

**THE PORTSMOUTH COMMUNITY FOUNDATION**

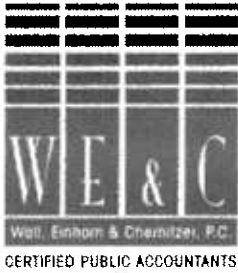
**FINANCIAL REPORT**

**December 31, 2006 and 2005**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**The Portsmouth Community Foundation**  
Portsmouth, Virginia

We have audited the accompanying statements of financial position of **The Portsmouth Community Foundation**, (a nonprofit organization) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audits 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 audits provide 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 **The Portsmouth Community Foundation**, as of December 31, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Wall, Einhorn & Chernitzer, P.C.*

Norfolk, Virginia  
June 7, 2007

THE PORTSMOUTH COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,875,454	\$ 1,472,147
Contributions receivable	1,181,010	50,000
Contribution receivable - charitable lead trust	268,989	283,424
Investments	<u>4,582,350</u>	<u>3,529,091</u>
<b>Total current assets</b>	<u><b>7,907,803</b></u>	<u>5,334,662</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	109,220	109,220
Building	610,610	610,610
Furniture, fixtures and equipment	<u>12,405</u>	<u>10,274</u>
	732,235	730,104
Less accumulated depreciation	<u>98,708</u>	<u>75,904</u>
	<u>633,527</u>	<u>654,200</u>
<b>Total assets</b>	<u><b>\$ 8,541,330</b></u>	<u><b>\$ 5,988,862</b></u>

See Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>2006</b>	<b>2005</b>
<b>CURRENT LIABILITIES</b>		
Grants payable	\$ <u>-</u>	\$ <u>13,500</u>
 <b>NET ASSETS</b>		
Unrestricted	3,959,469	3,424,877
Temporarily restricted	2,935,727	2,050,902
Permanently restricted	<u>1,646,134</u>	<u>499,583</u>
	<u>8,541,330</u>	<u>5,975,362</u>
 <b>Total liabilities and net assets</b>	 <b>\$ <u>8,541,330</u></b>	 <b>\$ <u>5,988,862</u></b>

**CONCENTRATION OF CREDIT RISK (Note 7)**  
**COMMITMENTS (Note 8)**

See Notes to Financial Statements.

THE PORTSMOUTH COMMUNITY FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2006 and 2005

	2006	2005
<b>UNRESTRICTED NET ASSETS</b>		
<b>Revenues and other support</b>		
Contributions	\$ 762,980	\$ 528,816
Interest and dividends	118,617	80,923
Other income	96,399	64,915
Rental income	79,745	68,297
Net assets released from restrictions	286,059	243,701
<b>Total unrestricted revenues and other support</b>	<b>1,343,800</b>	<b>986,652</b>
<b>Grant expenses by purpose</b>		
Health and human services	216,234	389,598
Educational institutions and scholarships	181,946	122,264
Arts and culture	37,777	41,338
Economic and community development	217,454	65,292
Religious institutions	40,600	28,662
<b>Total grant expenses by purpose</b>	<b>694,011</b>	<b>647,154</b>
<b>Other expenses</b>		
Depreciation expense	22,804	22,795
Investment expense	51,767	71,840
Contribution rental expense	79,745	68,297
Other general and administrative expenses	137,193	123,437
<b>Total grants and expenses</b>	<b>985,520</b>	<b>933,523</b>
<b>Increase in unrestricted assets before unrealized and realized gains</b>	<b>358,280</b>	<b>53,129</b>
Net unrealized and realized gains on investments	176,312	57,584
<b>Increase in unrestricted net assets</b>	<b>534,592</b>	<b>110,713</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>Revenues, gains and other support</b>		
Contributions	947,454	433,299
Interest and dividends	79,095	57,205
Change in value of split interest agreement	32,293	78,171
Net unrealized and realized gains, net of investment fees	112,042	6,769
Net assets released from restrictions	(286,059)	(243,701)
<b>Increase in temporarily restricted net assets</b>	<b>884,825</b>	<b>331,743</b>

See Notes to Financial Statements.

	<u>2006</u>	<u>2005</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
<b>Revenues and other support</b>		
Contributions	1,117,057	133,240
Interest and dividends	2,472	10,681
Net unrealized and realized gains, net of investment fees	<u>27,022</u>	<u>4,010</u>
<b>Increase in permanently restricted net assets</b>	<u><b>1,146,551</b></u>	<u><b>147,931</b></u>
<b>Increase in net assets</b>	<b>2,565,968</b>	590,387
Net assets at beginning of year	<u>5,975,362</u>	<u>5,384,975</u>
<b>Net assets at end of year</b>	<u><b>\$ 8,541,330</b></u>	<u><b>\$ 5,975,362</b></u>

See Notes to Financial Statements.

**THE PORTSMOUTH COMMUNITY FOUNDATION**

**STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,565,968	\$ 590,387
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Change in value of split interest agreement	(32,293)	(78,171)
Net realized and unrealized (gains) on investments	(349,278)	(72,968)
Depreciation	22,804	22,795
(Increase) decrease in assets:		
Contributions receivable	(1,131,010)	-
Prepaid payroll taxes	-	199
Increase (decrease) in liabilities:		
Grants payable	(13,500)	(39,500)
<b>Net cash provided by operating activities</b>	<u>1,062,691</u>	<u>422,742</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments, net of investment fees and draws	(1,699,489)	(1,511,685)
Proceeds from sale of investments	995,508	1,128,378
Distributions received and expense paid from charitable lead trust	46,728	63,928
Purchases property and equipment	(2,131)	-
<b>Net cash used in investing activities</b>	<u>(659,384)</u>	<u>(319,379)</u>
<b>Net increase in cash</b>	403,307	103,363
Cash, beginning	<u>1,472,147</u>	<u>1,368,784</u>
<b>Cash, ending</b>	<u>\$ 1,875,454</u>	<u>\$ 1,472,147</u>

See Notes to Financial Statements.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

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**Note 1. Nature of Activities and Significant Accounting Policies**

Nature of activities and significant accounting policies:

**The Portsmouth Community Foundation (The Foundation)**, including the Portsmouth Community Trust, is a public not-for-profit organization. It is a tax-exempt organization under Section 501c(3) of the Internal Revenue Code. **The Foundation** administers numerous individual charitable foundation funds and engages in charitable activities for the benefit of the Greater Portsmouth Community.

Accounting method:

The financial statements of **The Foundation** are presented on the accrual basis.

Contributions receivable:

Contributions receivable represents amount promised to **The Foundation** upon the sale of property by the donee and amounts promised from the settlement of a trust and an estate. The sale of the property is pending re-zoning by neighboring cities. The settlement of the trust and the estate are in process. Management feels that these amounts are fully collectible.

Cash and cash equivalents:

**The Foundation** considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents included \$327,991 and \$145,875 of restricted net assets as of December 31, 2006 and 2005, respectively.

Property and equipment:

Property and equipment is recorded at cost. Depreciation is computed using straight line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

	<u>Years</u>
Building	27.5
Furniture and fixtures	5 - 7

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THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

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Note 1. Nature of Activities and Significant Accounting Policies (continued)

Impairment of long-lived assets:

In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and its interpretations provide that if the governing body of an organization has the ability to remove a donor restriction, the contribution should be classified as an unrestricted net assets. To ensure tax deductibility of donors' gift the Foundation is required by the IRS to exercise final discretion concerning expenditures from its funds. Accordingly, all net assets and related activity over which the management of the Foundation exercises direct control are classified as unrestricted net assets in the accompanying financial statements. However, if the donor has indicated a desire to support a particular area of interest or organization, **The Foundation** managements will designate the contribution for that use.

**The Foundation** solicits a variety of contributions to fund its grants including donor advised funds. Donor advised funds allow for the donor to recommend distributions to Foundation beneficiaries or other charitable organizations approved by **The Foundation**. Although **The Foundation** generally fulfills the donor's recommendation, use of donor-advised funds are subject to approval by the Foundation's management and are therefore classified as unrestricted net assets.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other time or purpose restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

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**Note 1. Nature of Activities and Significant Accounting Policies (continued)**

Donated assets and services:

During the years ended December 31, 2006 and 2005, the value of donated assets and services meeting the requirements for recognition in the financial statements was not material and have not been recorded.

Use of estimates in the preparation of financial statements:

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

Financial statement presentation:

**The Foundation** has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-for-Profit Organizations." Under SFAS No. 117, **The Foundation** is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, **The Foundation** does not use fund accounting.

Investments:

**The Foundation** records investments at fair market value and are classified by management as "available-for-sale." Accordingly, realized gains and losses, if any, are determined on the basis of the actual cost of the securities sold. Unrealized gains and losses are presented as a single amount in the statements of activities.

Income taxes:

**The Foundation** is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

**Note 1. Nature of Activities and Significant Accounting Policies (continued)**

Grant payable:

Grants payable represents all unconditional grants that have been authorized prior to year end, but remain unpaid as of the statement of financial position date. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied.

**Note 2. Contribution Receivable - Charitable Lead Trust**

In a prior year, a donor established a trust naming **The Foundation** as the lead beneficiary of a charitable lead annuity trust. Under the terms of the split-interest agreement, **The Foundation** is to receive \$59,813 annually for its unrestricted use until the donor's death. At the time of the donor's death, the trust is to terminate, and the remaining trust assets are to be distributed to others. Based on the donor's life expectancy and a 10.83% discount rate, the present value of future benefits expected to be received by **The Foundation** was estimated to be \$286,909, which was recorded in 2003 as a temporarily restricted contribution and as contribution receivable - charitable lead trust. The activity resulted in an increase of temporarily restricted net assets of \$280,919 in 2005 (See Note 9.) **The Foundation** received \$62,724 and \$63,928 from the trust in 2006 and 2005, respectively, which was recorded as a reduction of the receivable and a corresponding reclassification from temporarily restricted to unrestricted net assets. **The Foundation** also recorded a change in the estimated present value of the split interest agreement of \$32,293 and \$78,171 in 2006 and 2005, respectively.

**Note 3. Investments**

Investments as of December 31, 2006 consist of the following:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
Equity securities	\$ 2,387,296	2,983,730	\$ 596,434
Debt securities	1,620,896	1,598,620	(22,276)
	<u>\$ 4,008,192</u>	<u>\$ 4,582,350</u>	<u>\$ 574,158</u>

Investments as of December 31, 2005 consist of the following:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
Equity securities	\$ 1,832,541	2,124,484	\$ 291,943
Debt securities	1,389,111	1,382,156	(6,955)
Other	22,600	22,451	(149)
	<u>\$ 3,244,252</u>	<u>\$ 3,529,091</u>	<u>\$ 284,839</u>

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**THE PORTSMOUTH COMMUNITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended December 31, 2006 and 2005

**Note 4. Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted for the following purposes or constraints:

	2006	2005
Scholarship funds	\$ 1,092,940	\$ 988,131
Designated funds	532,069	409,329
Field of interest funds	1,041,729	370,018
Beneficial interest in charitable lead trust	268,989	283,424
Total temporarily restricted net assets	\$ 2,935,727	\$ 2,050,902

**Note 5. Permanently Restricted Net Assets**

	2006	2005
Barbara Hill Revocable Trust	\$ 903,343	\$ 108,373
John Robbins Hill Credit Shelter Trust	212,714	104,687
Schwetz Library Fund	111,784	108,373
Edmarc Endowment Fund	109,762	104,687
Lee & Helen Gifford Advised Fund	96,040	87,617
St. John's Church London House	73,619	69,252
Trinity Church London House	73,619	69,252
Center for Creative Coalitions Fund	45,781	43,703
Portsmouth Service League Endowment Fund	19,472	16,699
Total permanently restricted net assets	\$ 1,646,134	\$ 499,583

**Note 6. Net Assets Released From Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the temporarily restricted purposes or by occurrence of other events specified by the donor.

	2006	2005
Grants or expenses from temporarily restricted funds:		
Health and human services	\$ 125,240	\$ 62,914
Educational institutions and scholarships	37,235	52,500
Economic and community development	59,583	59,970
Arts and culture	1,277	4,389
	223,335	179,773
Distributions from charitable lead trust	62,724	63,928
Total net assets released from restrictions	\$ 286,059	\$ 243,701

Notes continued on next page.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

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**Note 7. Concentration of Credit Risk**

**The Foundation's** exposure to concentration of credit risk consist primarily of cash. The balances are insured by the Federal Deposit Insurance Corporation which insures balances up to \$100,000. At December 31, 2006 **The Foundation's** uninsured cash balances total \$1,146,088.

**Note 8. Commitments**

**The Foundation** leases land and building to Holiday House of Portsmouth under a twenty year operating lease, that expires September 30, 2007. In-kind rental income and contributed rental expense for December 31, 2006 and 2005 amounted to \$79,745 and 68,297 and is shown on the accompanying statements of activities, respectively.

**The Foundation** has established The Portsmouth Community Foundation/Portsmouth Self-Sufficiency Project account at BB&T Bank to satisfy conditions of the loan commitment from BB&T Bank to the Center for Community Development for construction of the Oasis Opportunity Center.

**Note 9. Reclassification of Net Assets and Correction of an Error**

During the year ended December 31, 2004, **The Foundation** discovered that net assets had been improperly classified between unrestricted, temporarily restricted, and permanently restricted. Reclassifications were made to beginning net assets to conform with the current year designations. **The Foundation** also noted that the beneficial interest in a charitable lead trust, of which **The Foundation** is the beneficiary, had not been recognized in the prior year. Beginning temporarily restricted net assets for the year ended December 31, 2005 have been increased by \$280,919 to account for this correction and the beneficial interest is shown on the accompanying statements of financial position.