



THE VIRGINIA BEACH  
FOUNDATION, INC.

*FINANCIAL STATEMENTS*  
*YEAR ENDED*  
*September 30, 2009*

# Douglas A. Hall, CPA

Certified Public Accountant and Business Advisor

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
*The Virginia Beach Foundation, Inc.*

I have audited the accompanying statement of financial position of *The Virginia Beach Foundation, Inc.* (a nonprofit organization) as of September 30, 2009 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from the Foundation's financial statements and, in my report dated December 22, 2008, I expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *The Virginia Beach Foundation, Inc.* as of September 30, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Douglas A. Hall, CPA*

Virginia Beach, Virginia  
December 10, 2009

2251 Kendall Street, Virginia Beach, VA 23451  
Ph: (757) 412-2750 E-mail: [dhallcpa@cox.net](mailto:dhallcpa@cox.net)

1

THE VIRGINIA BEACH FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

September 30,

	2009			2008
	Operating Fund	Component Fund	Totals	Comparative Totals
<b>ASSETS</b>				
Component Fund investments, at fair value:				
Cash equivalents	\$ -	\$ 1,059,369	\$ 1,059,369	\$ 1,383,128
Marketable debt securities	-	133,543	133,543	481,534
Marketable equity securities	-	1,151,846	1,151,846	961,892
Mutual funds	-	10,525,113	10,525,113	11,062,577
Alternative investment funds	-	373,467	373,467	325,695
Total component fund investments	-	13,243,338	13,243,338	14,214,826
Cash, operating	196,970	-	196,970	255,753
Pledges receivable, net	-	16,159	16,159	66,889
Bequests receivable	-	569,250	569,250	557,500
Beneficial interest in charitable trust	-	1,094,934	1,094,934	1,165,032
Beneficial interest in life insurance policies	-	345,433	345,433	326,474
Interfund receivable (payable)	39,776	(39,776)	-	-
Furniture and equipment, net	1,969	-	1,969	6,263
<b>Total assets</b>	<b>\$ 238,715</b>	<b>\$ 15,229,338</b>	<b>\$ 15,468,053</b>	<b>\$ 16,592,737</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Payroll taxes payable	\$ 3,566	\$ -	\$ 3,566	\$ 3,233
Deferred income	5,259	-	5,259	17,216
Grants payable, net	-	171,747	171,747	208,442
Agency funds	-	246,887	246,887	465,871
Funds held as intermediary	-	515,262	515,262	500,347
<b>Total liabilities</b>	<b>8,825</b>	<b>933,896</b>	<b>942,721</b>	<b>1,195,109</b>
<b>Net assets</b>				
Unrestricted	229,890	11,358,970	11,588,860	11,931,395
Temporarily restricted	-	2,936,472	2,936,472	3,466,233
<b>Total net assets</b>	<b>229,890</b>	<b>14,295,442</b>	<b>14,525,332</b>	<b>15,397,628</b>
<b>Total liabilities and net assets</b>	<b>\$ 238,715</b>	<b>\$ 15,229,338</b>	<b>\$ 15,468,053</b>	<b>\$ 16,592,737</b>

The accompanying notes are an integral part of these financial statements.

**THE VIRGINIA BEACH FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended September 30,**

	2009			2008
	Unrestricted	Temporarily Restricted	Totals	Comparative Totals
<b>Revenue and support</b>				
Contributions	\$ 607,850	\$ 308,645	\$ 916,495	\$ 597,461
Net realized gains (losses) on investments and investment income	(120,660)	29,407	(91,253)	1,389,694
Net unrealized gains (losses) on investments	211,953	(76,359)	135,594	(3,696,087)
Change in value of charitable trust	-	69,902	69,902	73,870
Administrative fees - Component Fund	105,604	-	105,604	154,819
Special events, net	1,357	-	1,357	6,272
Net assets released from restrictions	861,356	(861,356)	-	-
	<u>1,667,460</u>	<u>(529,761)</u>	<u>1,137,699</u>	<u>(1,473,971)</u>
<b>Expenses</b>				
Distributions and grants	1,787,529	-	1,787,529	1,895,257
Salaries and wages	124,960	-	124,960	128,463
Other operational expenses	97,506	-	97,506	126,820
	<u>2,009,995</u>	<u>-</u>	<u>2,009,995</u>	<u>2,150,540</u>
<b>Change in net assets</b>	<b>(342,535)</b>	<b>(529,761)</b>	<b>(872,296)</b>	<b>(3,624,511)</b>
<b>Net assets - beginning of year</b>	<u>11,931,395</u>	<u>3,466,233</u>	<u>15,397,628</u>	<u>19,022,139</u>
<b>Net assets - end of year</b>	<u>\$ 11,588,860</u>	<u>\$ 2,936,472</u>	<u>\$ 14,525,332</u>	<u>\$ 15,397,628</u>

*The accompanying notes are an integral part of these financial statements.*

**THE VIRGINIA BEACH FOUNDATION, INC.**

**STATEMENT OF CASH FLOWS**

<b>Year Ended September 30,</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (872,296)	\$ (3,624,511)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	2,746	3,751
Abandonment loss	1,548	-
Net realized (gains) losses on investments	(14,351)	(1,544,513)
Net unrealized (gains) losses on investments	(135,594)	3,696,087
Changes in:		
Pledges receivable	50,730	11,012
Bequests receivable	(11,750)	497,500
Beneficial interest in charitable trust	70,098	66,131
Payroll taxes payable	333	1,044
Deferred income	(11,957)	17,216
Grants payable	(36,695)	(86,134)
<b>Net cash used by operating activities</b>	<b>(957,188)</b>	<b>(962,417)</b>
<b>Cash flows from investing activities</b>		
Net decrease in investments	1,121,433	1,890,016
Net (increase) decrease in beneficial interest in life insurance policies	(18,959)	6,410
Net decrease in agency funds	(218,984)	(795,570)
Net increase (decrease) in intermediary funds	14,915	(37,998)
<b>Net cash from investing activities</b>	<b>898,405</b>	<b>1,062,858</b>
<b>Net change in cash</b>	<b>(58,783)</b>	<b>100,441</b>
<b>Operating cash - beginning of year</b>	<b>255,753</b>	<b>155,312</b>
<b>Operating cash - end of year</b>	<b>\$ 196,970</b>	<b>\$ 255,753</b>

*The accompanying notes are an integral part of these financial statements.*

**THE VIRGINIA BEACH FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

---

**September 30, 2009**

---

**1. Summary of Significant Accounting Policies**

**Nature of Activities**

The Virginia Beach Foundation, Inc. (the "Foundation") is a community foundation established in 1987 to increase charitable resources in Virginia Beach and the surrounding area. The Foundation receives contributions from individuals, businesses and other non-profit organizations. These funds are held in trust and pooled together for investment purposes. The income earned on these funds is distributed annually in the form of grants to non-profit agencies enhancing the quality of life for area citizens.

**Financial Statement Presentation**

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other assets and liabilities. 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.

**Comparative Information**

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2008, from which the summarized information was derived.

**Classification of Revenue, Support and Net Assets**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor for specific purposes or for future periods are reported as an increase in temporarily restricted or permanently restricted support. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

If the governing body of an organization has the ability to remove a donor restriction (i.e., variance power), the contribution should be classified as an unrestricted net asset. Accordingly, such assets are classified in the accompanying financial statements as unrestricted net assets absent donor-imposed restrictions to maintain the assets permanently. This classification does not alter the longstanding policy of the Foundation to distribute assets entrusted to the Foundation in accordance with the intentions of the Foundation's donors and to manage the assets of the component funds in a manner similar to an endowment with only a portion of each component fund distributed annually, unless directed otherwise by the fund advisor.

## **Fund Groups**

The assets, liabilities and net assets of the Foundation are reported in two self-balancing groups as follows:

### *Operating Fund*

The Operating Fund represents the portion of expendable funds that is available for support of the Foundation's administrative activities. Operating revenues consist primarily of contributions and an administrative fee assessment on the component funds.

### *Component Fund*

The Foundation maintains donated assets in individual component funds established primarily by donors. Management of the Foundation believes that this framework classifies the Foundation's resources into funds established in accordance with the Foundation's objectives and ensures the observance of donor intentions. Grants charged to the individual funds are directed to purposes identified by the donors and by the Foundation's Distribution Committee.

## **Component Fund Investments and Spending Policy**

Investments in equity securities with readily determinable fair values and all debt securities are measured at fair value in the statement of financial position. The Foundation allocates realized and unrealized gains and losses on investments to the individual component funds based on the average daily balance for each fund measured on a quarterly basis.

The Foundation manages the component funds on a total return basis in order to provide portfolio management flexibility, preserve the purchasing power (real value) of component funds, and aid the Foundation's distribution process. Under the total return concept, the Foundation focuses on the overall return on investments, including interest, dividends and net change in value of the investments. The Foundation then uses a spending rate formula to determine how much of the return will be used for annual distributions. Income in excess of the spending rate formula is thus available to maintain or increase the real value of the component funds.

## **Cash and Cash Equivalents**

The Foundation considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows excludes cash and cash equivalents of the Component Fund.

## **Furniture and Equipment**

Purchases of furniture and equipment are made from operating funds and recorded at cost. The Foundation's policy is to capitalize property and equipment purchases over \$200. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which is generally five years.

## **Pledges Receivable**

Pledges receivable for contributions, less an allowance for uncollectible amounts, are discounted to reflect the time value of money. Contributions upon receipt are considered available for unrestricted use unless specifically restricted by the donor.

## Beneficial Interest in Trusts

The Foundation is the beneficiary under various irrevocable charitable lead, remainder and insurance trusts, the corpus of which is not controlled by management of the Foundation. Although the Foundation has no control over the administration or investment of the funds held in these trusts, the estimated present value of the expected future cash flows from such trusts is recognized as a contribution in the period in which it receives notice that the trust agreement conveys an unconditional right to receive benefits.

## Credit Risk

Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of cash and investments. The Foundation places cash and temporary overnight investments with high credit quality financial institutions. At September 30, 2009, cash and cash equivalents of the Component Fund in the amount of \$809,369 are not covered by the Federal Deposit Insurance Corporation (FDIC). The Foundation's investments are managed by independent asset management firms whose performance is reviewed by the Investment Committee of the Board of Directors on a periodic basis.

## Tax Status

Under provisions of Internal Revenue Code Section 501(c)(3), the Foundation is exempt from taxes on income other than unrelated business income. Since the Foundation had no unrelated business income during the year ended September 30, 2009, no provision for income taxes has been made.

## Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

## 2. Component Fund Investments

Investments are reported at fair market value. Cost, market value and unrealized appreciation at September 30, 2009 are summarized as follows:

	Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
Cash and cash equivalents	\$ 1,059,369	\$ 1,059,369	\$ -
Marketable debt securities	133,543	133,543	-
Marketable equity securities	1,055,564	1,151,846	96,282
Mutual funds	12,026,933	10,525,113	(1,501,820)
Alternative investment funds	403,297	373,467	(29,830)
	<u>\$ 14,678,706</u>	<u>\$ 13,243,338</u>	<u>\$ (1,435,368)</u>

As presented on the statement of activities, net realized losses on investments and investment income of negative \$91,253 includes realized gains (losses) on security sales, interest and dividend income, net of investment expenses. Management has elected not to segregate the various sources of realized investment income. However, this income is presented net of investment management fees of \$13,358 charged by brokerage firms and \$105,604 charged internally to support the operations of the Foundation.

### 3. Pledges Receivable

The Foundation is scheduled to receive pledges through 2013. The timing of expected future receipts, allowance for uncollectible pledges and the time value discount of pledges receivable are as follows:

Current	\$ 12,300
Due in one to five years	<u>6,800</u>
	19,100
Less: allowance for uncollectible pledges	<u>1,910</u>
	17,190
Less: time value discount at 6%	<u>1,031</u>
	<u>\$ 16,159</u>

### 4. Irrevocable Trusts

The Foundation is named as a beneficiary of a charitable lead trust. Under the terms of the trust agreement, the Foundation will receive annual payments of \$140,000 through 2019. The contributions and related receivables were recorded at the present value of the future payments on the date of gift, calculated using a discount rate of 6%. The change in value of these gifts is included in the statement of activities as temporarily restricted revenue and support. The value of the beneficial interest is \$1,094,934 at September 30, 2009.

The Foundation is also named as beneficiary in certain insurance trusts. Under the terms of the trusts, the Foundation will receive the applicable death benefit from the related insurance policies and accordingly the Foundation's interest in the insurance policies is recorded as an asset at fair value. The fair value of the insurance policies is presumed to be the policies' cash surrender value at the end of the Foundation's reporting period. Changes in the fair value of the trust assets over any applicable trust obligation are included in the statement of activities as temporarily restricted revenue and support.

The Foundation has received verbal notification that it has been named a remainder beneficiary in other charitable remainder trusts. However, the Foundation has been unable to obtain the trust instruments. At this time, it is not possible to reasonably estimate and record the future cash flows from these remainder trusts.

In addition to the above, the Foundation has been named beneficiary in numerous wills and inter-vivos trusts which may be subject to life interests. Proceeds from such estates and trusts are not recognized until the passing of the donor as it is not certain that the Foundation will remain the named beneficiary. The amount of proceeds from these legacies and bequests is not reasonably estimable.

### 5. Property and Equipment

Property and equipment at September 30, 2009 consisted of the following:

Furniture and computer equipment	\$ 26,442
Less: accumulated depreciation	<u>24,473</u>
	<u>\$ 1,969</u>

### 6. Grants Payable

The Foundation has committed to a conditional promise to give \$500,000 to the Virginia Aquarium & Marine Science Center over ten years. The grant is contingent on the donee organization raising matching

funds for its Capital Campaign. As of September 30, 2009, qualifying gifts received by the Virginia Aquarium exceeded the \$1,000,000 necessary to reach a total matching commitment of \$500,000 of which \$300,000 has been paid.

The timing of future grants payable is as follows:

Current	\$ 50,000
Due in one to five years	<u>150,000</u>
	200,000
Less: time value discount at 6%	<u>28,253</u>
	<u>\$ 171,747</u>

## 7. Agency and Intermediary Funds

In certain situations, the Foundation receives funds as an agent, trustee or intermediary. For these transactions, the funds are not recorded as contribution revenue. Instead, the recipient organization records an asset and a corresponding liability.

The Foundation has been the fiscal agent for various organizations including the Art of Glass Exhibit, Lynnhaven River Project, Girls on the Run, Virginia Beach Parks & Recreation, Race for Breath and other local organizations. The Foundation is responsible for receiving and depositing funds, as well as writing checks on behalf of these organizations. Transactions made on behalf of these organizations are not included in the Foundation's statement of activities. At September 30, 2009, the amount held by the Foundation on behalf of these organizations was \$246,887. During the fiscal year, the Foundation made a concerted effort to terminate Agency Funds. Funds held for Art of Glass comprised about 90% of the remaining funds at fiscal year-end.

The Foundation also has agreements in which it holds funds as an intermediary. These situations are created when the donor organization specifies itself or an affiliate as the beneficiary. At September 30, 2009, the amount held by the Foundation as an intermediary was \$515,262.

## 8. Unrestricted Net Assets

Unrestricted net assets at September 30, 2009 consisted of the following:

Donor advised funds	\$ 8,796,408
Designated funds	1,420,416
Other unrestricted funds	<u>1,372,036</u>
	<u>\$ 11,588,860</u>

## 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2009 consisted of the following:

<u>Restriction</u>		
Pledges due beyond one year		\$ 5,089
Bequests receivable		569,250
Beneficial interest in charitable trust		1,094,934
Beneficial interest in life insurance policies		345,433
Donor restricted funds:		
Field of interest	\$ 385,465	
Pass-Thru	219,167	
Scholarship	<u>317,134</u>	<u>921,766</u>
		<u>\$ 2,936,472</u>

## 10. Operating Lease

In November 2007, the Foundation agreed to lease a new location for its offices. Under the terms of the lease, payments of \$1,891 per month began on December 1, 2007, with annual increases of 3%. Total lease payments over the five-year term are \$120,475. However, as an inducement to enter into the lease agreement, the lessor agreed to pay an allowance of \$13,521 once the first months rent had been paid and a conditional allowance payment of \$10,679 in January 2011. For the year ended September 30, 2009, rent expense was \$24,507.

Future lease payments before allowances for the years ended September 30 are as follows:

2010	\$ 23,957
2011	24,676
2012	25,416
2013	<u>4,257</u>
	<u>\$ 78,306</u>

## 11. Functional Allocation of Expenses

Expenditures for the year ended September 30, 2009 are allocated as follows:

Program services	\$ 1,964,405
Management and general	35,527
Fundraising	<u>10,063</u>
	<u>\$ 2,009,995</u>

## 12. Subsequent Event

**Planned merger** - In December 2008, The Virginia Beach Foundation executed a Non-Binding Memorandum of Understanding related to a merger with The Norfolk Foundation. On August 5, 2009, the Board of Directors of The Virginia Beach Foundation approved the Plan of Merger and Merger Agreement. The Norfolk Foundation is a non-profit community foundation organized in 1950 to provide for the permanent administration of funds for charitable purposes. The Norfolk Foundation is the predominant party to the merger, having significantly more assets and employees than the Virginia Beach Foundation. The combined organization would be known as the Hampton Roads Community Foundation. It is now anticipated that the merger will be consummated on January 1, 2010.

\* \* \* \* \*