

JAMES RIVER ASSOCIATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

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HARRIS, HARDY & JOHNSTONE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
James River Association
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of James River Association (a nonprofit organization) (the "Association"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Association's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of James River Association as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Harris, Hardy & Johnstone, P.C.

Richmond, Virginia
November 4, 2014

JAMES RIVER ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,222,549	\$ 944,687
Unconditional promises to give	-	18,333
Grants receivable - current	298,617	374,382
Prepaid expenses	-	957
TOTAL CURRENT ASSETS	<u>1,521,166</u>	<u>1,338,359</u>
PROPERTY AND EQUIPMENT		
Property, equipment and software	501,883	401,347
Buildings and improvements	535,510	535,510
Land	81,700	81,700
	<u>1,119,093</u>	<u>1,018,557</u>
Less: Accumulated amortization and depreciation	337,292	288,685
NET PROPERTY AND EQUIPMENT	<u>781,801</u>	<u>729,872</u>
OTHER ASSETS		
Grants receivable - noncurrent (net of discount of \$2,366 at June 30, 2014)	47,634	-
Investments in marketable securities	1,173,605	1,072,412
Security deposits	2,750	2,125
TOTAL OTHER ASSETS	<u>1,223,989</u>	<u>1,074,537</u>
TOTAL ASSETS	<u>\$ 3,526,956</u>	<u>\$ 3,142,768</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 65,314	\$ 15,433
Accrued expenses and payroll withholdings	2,287	2,375
TOTAL CURRENT LIABILITIES	<u>67,601</u>	<u>17,808</u>
NET ASSETS		
Unrestricted	1,375,938	1,307,234
Temporarily restricted	779,835	740,337
Permanently restricted	1,303,582	1,077,389
TOTAL NET ASSETS	<u>3,459,355</u>	<u>3,124,960</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,526,956</u>	<u>\$ 3,142,768</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Program revenue				
Grants	\$ 170,000	\$ 1,056,990	\$ -	\$ 1,226,990
Contributions	407,748	111,276	100,000	619,024
Fees for services	31,677	-	-	31,677
Capital campaign contributions	-	2,552	-	2,552
Special events	222,653	-	-	222,653
Investment income	41,069	-	-	41,069
Miscellaneous	3,654	-	-	3,654
Product sales	1,365	-	-	1,365
Realized gain on investments in marketable securities	-	-	151	151
Unrealized gain on investments in marketable securities	-	-	126,042	126,042
Net assets released from restrictions	1,131,320	(1,131,320)	-	-
TOTAL REVENUE	<u>2,009,486</u>	<u>39,498</u>	<u>226,193</u>	<u>2,275,177</u>
EXPENSES				
Program services	1,381,589	-	-	1,381,589
Management and general	269,669	-	-	269,669
Fundraising	289,524	-	-	289,524
TOTAL EXPENSES	<u>1,940,782</u>	<u>-</u>	<u>-</u>	<u>1,940,782</u>
INCREASE IN NET ASSETS	68,704	39,498	226,193	334,395
Net assets, beginning of year	<u>1,307,234</u>	<u>740,337</u>	<u>1,077,389</u>	<u>3,124,960</u>
NET ASSETS, END OF YEAR	<u>\$ 1,375,938</u>	<u>\$ 779,835</u>	<u>\$ 1,303,582</u>	<u>\$ 3,459,355</u>

See Independent Auditor's Report and Notes to Financial Statements

2013			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 172,000	\$ 1,192,412	\$ -	\$ 1,364,412
334,372	6,376	25,000	365,748
32,669	-	-	32,669
-	169,252	-	169,252
245,467	-	-	245,467
41,656	-	-	41,656
11,159	-	-	11,159
459	-	-	459
-	-	3,431	3,431
-	-	67,802	67,802
<u>1,252,671</u>	<u>(1,252,671)</u>	<u>-</u>	<u>-</u>
<u>2,090,453</u>	<u>115,369</u>	<u>96,233</u>	<u>2,302,055</u>
1,197,812	-	-	1,197,812
258,131	-	-	258,131
296,281	-	-	296,281
<u>1,752,224</u>	<u>-</u>	<u>-</u>	<u>1,752,224</u>
338,229	115,369	96,233	549,831
<u>969,005</u>	<u>624,968</u>	<u>981,156</u>	<u>2,575,129</u>
<u>\$ 1,307,234</u>	<u>\$ 740,337</u>	<u>\$ 1,077,389</u>	<u>\$ 3,124,960</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014			Total
	Program Services	Supporting Services Management and General	Fundraising	
Salaries and wages	\$ 649,487	\$ 55,294	\$ 172,904	\$ 877,685
Programs	222,091	23,533	48,089	293,713
Professional fees	149,565	46,853	1,495	197,913
Occupancy	54,408	38,904	6,471	99,783
Employee benefits	71,945	6,125	19,154	97,224
Printing, publications and advertising	33,347	33,623	13,142	80,112
Taxes - payroll and other	56,147	4,780	14,947	75,874
Travel and meals	43,669	9,072	4,755	57,496
Depreciation and amortization	42,419	6,188	-	48,607
Insurance	32,663	5,171	4,695	42,529
Meetings - Board/committees	12,141	17,602	3,054	32,797
Telephone and utilities	6,393	8,721	54	15,168
Technology	2,328	7,557	764	10,649
Staff development	3,391	4,807	-	8,198
Dues and subscriptions	1,595	1,439	-	3,034
	<u>\$ 1,381,589</u>	<u>\$ 269,669</u>	<u>\$ 289,524</u>	<u>\$ 1,940,782</u>

See Independent Auditor's Report and Notes to Financial Statements

2013

Program Services	Supporting Services		Total
	Management and General	Fundraising	
\$ 505,480	\$ 85,543	\$ 186,639	\$ 777,662
69,649	8,117	50,280	128,046
310,222	43,401	2,088	355,711
46,720	32,334	5,262	84,316
54,692	9,255	20,194	84,141
23,644	30,271	7,356	61,271
47,043	7,961	17,370	72,374
36,340	8,950	2,687	47,977
48,301	4,658	-	52,959
27,267	4,381	2,921	34,569
6,121	8,580	1,159	15,860
9,445	3,536	147	13,128
5,598	4,456	178	10,232
5,440	3,471	-	8,911
1,850	3,217	-	5,067
<u>\$ 1,197,812</u>	<u>\$ 258,131</u>	<u>\$ 296,281</u>	<u>\$ 1,752,224</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 334,395	\$ 549,831
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized gain on investments in marketable securities	(151)	(3,431)
Unrealized gain on investments in marketable securities	(126,042)	(67,802)
Depreciation	48,607	52,959
(Increase) decrease in		
Security deposits	(625)	(250)
Unconditional promises to give	18,333	24,728
Grants receivable	28,131	(262,747)
Prepaid expenses	957	(957)
Increase (decrease) in		
Accounts payable	49,881	(29,043)
Accrued expenses and payroll withholdings	(88)	28
	<u>353,398</u>	<u>263,316</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(100,536)	(482,911)
Proceeds from sale of investments in marketable securities	73,815	130,548
Purchase of investments in marketable securities	<u>(48,815)</u>	<u>(154,980)</u>
	<u>(75,536)</u>	<u>(507,343)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	277,862	(244,027)
Cash and cash equivalents - beginning	<u>944,687</u>	<u>1,188,714</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,222,549</u></u>	<u><u>\$ 944,687</u></u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - NATURE OF THE ASSOCIATION

Organization

The James River Association (the "Association") is a Virginia not-for-profit organization dedicated to the preservation and conservation of the James River. The stated mission of the Association is to be guardian of the James River. The Association operates four principal programs: Advocacy, Education and Outreach, the James Riverkeeper, and Watershed Restoration.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association reports its financial position and results of operations on the accrual basis of accounting and accordingly records all receivables, payables, and other liabilities. Revenue is recorded when earned and expenses are recorded as incurred. The accrual basis of accounting is a basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, certificates of deposit, and cash on deposit at banks in checking, savings, and money market accounts and cash deposited in money market investment accounts.

Income Tax Status

The Association is exempt from federal income taxes as defined under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose could be subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status - Continued

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Association and various positions related to the potential sources of unrelated business taxable income (UBTI). The Association has recognized no uncertain tax positions for the years ended June 30, 2014 and 2013. The Association's tax returns for the years 2011, 2012, and 2013 remain subject to examination by the Internal Revenue Service.

Costs of Providing Various Programs and Other Activities

Costs of providing various programs and other activities are summarized on a functional basis in the statement of activities and in the statement of functional expenses. Program services are activities designed to fulfill the Association's stated mission. Management and general services are activities relating to management of the Association, including general oversight, management, and recordkeeping. Fundraising activities include the cost to maintain donor lists and the cost of special events and fundraising campaigns. Accordingly, certain costs are allocated among the programs and supporting services benefited.

Contributions

Unless specific donor restrictions are present, contributions are recorded as unrestricted support. Contributions with donor imposed restrictions of a nonpermanent nature with either a time restriction or a specific purpose restriction are recorded as temporarily restricted support. Upon removal or expiration of a donor restriction, temporarily restricted net assets are reclassified as unrestricted net assets. Contributions with donor restrictions that cannot be fulfilled, expire, or otherwise be removed by action of the Association are recorded as permanently restricted support.

Contributed marketable securities and other in-kind donations are recorded at their estimated fair value at the date of donation. Contributions of in-kind property items to be sold at the annual Westover Lawn Party are recorded at the realized sale price as special events income.

Volunteer contributions of services involving specialized skill which would otherwise be purchased by the Association are recorded as support and expenditure at the estimated fair value. Volunteer contributions of unskilled services that do not involve specialized skill are not recorded as support or expenditure.

Unconditional Promises to Give

Unconditional promises to give that are due within one year are reported at the net realizable value management expects to collect. Management reviews individual promises to give and records an allowance for specific promises considered uncollectible. At June 30, 2014 and 2013, management considered all unconditional promises to give collectible and therefore no allowance has been recorded in the accompanying statements of financial position. A discount of 1.62% has been recorded for unconditional promises to give due in more than one year.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments in Marketable Securities

Investments in marketable securities with readily determined fair values and all debt securities are carried at fair value in the financial statements. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and Equipment

Property and equipment are capitalized and recorded at cost. Depreciation is computed using straight-line and accelerated methods with estimated useful lives of three to thirty-nine years.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Future events and circumstances could alter those estimates.

Fair Value Measurement

The Association applies Financial Accounting Standards Board (FASB) ASC 820, "*Fair Value Measurements and Disclosures*." FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

- Level 1 - Quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 - Directly or indirectly observable valuations in the marketplace at the measurement date other than Level 1 inputs
- Level 3 - Valuations unobservable in the marketplace at the measurement date

The fair value of all investments of the Association held at June 30, 2014 and 2013 is measured using Level 1 inputs.

Concentration of Credit Risk

At June 30, 2014 and 2013, deposits were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. The Association maintained bank accounts in several financial institutions with deposits totaling \$317,138 and \$141,200 in excess of FDIC coverage at June 30, 2014 and 2013, respectively.

NOTE C - RETIREMENT PLAN

The Association maintains a Savings Incentive Match Plan for Employees ("SIMPLE") retirement plan, under which the Association will match employee elective deferrals up to 3% of a covered employee's compensation. For the years ended June 30, 2014 and 2013, the Association contributed \$8,244 and \$9,552, respectively, under the plan. Contributions by the Association are reported on the financial statements as employee benefits.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE D - TEMPORARILY RESTRICTED ASSETS

The Association had temporarily restricted net assets at June 30, 2014 and 2013 as follows:

	2014	2013
Education and outreach	\$ 487,926	\$ 340,797
Advocacy	116,909	137,925
Riverkeeper	100,000	115,000
Watershed restoration	50,000	-
Capacity building	25,000	106,615
Presquile capital projects	-	40,000
	<u>\$ 779,835</u>	<u>\$ 740,337</u>

NOTE E - PERMANENTLY RESTRICTED ASSETS

The Association has received cumulative cash contributions from the F. M. Kirby Foundation, Inc. and the Guilford Foundation, Inc. for the creation of a permanently restricted fund designated the Kirby Fund. Fund assets are invested in money market funds and marketable securities.

The Association has limited withdrawals to interest and dividend income only, to be used for executive operating expenditures. Unexpended interest and dividend income does not become a part of the restricted fund balance. The restricted fund balance is, however, adjusted by realized and unrealized gains and losses of Kirby Fund assets. Effective January 1, 2014, the Association amended the policy for withdrawals from the Fund. On a quarterly basis, in approximately March, June, September and December, funds will be transferred from the Kirby Fund to the operating account of the Association in equal quarterly installments. The annual amount transferred will be a declared percentage of the average closing value of the portfolio on December 31 of the prior three years. For the calendar years 2014 through 2016 the declared rate will be 4%. In the absence of action by the Executive Committee, the default rate will continue to be 4%. After 2016, the Executive Committee can authorize a rate between 2% and 4.5% for a specific year, based on its assessment of the investment climate and the Association's cash needs. This rate can be authorized or adjusted at any time up to the date of the first (March) draw for the new calendar year.

The Association received \$100,000 during the year ended June 30, 2014 to establish a new permanently restricted fund, the Youth Leadership Fund. The Youth Leadership Fund is a permanent endowment and shall be used for the benefit of the Association's environmental education. Funds distributed from the endowment shall be used to hold an annual Youth Leadership Summit for the Environment. The Youth Leadership Fund is subject to the same earnings and withdrawal policies as the Kirby Fund.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE F - LEASE COMMITMENT

Under an office lease dated September 9, 2013, the Association entered a five year lease agreement for office space in the City of Richmond, Virginia commencing on November 1, 2013 and ending on October 31, 2018. The lease calls for monthly rent of \$2,500 with incremental increases each year of the lease term.

The Association leases office equipment under a non-cancelable operating lease. The lease term is five years commencing on June 12, 2012 and ending on June 11, 2017.

Under an office lease dated July 1, 2012, the Association rented office space located in the City of Lynchburg, Virginia. The lease term was one year commencing on July 1, 2012 and ending on June 30, 2013 with total rental payments of \$3,000. The lease was renewed for one year expiring July 31, 2014 and called for monthly rent of \$459. The lease was renewed for another year expiring on July 31, 2015 with monthly rent of \$468.

Under an office lease dated May 1, 2013, the Association entered a lease agreement for office space in the City of Williamsburg, Virginia commencing on May 1, 2013 and ending on April 30, 2014. The lease was renewed for one year expiring on April 30, 2015 and calls for monthly rent of \$800.

The Association leased parking spaces and storage space on a month-to-month basis at June 30, 2014 and 2013.

Future rental payments on the non-cancelable operating leases over the next five years are as follows:

<u>Year</u>	
2015	\$ 46,347
2016	34,587
2017	34,857
2018	33,519
2019	8,441
	<u>\$ 157,751</u>

Total rent payments for the years ended June 30, 2014 and 2013 were \$63,153 and \$56,625, respectively.

NOTE G - INVESTMENTS IN MARKETABLE SECURITIES

The Association's investments at June 30, 2014 and 2013 are summarized below:

	<u>2014</u>		<u>2013</u>	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 532,876	\$ 934,490	\$ 544,700	\$ 822,490
Fixed income securities	233,905	239,115	246,930	249,922
	<u>\$ 766,781</u>	<u>\$1,173,605</u>	<u>\$ 791,630</u>	<u>\$1,072,412</u>

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE H - GIFT IN-KIND OF REAL ESTATE

In 2001, the Association received an in-kind contribution of six acres of undeveloped real estate located on the James River in Prince George County, Virginia. The appraisal value of the property was \$300,000. The Association valued the gift at the tax assessment of \$81,700, ignoring potential commercial value or use. The Association expects to maintain the property in its natural undeveloped state.

NOTE I - CONSERVATION EASEMENTS

The Association is the holder or co-holder of easements received pursuant to the Virginia Conservation Easement Act establishing perpetual conservation easements exclusively for the purpose of conserving and forever maintaining wildlife habitat, agriculture resource base, scenic character, and open space character of the subject property. Easements are held in the Counties of Charles City, Goochland, James City, Powhatan, and Prince George, Virginia. The Association has opted not to attach a monetary value to these conservation easements, and, accordingly, they are not recorded as assets on the accompanying statement of financial position.

NOTE K - SUBSEQUENT EVENTS

In the preparation of its financial statements, James River Association considered subsequent events through November 4, 2014, which was the date the financial statements were available to be issued.