

JAMES RIVER ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
James River Association
Richmond, Virginia

We have audited the accompanying statement of financial position of James River Association (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Harris, Hardy & Johnstone, P.C.

Richmond, Virginia
October 22, 2012

JAMES RIVER ASSOCIATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,188,714
Unconditional promises to give	43,061
Grants receivable	111,635
TOTAL CURRENT ASSETS	<u>1,343,410</u>

PROPERTY AND EQUIPMENT

Property, equipment and software	398,221
Construction in progress	55,725
Land	81,700
	<u>535,646</u>
Less: Accumulated amortization and depreciation	235,726
NET PROPERTY AND EQUIPMENT	<u>299,920</u>

OTHER ASSETS

Investments in marketable securities	976,747
Security deposits	1,875
TOTAL OTHER ASSETS	<u>978,622</u>

TOTAL ASSETS \$ 2,621,952

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 44,476
Accrued expenses and payroll withholdings	2,347
TOTAL CURRENT LIABILITIES	<u>46,823</u>

NET ASSETS

Unrestricted	969,005
Temporarily restricted	624,968
Permanently restricted	981,156
TOTAL NET ASSETS	<u>2,575,129</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,621,952

See Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
Program revenue				
Grants	\$ 63,854	\$ 748,203	\$ -	\$ 812,057
Contributions	235,040	204,624	-	439,664
Fees for services	2,250	-	-	2,250
Capital campaign contributions	-	109,244	-	109,244
Special events	202,312	-	-	202,312
Investment income	43,890	-	-	43,890
Miscellaneous	2,269	-	-	2,269
Product sales	833	-	-	833
Realized gain on investments in marketable securities	-	-	5,907	5,907
Unrealized gain on investments in marketable securities	-	-	44,137	44,137
Net assets released from restrictions	1,068,232	(1,068,232)	-	-
TOTAL REVENUE	<u>1,618,680</u>	<u>(6,161)</u>	<u>50,044</u>	<u>1,662,563</u>
EXPENSES				
Program services	997,220	-	-	997,220
Management and general	207,309	-	-	207,309
Fundraising	160,893	-	-	160,893
TOTAL EXPENSES	<u>1,365,422</u>	<u>-</u>	<u>-</u>	<u>1,365,422</u>
INCREASE (DECREASE) IN NET ASSETS	<u>253,258</u>	<u>(6,161)</u>	<u>50,044</u>	<u>297,141</u>
Net assets, beginning of year	735,235	519,462	931,112	2,185,809
Restatement of beginning net assets	(19,488)	111,667	-	92,179
Net assets, beginning of year as restated	<u>715,747</u>	<u>631,129</u>	<u>931,112</u>	<u>2,277,988</u>
NET ASSETS, END OF YEAR	<u>\$ 969,005</u>	<u>\$ 624,968</u>	<u>\$ 981,156</u>	<u>\$ 2,575,129</u>

See Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and wages	\$ 442,495	\$ 77,073	\$ 78,642	\$ 598,210
Professional fees	182,124	51,500	1,495	235,119
Programs	65,565	2,914	33,242	101,721
Occupancy	44,795	16,592	6,839	68,226
Employee benefits	53,006	9,232	9,420	71,658
Printing, publications and advertising	28,608	15,402	12,749	56,759
Taxes - payroll and other	40,772	7,102	7,246	55,120
Travel and meals	41,723	4,868	3,232	49,823
Depreciation and amortization	45,134	4,411	-	49,545
Meetings - Board/committees	5,422	10,906	1,399	17,727
Insurance	24,544	3,216	2,444	30,204
Telephone and utilities	9,941	720	720	11,381
Technology	5,376	694	3,465	9,535
Staff development	5,690	2,484	-	8,174
Dues and subscriptions	2,025	195	-	2,220
	<u>\$ 997,220</u>	<u>\$ 207,309</u>	<u>\$ 160,893</u>	<u>\$ 1,365,422</u>

See Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 297,141
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Realized gain on investments in marketable securities	(5,907)
Unrealized gain on investments in marketable securities	(44,137)
Depreciation	49,545
(Increase) decrease in	
Unconditional promises to give	116,409
Grants receivable	(111,635)
Increase (decrease) in	
Accounts payable	1,045
Accrued expenses and payroll withholdings	<u>(22,531)</u>

NET CASH PROVIDED BY
OPERATING ACTIVITIES

279,930

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(173,673)
Proceeds from sale of investments in marketable securities	68,825
Purchase of investments in marketable securities	<u>(68,832)</u>

NET CASH USED IN
INVESTING ACTIVITIES

(173,680)

NET INCREASE IN CASH
AND CASH EQUIVALENTS

106,250

Cash and cash equivalents - beginning

1,082,464

CASH AND CASH EQUIVALENTS - ENDING

\$ 1,188,714

See Notes to Financial Statements

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

NOTE 1 - 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 2 - 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 Organization'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

YEAR ENDED JUNE 30, 2012

NOTE 2 - 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 year ended June 30, 2012. The Association is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

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, 2012, management considered all unconditional promises to give collectible and therefore no allowance has been recorded in the accompanying statement of financial position.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

NOTE 2 - 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 seven 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, 2012 is measured using Level 1 inputs.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

From time to time, the Association has on deposit with its bank amounts in excess of federally insured limits.

NOTE 4 - 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 year ended June 30, 2012, the Association contributed \$9,100 under the plan. Contributions by the Association are reported on the financial statements as employee benefits.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

NOTE 5 - TEMPORARILY RESTRICTED ASSETS

The Association had temporarily restricted net assets at June 30, 2012 as follows:

	<u>2012</u>
Presquile capital projects	\$ 299,018
Education and outreach	30,505
Riverkeeper	10,000
Capacity building	41,204
Watershed restoration	11,279
Advocacy	232,962
	<u>\$ 624,968</u>

NOTE 6 - PERMANENTLY RESTRICTED ASSETS (KIRBY FUND)

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 agreed to limit 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.

NOTE 7 - LEASE COMMITMENT

Under an office lease dated August 14, 2007, the Association rents office space located in the City of Richmond, Virginia. The lease term is five years commencing on August 14, 2007 and ending on August 13, 2012. The Association did not renegotiate the terms of the lease and is renting the space on a month-to-month basis at \$3,245 per month effective August 14, 2012. Future rental payments on the remaining non-cancelable operating lease total \$5,490.

The Association leases parking spaces on a month-to-month basis at June 30, 2012 at a rate of \$770 per month for use by Association employees and visitors; and storage spaces at \$164 per month.

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. Future rental payments on the non-cancelable operating lease total \$2,524 per year.

Total rent payments for the year ended June 30, 2012 were \$47,087.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

NOTE 8 - INVESTMENTS IN MARKETABLE SECURITIES

The Association's investments at June 30, 2012 are summarized below:

	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 549,960	\$ 752,906
Fixed income securities	213,807	223,841
	<u>\$ 763,767</u>	<u>\$ 976,747</u>

NOTE 9 - 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 10 - 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 11 - RESTATEMENT OF BEGINNING NET ASSETS

The Association previously reported its financial position and results of operations on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. During the year ended June 30, 2012, the Association began reporting its financial position and results of operations on the accrual basis of accounting. The primary differences include the recognition of revenue when earned rather than received, recognition of expenses when incurred rather than paid, and the reporting of receivables and payables. The change in basis of accounting resulted in a restatement of beginning net assets as reported in the accompanying statement of activities.

NOTE 12 - SUBSEQUENT EVENTS

Under an office lease dated July 1, 2012, the Association agreed to rent office space located in the City of Lynchburg, Virginia. The lease term is one year commencing on July 1, 2012 and ending on June 30, 2013. Future rental payments on the non-cancelable operating lease total \$3,000.

In the preparation of its financial statements, James River Association considered subsequent events through October 22, 2012, which was the date the financial statements were available to be issued.