreements, the trusts pay an annual benefit to certain named individuals throughout their lives, based on a fixed amount or a percentage of the fair value of the trust assets each year. Contributions receivable and related restricted revenue and support are recognized to the extent that the fair value of the trust assets exceeds the estimated present value of the future payments to the individuals named in the trusts. Changes in the fair value of such charitable remainder trusts are included in the consolidated statement of activities as restricted revenue and support. In addition, the Foundation is named as beneficiary under certain other irrevocable charitable remainder trust agreements for which the Foundation's interest in the value of the applicable trust assets is not reasonably estimable or the trust corpus can be invaded on behalf of another beneficiary. Accordingly, the value of these trust agreements is not recognized in the Foundation's consolidated financial statements.

Insurance Trusts

The Foundation is also the named beneficiary in certain insurance trusts. Under the terms of the insurance trusts, the Foundation will receive the applicable death benefit from the related insurance policies and, accordingly, the Foundation's interest in the insurance policies is recorded as an asset at fair value. The fair value of the insurance policies is presumed to be the policies' cash surrender value at the end of the Foundation's reporting period. Changes in the fair value of the trust assets, over any applicable trust obligations, are included in the consolidated statement of activities as restricted revenue. No insurance trust contributions were recognized as revenue during the years ended December 31, 2022, 2021 and 2020.

Other

In addition to the above, the Foundation has been named beneficiary in several wills and intervivos trusts, which are subject to life interests. Proceeds from such estates and certain intervivos trusts are not recognized until an irrevocable benefit has been established and such benefit is clearly measurable.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2022	2021
Furniture	$ 306,580	$ 306,580
Computer equipment and software	380,308	380,308
Other office equipment	148,352	95,706
Leasehold improvements	66,931	66,931
	902,171	849,525
Less – accumulated depreciation	(814,048)	(781,942)
	$ 88,123	$ 67,583

NOTE 8 – LINE OF CREDIT

The Foundation has a $1,000,000 line of credit with a commercial bank. The line was obtained to provide liquidity for the Foundation, if needed. Since obtaining the line in April 2014, the Foundation has not made any draws against it. The line of credit is renewed annually and is currently available through November 23, 2023. Balances, if used, are payable on demand with interest payable monthly equal to the lender's prime rate per annum. The line of credit is secured by Foundation deposits and investments held with Truist Bank.

NOTE 9 – FUNDS HELD FOR OTHERS

The Foundation's liability for funds held for others and the changes therein consist of the following at and for the years ended December 31:

	2022	2021
Balance at beginning of year	$ 20,226,032	$ 15,847,729
Contributions	1,677,327	845,127
Investment income (loss), net of fees	(1,728,307)	4,138,695
Program expenditures	(503,720)	(502,925)
Administrative assessment	(114,615)	(102,594)
Balance at end of year	$ 19,556,717	$ 20,226,032

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Conditional Commitments

The Foundation has several conditional commitments payable from discretionary funds, including certain multi-year grants that will be considered authorized for distribution when the contingency requirements are met. At December 31, 2022, these conditional commitments approximated $2.6 million. In addition to these conditional commitments, it is the practice of the Foundation to continue scholarship grants for up to four years, provided the student continues successfully in school.

Lease Commitment

The Foundation leases its office space under a non-cancellable operating lease arrangement. The office lease has a term of ten years and expires in July 2029. In the accompanying consolidated statement of net assets, the Foundation's right-of-use asset and lease liability related to the office lease are $1,867,216 and $1,940,260, respectively, at December 31, 2022. The lease agreement includes an option to renew if written notice is provided not less than twelve months prior to the lease expiration date. Renewal is not certain as of the year ended December 31, 2022 and, accordingly, is not included in the calculation of the right-of-use asset or lease liability.

The lease contains fixed payments that escalate annually and does not contain any variable lease cost provisions. In the accompanying consolidated statement of activities and changes in net assets, the Foundation recognizes lease expense for its operating lease on the straight-line basis over the lease term.

Future minimum annual operating lease payments are as follows:

2023	$ 293,927
2024	301,276
2025	308,807
2026	316,527
2027	324,441
Thereafter	530,523
Total operating lease payments	2,075,501
Less: present value discount	(135,241)
Total operating leases liability	$1,940,260

At December 31, 2022, the weighted average remaining lease term for the operating lease was 8.6 years and the weighted average discount rate was 2.0%.

NOTE 11 – NET ASSETS

The Foundation's net assets without donor restrictions include the following fund categories at December 31:

	2022	**2021**
Donor advised grant funds	$ 147,903,400	$ 161,163,373
Unrestricted grant funds	97,500,248	108,897,015
Designated grant funds	90,005,458	102,434,148
Field of interest grant funds	71,230,433	80,947,121
Scholarship grant funds	40,085,586	44,462,097
Operating	1,974,500	1,866,450
	448,699,625	499,770,204
Undesignated	5,315,562	4,292,151
Total net assets without donor restrictions	454,015,187	504,062,355

The Foundation's net assets with donor restrictions include the following at December 31:

Contributions receivable – time restricted	6,233,064	7,196,919
Beneficial interest in insurance trust – time restricted	334,895	327,577
Total net assets with donor restrictions	6,567,959	7,524,496
Total net assets	$ 460,583,146	$ 511,586,851

NOTE 12 – NATURAL AND FUNCTIONAL CLASSIFICATION OF EXPENSES

The Foundation's expenses are presented in the consolidated statement of activities on a functional basis. The Foundation's natural expenses contain certain categories of expenses that are attributable to one or more program or supporting functions and, accordingly, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries and benefits, depreciation and occupancy, and software support among others. Expenses by function, disaggregated to show the natural expense classifications, consist of the following for the years ended December 31:

December 31, 2022:	**Program**	**Management and General**	**Development**	**Total**
Direct grant expenses	$ 23,359,427	$ -	$ -	$ 23,359,427
Salaries	659,852	799,966	484,918	1,944,736
Payroll taxes and employee benefits	117,759	140,879	98,196	356,834
Professional fees and other services	211,528	150,055	87,212	448,795
Rent	96,610	118,156	92,614	307,380
Printing and communications	2,198	34,624	128,570	165,392
Software support, service contracts and maintenance	84,135	102,901	80,655	267,691
Depreciation	10,091	12,341	9,674	32,106
Other	77,206	113,344	118,926	309,476
	$ 24,618,806	$ 1,472,266	$ 1,100,765	$ 27,191,837

December 31, 2021:	**Program**	**Management and General**	**Development**	**Total**
Direct grant expenses	$ 20,022,637	$ -	$ -	$ 20,022,637
Salaries	682,746	805,110	466,202	1,954,058
Payroll taxes and employee benefits	124,683	141,836	91,001	357,520
Professional fees and other services	111,414	90,013	63,243	264,670
Rent	89,451	101,489	72,462	263,402
Printing and communications	1,871	29,478	125,094	156,443
Software support, service contracts and maintenance	51,749	58,712	41,920	152,381
Depreciation	13,393	15,196	10,849	39,438
Other	78,101	81,982	94,512	254,595
	$ 21,176,045	$ 1,323,816	$ 965,283	$ 23,465,144

December 31, 2020:	**Program**	**Management and General**	**Development**	**Total**
Direct grant expenses	$ 23,143,698	$ -	$ -	$ 23,143,698
Salaries	712,099	755,990	423,971	1,892,060
Payroll taxes and employee benefits	130,438	128,952	81,161	340,551
Professional fees and other services	116,126	141,615	28,144	285,885
Rent	98,754	104,597	74,907	278,258
Printing and communications	2,030	31,980	88,050	122,060
Software support, service contracts and maintenance	59,026	62,519	44,773	166,318
Depreciation	15,879	16,818	12,045	44,742
Other	70,930	81,845	59,947	212,722
	$ 24,348,980	$ 1,324,316	$ 812,998	$ 26,486,294

NOTE 13 – EMPLOYEE BENEFIT PLAN

The Foundation maintains a 401(k) plan which covers substantially all employees. During the years ended December 31, 2022, 2021, and 2020 the Foundation incurred plan expenses of $109,672, $105,617, and $96,139, respectively.

NOTE 14 – TAX STATUS OF THE FOUNDATION

Internal Revenue Service (IRS) regulations accord certain qualifying community foundations special status as publicly supported charities. Consequently, the Hampton Roads Community Foundation is not classified as a private foundation and accordingly not subject to excise taxes on its net investment income under Section 4940 of the Internal Revenue Code. In addition, the Foundation and its supporting organization have qualified under Section 501(c)(3) of the Internal Revenue Code as organizations exempt from taxes on net income, with the exception of unrelated business income earned on certain investments.

The Foundation's investments include alternative investments that can generate unrelated business income. The tax on such income is generally immaterial to the financial statements and when applicable is charged against the related investment income. During the year ended December 31, 2022, there were no estimated tax payments made for estimated unrelated business income. Total payments for income taxes for unrelated business income for the years ended December 31, 2021 and 2020 were $1,064,000 and $1,062,509, respectively. In addition, during the year ended December 31, 2020, the Foundation received a $367,465 refund of previously paid income tax on unrelated business income.

The Foundation's tax returns are generally subject to examination by the IRS for a period of three years from the date they are filed and, consequently, the Foundation's tax returns filed for the years December 31, 2021, 2020, and 2019 remain subject to examination.

NOTE 15 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the year ended December 31, was as follows:

	2022	2021
Noncash items:		
Recognition of initial right-of-use asset upon adoption of ASU 2016-02 – Leases	$ 2,129,903	$ -
Recognition of initial lease liability upon adoption of ASU 2016-02 – Leases	$ 2,185,534	$ -

NOTE 16 – SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through June 6, 2023, the date the consolidated financial statements were available to be issued, for purposes of determining whether such events required recordation or disclosure in the accompanying consolidated financial statements.