

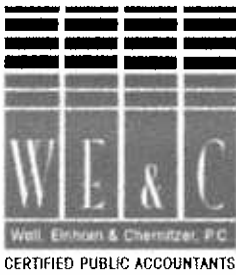
THE PORTSMOUTH COMMUNITY FOUNDATION

FINANCIAL REPORT

December 31, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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
August 25, 2008

THE PORTSMOUTH COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2007 and 2006

| ASSETS | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,520,349 | \$ 1,875,454 |
| Contributions receivable | 63,750 | 1,181,010 |
| Contribution receivable - charitable lead trust | 192,316 | 268,989 |
| Investments | <u>5,147,812</u> | <u>4,582,350</u> |
| Total current assets | <u>7,924,227</u> | <u>7,907,803</u> |
| PROPERTY AND EQUIPMENT | | |
| Land | 104,730 | 109,220 |
| Building | 610,610 | 610,610 |
| Furniture, fixtures and equipment | <u>8,386</u> | <u>12,405</u> |
| | 723,726 | 732,235 |
| Less accumulated depreciation | <u>116,879</u> | <u>98,708</u> |
| | <u>606,847</u> | <u>633,527</u> |
| Total assets | <u>\$ 8,531,074</u> | <u>\$ 8,541,330</u> |

See Notes to Financial Statements.

| LIABILITIES AND NET ASSETS | <u>2007</u> | <u>2006</u> |
|---|---------------------------------------|---------------------------------------|
| CURRENT LIABILITIES | | |
| Grants payable | \$ <u>18,500</u> | \$ <u>-</u> |
| NET ASSETS | | |
| Unrestricted | 3,832,320 | 3,898,387 |
| Temporarily restricted | 3,090,182 | 2,996,809 |
| Permanently restricted | <u>1,590,072</u> | <u>1,646,134</u> |
| | <u>8,512,574</u> | <u>8,541,330</u> |
| Total liabilities and net assets | \$ <u><u>8,531,074</u></u> | \$ <u><u>8,541,330</u></u> |

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, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|--|------------------------|-----------------------|
| UNRESTRICTED NET ASSETS | | |
| Revenues and other support | | |
| Contributions | \$ 223,273 | \$ 762,980 |
| Interest and dividends | 142,803 | 118,617 |
| Other income | 94,489 | 96,399 |
| Rental income | 79,745 | 79,745 |
| Net assets released from restrictions | 336,799 | 286,059 |
| Total unrestricted revenues and other support | <u>877,109</u> | <u>1,343,800</u> |
| Grant expenses by purpose | | |
| Health and human services | 346,067 | 216,234 |
| Educational institutions and scholarships | 157,866 | 181,946 |
| Arts and culture | 120,159 | 37,777 |
| Economic and community development | 74,730 | 217,454 |
| Religious institutions | 60,750 | 40,600 |
| Total grant expenses by purpose | <u>759,572</u> | <u>694,011</u> |
| Other expenses | | |
| Depreciation expense | 22,992 | 22,804 |
| Investment expense | 36,276 | 51,767 |
| Contribution rental expense | 79,745 | 79,745 |
| Loss on disposal of equipment | 4,775 | - |
| Other general and administrative expenses | 152,598 | 137,193 |
| Total grants and expenses | <u>1,055,958</u> | <u>985,520</u> |
| (Decrease) increase in unrestricted assets before unrealized and realized gains | (178,849) | 358,280 |
| Net unrealized and realized gains on investments | 112,782 | 176,312 |
| (Decrease) increase in unrestricted net assets | <u>(66,067)</u> | <u>534,592</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Revenues, gains and other support | | |
| Contributions | 282,178 | 947,454 |
| Interest and dividends | 101,776 | 79,095 |
| Change in value of split interest agreement | (69,440) | 32,293 |
| Net unrealized and realized gains, net of investment fees | 115,658 | 112,042 |
| Net assets released from restrictions | (336,799) | (286,059) |
| Increase in temporarily restricted net assets | <u>93,373</u> | <u>884,825</u> |

See Notes to Financial Statements.

| | <u>2007</u> | <u>2006</u> |
|---|----------------------------|----------------------------|
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS | | |
| Revenues and other support | | |
| Contributions | 200,131 | 1,117,057 |
| Interest and dividends | 3,774 | 2,472 |
| Net unrealized and realized gains, net of investment fees | 43,865 | 27,022 |
| Change in accounting estimate | <u>(303,832)</u> | <u>-</u> |
| (Decrease) increase in permanently restricted net assets | <u>(56,062)</u> | <u>1,146,551</u> |
| (Decrease) increase in net assets | (28,756) | 2,565,968 |
| Net assets at beginning of year | <u>8,541,330</u> | <u>5,975,362</u> |
| Net assets at end of year | <u>\$ 8,512,574</u> | <u>\$ 8,541,330</u> |

See Notes to Financial Statements.

THE PORTSMOUTH COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

| | 2007 | 2006 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (28,756) | \$ 2,565,968 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Change in value of split interest agreement | 69,440 | (32,293) |
| Change in accounting estimate | 303,832 | - |
| Net realized and unrealized gains on investments | (202,017) | (349,278) |
| Depreciation | 22,992 | 22,804 |
| Loss on disposal of property and equipment | 4,776 | - |
| (Increase) decrease in assets: | | |
| Contributions receivable | 813,428 | (1,131,010) |
| Increase (decrease) in liabilities: | | |
| Grants payable | 18,500 | (13,500) |
| | 1,002,195 | 1,062,691 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments, net of investment fees and draws | (1,024,578) | (1,699,489) |
| Proceeds from sale of investments | 605,926 | 995,508 |
| Distributions received and expense paid from charitable lead trust | 62,440 | 46,728 |
| Purchases property and equipment | (1,088) | (2,131) |
| | (357,300) | (659,384) |
| Net increase in cash and cash equivalents | 644,895 | 403,307 |
| Cash and cash equivalents, beginning | 1,875,454 | 1,472,147 |
| Cash and cash equivalents, ending | \$ 2,520,349 | \$ 1,875,454 |

See Notes to Financial Statements.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

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 501(c)(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 settlement of a trust and an estate. 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 \$487,759 and \$327,991 of restricted net assets as of December 31, 2007 and 2006, respectively.

Property and equipment:

Property and equipment is recorded at cost. Depreciation is computed using straight line and accelerated methods 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, 2007 and 2006

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

Impairment of long-lived assets:

In accordance with the provisions of Statement of Financial Accounting Standards (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 nets 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's** management 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.

Notes continued on next page.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

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

Donated assets and services:

During the years ended December 31, 2007 and 2006, 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 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.

Notes continued on next page.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

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

Grants 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 Foundation** received \$62,439 and \$62,724 from the trust in 2007 and 2006, 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 \$(69,440) and \$32,293 in 2007 and 2006, respectively.

Note 3. Investments

Investments as of December 31, 2007 consist of the following:

| | <u>Cost</u> | <u>Market</u> | <u>Unrealized Gain (Loss)</u> |
|-------------------|---------------------|---------------------|-----------------------------------|
| Equity securities | \$ 2,746,705 | 3,435,866 | \$ 689,161 |
| Debt securities | 1,642,596 | 1,711,946 | 69,350 |
| | <u>\$ 4,389,301</u> | <u>\$ 5,147,812</u> | <u>\$ 758,511</u> |

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> |

Notes continued on next page.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

Note 4. Temporarily Restricted Net Assets

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

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|
| Scholarship funds | \$ 1,186,049 | \$ 1,092,940 |
| Designated funds | 597,782 | 593,151 |
| Field of interest funds | 1,114,035 | 1,041,729 |
| Beneficial interest in charitable lead trust | 192,316 | 268,989 |
| Total temporarily restricted net assets | <u>\$ 3,090,182</u> | <u>\$ 2,996,809</u> |

Note 5. Permanently Restricted Net Assets

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|
| Barbara Hill Revocable Trust | \$ 690,932 | \$ 903,343 |
| Shuler Family Endowment Fund | 198,342 | - |
| John Robbins Hill Credit Shelter Trust | 148,293 | 212,714 |
| Schwetz Library Fund | 115,278 | 111,784 |
| Edmarc Endowment Fund | 113,319 | 109,762 |
| Lee & Helen Gifford Advised Fund | 104,057 | 96,040 |
| St. John's Church London House | 76,059 | 73,619 |
| Trinity Church London House | 76,059 | 73,619 |
| Center for Creative Coalitions Fund | 47,322 | 45,781 |
| Portsmouth Service League Endowment Fund | 20,411 | 19,472 |
| Total permanently restricted net assets | <u>\$ 1,590,072</u> | <u>\$ 1,646,134</u> |

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.

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|
| Grants or expenses from temporarily restricted funds: | | |
| Health and human services | \$ 177,598 | \$ 125,240 |
| Educational institutions and scholarships | 77,194 | 37,235 |
| Economic and community development | 5,282 | 59,583 |
| Arts and culture | 5,536 | 1,277 |
| Religious | 8,750 | - |
| | <u>274,360</u> | <u>223,335</u> |
| Distributions from charitable lead trust | 62,439 | 62,724 |
| Total net assets released from restrictions | <u>\$ 336,799</u> | <u>\$ 286,059</u> |

Notes continued on next page.

THE PORTSMOUTH COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

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, 2007, **The Foundation's** uninsured cash balances total \$1,455,912.

Note 8. Commitments

The Foundation leases land and building to Holiday House of Portsmouth under an operating lease, that expires December 31, 2012. In-kind rental income and contributed rental expense for December 31, 2007 and 2006 amounted to \$79,745 each year and is shown on the accompanying statements of activities.

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 Change in Estimate

During the year ended December 31, 2007, **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. Temporarily restricted net assets for the year ended December 31, 2006 have been increased by \$61,082 and unrestricted net assets have been decreased by \$61,082 to account for this correction on the accompanying statements of financial position.

During 2006, **The Foundation** estimated amounts to be received from the settlement of a trust and an estate for which it was named partial beneficiary. Partial distributions from the trust and estate during 2007 and reevaluation of the remaining amounts due to **The Foundation** resulted in a decrease of \$303,832 in the original estimate of the receivable due from the trust and estate. The change in estimate is included in the changes in permanently restricted net assets section of the accompanying statements of activities. The remaining estimated receivable from the trust and estate of \$58,750 is included in contributions receivable on the accompanying statements of financial position.