

JAMES RIVER ASSOCIATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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
October 23, 2015

JAMES RIVER ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,290,521	\$ 1,222,549
Grants receivable - current	62,590	298,617
Prepaid expenses	40,541	-
TOTAL CURRENT ASSETS	<u>1,393,652</u>	<u>1,521,166</u>
PROPERTY AND EQUIPMENT		
Property, equipment and software	535,145	501,883
Buildings and improvements	535,510	535,510
Land	81,700	81,700
	<u>1,152,355</u>	<u>1,119,093</u>
Less: Accumulated amortization and depreciation	388,458	337,292
NET PROPERTY AND EQUIPMENT	<u>763,897</u>	<u>781,801</u>
OTHER ASSETS		
Grants receivable - noncurrent (net of discount of \$2,366 at June 30, 2014)	-	47,634
Investments in marketable securities	1,123,798	1,173,605
Security deposits	2,750	2,750
TOTAL OTHER ASSETS	<u>1,126,548</u>	<u>1,223,989</u>
TOTAL ASSETS	<u>\$ 3,284,097</u>	<u>\$ 3,526,956</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 47,898	\$ 65,314
Accrued expenses and payroll withholdings	2,421	2,287
TOTAL CURRENT LIABILITIES	<u>50,319</u>	<u>67,601</u>
NET ASSETS		
Unrestricted	1,319,468	1,375,938
Temporarily restricted	609,629	779,835
Permanently restricted	1,304,681	1,303,582
TOTAL NET ASSETS	<u>3,233,778</u>	<u>3,459,355</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,284,097</u>	<u>\$ 3,526,956</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 AND 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Program revenue				
Grants	\$ 73,500	\$ 876,453	\$ -	\$ 949,953
Contributions	382,117	75,858	-	457,975
Fees for services	45,806	-	-	45,806
Capital campaign contributions	-	-	-	-
Special events	306,328	-	-	306,328
Investment income	39,222	-	-	39,222
Miscellaneous	2,715	-	-	2,715
Product sales	469	-	-	469
Realized gain on investments in marketable securities	-	-	351,149	351,149
Unrealized gain (loss) on investments in marketable securities	-	-	(350,050)	(350,050)
Net assets released from restrictions	1,122,517	(1,122,517)	-	-
TOTAL REVENUE	<u>1,972,674</u>	<u>(170,206)</u>	<u>1,099</u>	<u>1,803,567</u>
EXPENSES				
Program services	1,521,715	-	-	1,521,715
Management and general	166,632	-	-	166,632
Fundraising	340,797	-	-	340,797
TOTAL EXPENSES	<u>2,029,144</u>	<u>-</u>	<u>-</u>	<u>2,029,144</u>
CHANGE IN NET ASSETS	(56,470)	(170,206)	1,099	(225,577)
Net assets, beginning of year	<u>1,375,938</u>	<u>779,835</u>	<u>1,303,582</u>	<u>3,459,355</u>
NET ASSETS, END OF YEAR	<u>\$ 1,319,468</u>	<u>\$ 609,629</u>	<u>\$ 1,304,681</u>	<u>\$ 3,233,778</u>

See Independent Auditor's Report and Notes to Financial Statements

2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 170,000	\$ 1,056,990	\$ -	\$ 1,226,990
407,748	111,276	100,000	619,024
31,677	-	-	31,677
-	2,552	-	2,552
222,653	-	-	222,653
41,069	-	-	41,069
3,654	-	-	3,654
1,365	-	-	1,365
-	-	151	151
-	-	126,042	126,042
1,131,320	(1,131,320)	-	-
<u>2,009,486</u>	<u>39,498</u>	<u>226,193</u>	<u>2,275,177</u>
1,381,589	-	-	1,381,589
269,669	-	-	269,669
289,524	-	-	289,524
<u>1,940,782</u>	<u>-</u>	<u>-</u>	<u>1,940,782</u>
68,704	39,498	226,193	334,395
<u>1,307,234</u>	<u>740,337</u>	<u>1,077,389</u>	<u>3,124,960</u>
<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

JAMES RIVER ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2015 AND 2014

	2015			Total
	Program Services	Supporting Services		
		Management and General	Fundraising	
Salaries and wages	\$ 718,938	\$ 51,153	\$ 159,970	\$ 930,061
Programs	279,047	12,159	71,112	362,318
Professional fees	167,056	25,308	3,320	195,684
Occupancy	50,091	23,799	12,856	86,746
Printing, publications and advertising	35,760	6,119	42,836	84,715
Employee benefits	64,450	4,586	14,341	83,377
Taxes - payroll and other	59,756	4,252	13,297	77,305
Depreciation and amortization	49,496	1,670	-	51,166
Travel and meals	33,399	4,896	6,144	44,439
Insurance	31,745	4,937	4,198	40,880
Meetings - Board/committees	13,863	11,224	11,435	36,522
Telephone and utilities	6,017	8,147	829	14,993
Staff development	5,688	2,835	355	8,878
Technology	2,376	5,503	71	7,950
Dues and subscriptions	4,033	44	33	4,110
	<u>\$ 1,521,715</u>	<u>\$ 166,632</u>	<u>\$ 340,797</u>	<u>\$ 2,029,144</u>

See Independent Auditor's Report and Notes to Financial Statements

2014

Program Services	Supporting Services		Total
	Management and General	Fundraising	
\$ 649,487	\$ 55,294	\$ 172,904	\$ 877,685
222,091	23,533	48,089	293,713
149,565	46,853	1,495	197,913
54,408	38,904	6,471	99,783
33,347	33,623	13,142	80,112
71,945	6,125	19,154	97,224
56,147	4,780	14,947	75,874
42,419	6,188	-	48,607
43,669	9,072	4,755	57,496
32,663	5,171	4,695	42,529
12,141	17,602	3,054	32,797
6,393	8,721	54	15,168
3,391	4,807	-	8,198
2,328	7,557	764	10,649
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

JAMES RIVER ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (225,577)	\$ 334,395
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized gain on investments in marketable securities	(351,149)	(151)
Unrealized (gain) loss on investments in marketable securities	350,050	(126,042)
Depreciation	51,166	48,607
(Increase) decrease in		
Security deposits	-	(625)
Unconditional promises to give	-	18,333
Grants receivable	283,661	28,131
Prepaid expenses	(40,541)	957
Increase (decrease) in		
Accounts payable	(17,416)	49,881
Accrued expenses and payroll withholdings	134	(88)
	<u>50,328</u>	<u>353,398</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(33,262)	(100,536)
Proceeds from sale of investments in marketable securities	1,349,104	73,815
Purchase of investments in marketable securities	(1,298,198)	(48,815)
	<u>17,644</u>	<u>(75,536)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	67,972	277,862
Cash and cash equivalents - beginning	<u>1,222,549</u>	<u>944,687</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,290,521</u></u>	<u><u>\$ 1,222,549</u></u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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 five principal programs: Advocacy, Education, Community Conservation, 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, 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, 2015 AND 2014

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, 2015 and 2014. The Association's tax returns for the years 2012, 2013, and 2014 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, 2015 and 2014, management considered all unconditional promises to give collectible, and therefore, no allowance was recorded in the accompanying statements of financial position. A discount of 1.62% was recorded for an unconditional promise to give due in more than one year at June 30, 2014. That unconditional promise to give became current at June 30, 2015 and the discount was reversed.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2015 AND 2014

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, 2015 and 2014 is measured using Level 1 inputs.

Concentration of Credit Risk

At June 30, 2015 and 2014, 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 \$300,181 and \$317,138 in excess of FDIC coverage at June 30, 2015 and 2014, 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, 2015 and 2014, the Association contributed \$8,538 and \$8,244, 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, 2015 AND 2014

NOTE D - TEMPORARILY RESTRICTED ASSETS

The Association had temporarily restricted net assets at June 30, 2015 and 2014 as follows:

	<u>2015</u>	<u>2014</u>
Community conservation	\$ 250,791	\$ 365,029
Presquile capital projects	115,260	-
Education	108,141	122,897
Advocacy	68,313	116,909
Watershed restoration	47,124	50,000
Capacity building	20,000	25,000
Riverkeeper	-	100,000
	<u>\$ 609,629</u>	<u>\$ 779,835</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, 2015 AND 2014

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 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 called for monthly rent of \$800. The lease was renewed for a second year expiring on April 30, 2016 with monthly rent of \$800.

The Association leased parking spaces and storage space on a month-to-month basis at June 30, 2015 and 2014.

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

<u>Year</u>	
2016	\$ 42,587
2017	34,857
2018	33,519
2019	8,441
	<u>\$ 119,404</u>

Total rent payments for the years ended June 30, 2015 and 2014 were \$66,030 and \$63,153, respectively.

NOTE G - INVESTMENTS IN MARKETABLE SECURITIES

The Association's investments at June 30, 2015 and 2014 are summarized below:

	<u>2015</u>		<u>2014</u>	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 756,645	\$ 798,493	\$ 532,876	\$ 934,490
Corporate bonds	191,099	193,071	-	-
Certificates of deposit	86,000	86,425	-	-
Fixed income securities	47,000	45,809	233,905	239,115
	<u>\$1,080,744</u>	<u>\$1,123,798</u>	<u>\$ 766,781</u>	<u>\$1,173,605</u>

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

YEARS ENDED JUNE 30, 2015 AND 2014

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 J - SUBSEQUENT EVENTS

In the preparation of its financial statements, James River Association considered subsequent events through October 23, 2015, which was the date the financial statements were available to be issued.