

JAMES RIVER ASSOCIATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 17, 2018

JAMES RIVER ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 237,450	\$ 242,608
Grants receivable	121,173	305,351
Prepaid expenses	31,334	44,092
Certificates of deposit	324,038	321,792
Investments in marketable securities, current	79,907	87,599
TOTAL CURRENT ASSETS	<u>793,902</u>	<u>1,001,442</u>
PROPERTY AND EQUIPMENT		
Property, equipment and software	600,522	578,245
Construction in progress	15,000	-
Buildings and improvements	535,510	535,510
Land	141,700	81,700
	<u>1,292,732</u>	<u>1,195,455</u>
Less: Accumulated amortization and depreciation	533,589	479,767
NET PROPERTY AND EQUIPMENT	<u>759,143</u>	<u>715,688</u>
OTHER ASSETS		
Grants receivable - noncurrent	60,000	-
Investments in marketable securities, non-current	1,280,267	1,248,925
Security deposits	2,750	2,750
TOTAL OTHER ASSETS	<u>1,343,017</u>	<u>1,251,675</u>
	<u>\$ 2,896,062</u>	<u>\$ 2,968,805</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 151,482	\$ 56,125
Accrued expenses and payroll withholdings	-	8,449
TOTAL CURRENT LIABILITIES	<u>151,482</u>	<u>64,574</u>
NET ASSETS		
Unrestricted	1,146,205	1,175,241
Temporarily restricted	1,598,375	1,728,990
TOTAL NET ASSETS	<u>2,744,580</u>	<u>2,904,231</u>
	<u>\$ 2,896,062</u>	<u>\$ 2,968,805</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
REVENUE			
Program revenue			
Grants	\$ -	\$ 1,388,071	\$ 1,388,071
Contributions	554,190	8,945	563,135
Fees for services	170,782	-	170,782
Special events revenue	218,288	-	218,288
Less: costs of direct benefits	(58,847)	-	(58,847)
Investment income	37,168	-	37,168
Miscellaneous	2,499	-	2,499
Product sales	-	-	-
Unrealized gain on investments in marketable securities	-	18,533	18,533
Realized gain (loss) on investments in marketable securities	-	30,226	30,226
Net assets released from restrictions	1,576,390	(1,576,390)	-
TOTAL REVENUE	<u>2,500,470</u>	<u>(130,615)</u>	<u>2,369,855</u>
EXPENSES			
Program services	2,017,054	-	2,017,054
Management and general	219,380	-	219,380
Fundraising	293,072	-	293,072
TOTAL EXPENSES	<u>2,529,506</u>	<u>-</u>	<u>2,529,506</u>
CHANGE IN NET ASSETS	(29,036)	(130,615)	(159,651)
NET ASSETS, beginning of year	<u>1,175,241</u>	<u>1,728,990</u>	<u>2,904,231</u>
NET ASSETS, end of year	<u>\$ 1,146,205</u>	<u>\$ 1,598,375</u>	<u>\$ 2,744,580</u>

See Independent Auditor's Report and Notes to Financial Statements

2017		
Unrestricted	Temporarily Restricted	Total
\$ -	\$ 1,054,232	\$ 1,054,232
530,990	14,461	545,451
74,711	-	74,711
275,802	-	275,802
(69,072)	-	(69,072)
34,493	-	34,493
104	-	104
14	-	14
-	75,935	75,935
-	(3,446)	(3,446)
1,114,663	(1,114,663)	-
<u>1,961,705</u>	<u>26,519</u>	<u>1,988,224</u>
1,484,082	-	1,484,082
180,430	-	180,430
296,822	-	296,822
<u>1,961,334</u>	<u>-</u>	<u>1,961,334</u>
371	26,519	26,890
<u>1,174,870</u>	<u>1,702,471</u>	<u>2,877,341</u>
<u>\$ 1,175,241</u>	<u>\$ 1,728,990</u>	<u>\$ 2,904,231</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			Total
	Program Services	Supporting Services		
		Management and General	Fundraising	
Salaries and wages	\$ 870,804	\$ 61,388	\$ 204,628	\$ 1,136,820
Professional fees	550,290	60,558	-	610,848
Programs	173,822	15,007	3,788	192,617
Employee benefits	84,899	5,985	19,950	110,834
Taxes - payroll and other	67,494	4,758	15,860	88,112
Occupancy	37,372	17,961	7,286	62,619
Travel and meals	53,551	1,725	4,481	59,757
Insurance	40,168	7,241	8,616	56,025
Depreciation and amortization	53,821	-	-	53,821
Printing, publications and advertising	30,077	3,713	12,072	45,862
Meetings - Board/committees	11,401	7,312	11,187	29,900
Postage and office	9,660	14,074	3,375	27,109
Staff development	12,294	5,540	889	18,723
Telephone and utilities	8,780	8,940	940	18,660
Technology	8,887	5,178	-	14,065
Dues and subscriptions	3,734	-	-	3,734
	<u>\$ 2,017,054</u>	<u>\$ 219,380</u>	<u>\$ 293,072</u>	<u>\$ 2,529,506</u>

See Independent Auditor's Report and Notes to Financial Statements

2017

Program Services	Supporting Services		Total
	Management and General	Fundraising	
\$ 791,143	\$ 55,773	\$ 185,908	\$ 1,032,824
211,616	37,137	2,995	251,748
112,824	14,648	4,997	132,469
76,025	5,359	17,865	99,249
63,333	4,465	14,882	82,680
35,068	6,502	7,738	49,308
32,832	3,739	5,736	42,307
32,089	4,749	5,651	42,489
48,084	7,912	-	55,996
42,840	701	28,501	72,042
10,338	6,025	16,826	33,189
6,006	13,301	3,670	22,977
10,215	5,535	-	15,750
7,339	7,605	980	15,924
1,577	6,253	656	8,486
2,753	726	417	3,896
<u>\$ 1,484,082</u>	<u>\$ 180,430</u>	<u>\$ 296,822</u>	<u>\$ 1,961,334</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (159,651)	\$ 26,890
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized (gains) losses on investments in marketable securities	(48,759)	(72,489)
Depreciation and amortization	53,821	55,996
(Increase) decrease in		
Grants receivable	64,178	(141,265)
Prepaid expenses	12,758	(16,057)
Increase (decrease) in		
Accounts payable	95,357	12,308
Accrued expenses and payroll withholdings	(8,449)	7,758
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>9,255</u>	<u>(126,859)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(37,276)	(49,999)
Proceeds from sale of investments in marketable securities	222,186	355,100
Purchase of investments in marketable securities	(197,077)	(346,174)
NET CASH USED IN INVESTING ACTIVITIES	<u>(12,167)</u>	<u>(41,073)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest and dividends restricted for reinvestment	(2,246)	(588)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,158)	(168,520)
CASH AND CASH EQUIVALENTS, beginning of year	<u>242,608</u>	<u>411,128</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 237,450</u>	<u>\$ 242,608</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Contribution of property and equipment	<u>\$ 60,000</u>	<u>\$ -</u>

See Independent Auditor's Report and Notes to Financial Statements

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 a guardian of the James River. The Association operates five principal programs: Advocacy, Education, Community Conservation, the James Riverkeeper, and Watershed Restoration.

Summary of Significant Accounting Policies

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets - Net assets that are not subject to grantor or 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 passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to grantor or donor-imposed stipulations that they be maintained permanently by the Association to use all or part of the assets for general or specific purposes. The Association had no permanently restricted net assets as of June 30, 2018 and 2017.

Fair Value Measurement

The Association applies a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America. The Association 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

Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax

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).

Uncertain Tax Positions

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, 2018. The Association is generally no longer subject to examination by the Internal Revenue Service for years prior to 2015.

Cash and Cash Equivalents

Cash equivalents include all deposits in banks and highly liquid investments with original maturity dates of less than three months. The carrying value of cash equivalents approximated fair value because of the short maturities of those financial instruments.

The Association maintained cash equivalents in the investment account. These cash equivalents are reported as part of investments in marketable securities on the statement of financial position.

Grants Receivable

Grants receivable consist of grants awarded but not received as of June 30, 2018 and 2017. Management considers all grants to be fully collectible; therefore, no allowance has been made.

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, 2018 and 2017, management considered all unconditional promises to give collectible, and therefore, no allowance was recorded in the accompanying statements of financial position.

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.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018 AND 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment are capitalized and recorded at cost. Depreciation is computed using straight-line and accelerated methods over the assets useful life.

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 non-cash donations are recorded at their estimated fair value at the date of donation. Contributions of non-cash items to be sold at the annual Westover Lawn Party are recorded at the realized sale price.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association.

Allocation of Functional Expenses

The costs of providing various programs and supporting activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE B - INVESTMENTS IN MARKETABLE SECURITIES

The Association's investments as of June 30, 2018 and 2017 are summarized below:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 776,857	\$ 929,864	\$ 719,286	\$ 848,811
Corporate bonds	224,785	222,395	257,134	261,422
Certificates of deposit	86,000	85,679	76,000	76,222
Fixed income securities	73,050	78,327	69,479	72,484
	<u>\$1,160,692</u>	<u>\$1,316,265</u>	<u>\$1,121,899</u>	<u>\$1,258,939</u>

The fair value of all investments of the Association held as of June 30, 2018 and 2017 is measured using Level 1 inputs.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018 AND 2017

NOTE C - TEMPORARILY RESTRICTED ASSETS

The Association had temporarily restricted net assets as of June 30, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Kirby and Youth Funds	\$1,351,995	\$1,336,524
Education	90,000	14,200
Watershed restoration	71,850	100,000
Community conservation	47,500	109,422
Advocacy	37,030	111,981
Capital projects	-	39,000
Special events	-	15,000
Capacity building	-	2,863
	<u>\$1,598,375</u>	<u>\$1,728,990</u>

NOTE D - THE KIRBY FUND

The Association 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.

Prior to the year ended June 30, 2015, the Association had limited withdrawals to interest and dividend income only, to be used for executive operating expenditures. Unexpended interest and dividend income did not become a part of the restricted fund balance. The restricted fund balance was, however, adjusted by realized and unrealized gains and losses of Kirby Fund assets. Effective January 1, 2014, the donor approved an amendment to the policy for withdrawals from the Fund. On a quarterly basis, in approximately March, June, September and December, funds were transferred from the Kirby Fund to the operating account of the Association in equal quarterly installments. The annual amount transferred was 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 was 4%. In the absence of action by the Executive Committee, the default rate remained 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. As a result of the policy amendment, the permanent restriction of the Kirby Fund was lifted and the net assets became temporarily restricted for time.

The Association received \$100,000 during the year ended June 30, 2014 to establish another endowment fund, the Youth Leadership Fund. The Youth Leadership Fund is used for the benefit of the Association's environmental education. Funds distributed from this 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

JUNE 30, 2018 AND 2017

NOTE E - RETIREMENT PLANS

The Association adopted a 401(k) plan for its employees on January 1, 2016. All eligible employees can make elective salary-deferred contributions to the plan. The Association makes discretionary contributions to the plan on behalf of full-time employees, subject to plan requirements of one year of service and the age of twenty-one. Employees are fully vested in the plan after six years of service. For the years ended June 30, 2018 and 2017, the Association contributed \$19,790 and \$15,166, respectively, under the plan. Contributions by the Association are reported on the financial statements as employee benefits.

NOTE F - LEASE COMMITMENTS

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.

Under an office lease dated April 23, 2018, the Association entered a four-year lease agreement for office space in the City of Richmond, Virginia commencing on September 1, 2018 and ending on September 30, 2022. The lease calls for monthly rent of \$3,300 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 April 4, 2017 and ending on April 13, 2022.

Under an office lease dated July 1, 2012, the Association rented office space located in the City of Lynchburg, Virginia. The lease has been renewed annually and expires on December 31, 2018 with monthly rent of \$500.

Future rental payments on the non-cancelable operating leases are as follows:

<u>Year</u>	
2019	\$ 43,289
2020	42,639
2021	43,854
2022	44,568
2023	10,818
	<u>\$ 185,168</u>

NOTE G - CONCENTRATION OF CREDIT RISK

As of June 30, 2018 and 2017, deposits were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. From time to time, the Association has deposits in excess of FDIC coverage.

JAMES RIVER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018 AND 2017

NOTE H - 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 I - SUBSEQUENT EVENTS

In the preparation of its financial statements, James River Association considered subsequent events through October 17, 2018, which was the date the financial statements were available to be issued.