

**EASTERN WEST VIRGINIA
COMMUNITY FOUNDATION**

Martinsburg, West Virginia

FINANCIAL REPORT

DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Eastern West Virginia Community Foundation
Martinsburg, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern West Virginia Community Foundation which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 of 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 assessment, 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 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 Eastern West Virginia Community Foundation as of December 31, 2014 and 2013, and the change in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 17, 2015

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statements of Financial Position

December 31, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents	\$ 165,840	\$ 146,146
Grants receivable, net	--	2,500
Prepaid expense	2,374	1,746
Investments, at fair value	17,306,149	16,856,294
Beneficial interest in split-interest agreements	64,335	86,618
Beneficial interest in residual trust	845,795	858,978
Life insurance policy, cash surrender value	24,022	15,331
Property and equipment, net	<u>3,257</u>	<u>1,716</u>
 Total assets	 <u>\$ 18,411,772</u>	 <u>\$ 17,969,329</u>
 Liabilities		
Accounts payable and accrued expenses	\$ 5,498	\$ 6,859
Grants payable	120,317	167,394
Agency endowment funds	<u>1,538,699</u>	<u>1,442,463</u>
Total liabilities	<u>\$ 1,664,514</u>	<u>\$ 1,616,716</u>
 Net Assets		
Unrestricted net assets:		
Community endowment	\$ 641,193	\$ 640,846
Donor advised endowment	6,938,543	6,829,448
Designated endowment	2,817,811	2,724,431
Field of interest endowment	3,010,963	3,030,061
Scholarship endowment	2,202,063	2,025,990
Unrestricted endowment	5,615	18,559
Unrestricted funds not designated	<u>220,940</u>	<u>137,682</u>
Total unrestricted net assets	\$ 15,837,128	\$ 15,407,017
Temporarily restricted net assets	<u>910,130</u>	<u>945,596</u>
Total net assets	<u>\$ 16,747,258</u>	<u>\$ 16,352,613</u>
 Total liabilities and net assets	 <u>\$ 18,411,772</u>	 <u>\$ 17,969,329</u>

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statement of Activities

For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Totals
Revenues and Gains:			
Contributions	\$ 359,499	\$ --	\$ 359,499
Special events	12,650	--	12,650
Interest and dividend income	596,998	--	596,998
Net unrealized and realized gain on investments	282,369	--	282,369
Miscellaneous income	3,459	--	3,459
Total revenues and gains	\$ 1,254,975	\$ --	\$ 1,254,975
Net assets released from restrictions:			
Satisfaction of restriction	--	--	--
Total revenues, gains, and other support	\$ 1,254,975	\$ --	\$ 1,254,975
Expenses:			
Grants and distributions	\$ 539,920	\$ --	\$ 539,920
Program expenses	161,132	--	161,132
Communications and outreach	15,737	--	15,737
Supporting services:			
Accounting and legal	30,900	--	30,900
Insurance	5,258	--	5,258
Fundraising	306	--	306
General and administrative	6,350	--	6,350
Occupancy	7,771	--	7,771
Investment fees	57,490	--	57,490
Total expenses	\$ 824,864	\$ --	\$ 824,864
Excess of revenues over expenses before other changes in net assets	\$ 430,111	\$ --	\$ 430,111
Other changes in net assets, split-interest actuarial adjustment	--	(35,466)	(35,466)
Change in net assets	\$ 430,111	\$ (35,466)	\$ 394,645
Net assets, beginning of year	15,407,017	945,596	16,352,613
Net assets, at end of year	\$ 15,837,128	\$ 910,130	\$ 16,747,258

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statement of Activities

For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Totals
Revenues and Gains:			
Contributions	\$ 640,749	\$ --	\$ 640,749
Special events	30,072	--	30,072
Interest and dividend income	419,710	--	419,710
Net unrealized and realized gain on investments	1,605,148	--	1,605,148
Miscellaneous income	10,277	--	10,277
Total revenues and gains	\$ 2,705,956	\$ --	\$ 2,705,956
Net assets released from restrictions:			
Satisfaction of restriction	--	--	--
Total revenues, gains, and other support	\$ 2,705,956	\$ --	\$ 2,705,956
Expenses:			
Grants and distributions	\$ 508,925	\$ --	\$ 508,925
Program expenses	163,889	--	163,889
Communications and outreach	35,992	--	35,992
Supporting services:			
Accounting and legal	30,650	--	30,650
Insurance	5,660	--	5,660
Fundraising	759	--	759
General and administrative	7,135	--	7,135
Occupancy	8,359	--	8,359
Investment fees	62,255	--	62,255
Total expenses	\$ 823,624	\$ --	\$ 823,624
Excess of revenues over expenses before other changes in net assets	\$ 1,882,332	\$ --	\$ 1,882,332
Other changes in net assets, split-interest actuarial adjustment	--	70,027	70,027
Change in net assets	\$ 1,882,332	\$ 70,027	\$ 1,952,359
Net assets, beginning of year	13,524,685	875,569	14,400,254
Net assets, at end of year	\$ 15,407,017	\$ 945,596	\$ 16,352,613

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 394,645	\$ 1,952,359
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	837	926
(Gain) on disposal of property and equipment	--	(200)
Actuarial loss (gain) on annuity obligations	35,466	(70,027)
Unrealized loss from life insurance policy	1,309	1,591
Net realized and unrealized (gain) on investments	(282,369)	(1,605,148)
Donated value of securities	(40,065)	(30,057)
Donated life insurance premium	(10,000)	(10,000)
Changes in assets and liabilities:		
Decrease in grants and other receivables	2,500	2,500
(Increase) decrease in prepaid expenses	(628)	322
(Decrease) increase in accounts payable and accrued expenses	(1,361)	2,297
(Decrease) in grants payable	(47,077)	(887,468)
Increase in agency endowment funds	96,236	217,255
Net cash provided by (used in) operating activities	\$ 149,493	\$ (425,650)
 Cash Flows from Investing Activities		
Proceeds from sale of investments	\$ 6,434,807	\$ 6,264,241
Purchase of property and equipment	(2,378)	(1,269)
Proceeds from sale of assets	--	200
Purchase of investment securities	(6,562,228)	(5,947,109)
Net cash (used in) provided by investing activities	\$ (129,799)	\$ 316,063
 Net increase (decrease) in cash and cash equivalents	\$ 19,694	\$ (109,587)
 Cash and Cash Equivalents		
Beginning	146,146	255,733
Ending	\$ 165,840	\$ 146,146
 Supplemental Disclosure of Cash Flow Information,		
in-kind contributions	\$ 18,400	\$ 18,696

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Notes to Financial Statements

Note 1. Nature of Business

Eastern West Virginia Community Foundation (the Foundation) is a nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a nonprivate foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. The Foundation is responsible for charitable funds and the income generated by the funds of many donors. The Foundation is committed to improving the quality of life and to serving the general charitable and educational needs of the inhabitants of Eastern West Virginia and adjoining states through charitable grants at the discretion of the Board.

Note 2. Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

The Foundation considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Foundation's cash is maintained in two commercial banks located in West Virginia which, at times, may exceed the federally insured limits. The Foundation has not experienced any losses in such accounts.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Realized and unrealized gains and losses are reflected in the statement of activities.

Property and Equipment

All purchases of property and equipment have been recorded at cost. Property and equipment that is donated to the Foundation is stated at its fair market value at the time of donation. Depreciation is determined by the straight-line method. The estimated useful life for furniture and fixtures is seven years. Estimated useful life for software is three years. Depreciation expense was \$837 and \$926 for the years ended December 31, 2014 and 2013, respectively.

Grants Payable

Grants are recorded as expenses when they are approved by the Board.

Notes to Financial Statements

Agency Endowment Funds

Agency endowment funds are established for transactions in which a community foundation accepts a contribution from a charitable agency donor and agrees to transfer those assets, the return on investment of those assets or both back to the charitable agency donor.

The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, continues to report the funds as assets of the Foundation. Corresponding liability accounts have been established for these funds.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged.

Donor-restricted contributions whose restrictions are met in the same year as received are classified as unrestricted contributions in the accompanying financial statements.

Use of 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurement

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Notes to Financial Statements

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial Interest in Split-Interest Agreements

The fair value of split interest agreements is based on the present value of the future distributions to be received by the Foundation as a beneficiary.

Beneficial Interest in Residual Trust

The fair value of residual trusts is based on a specified percentage of the trust's fair market value as determined annually.

Life Insurance

The value of the life insurance is based on the cash surrender value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3. Net Assets

Unrestricted net assets are funds for which the discretion of the use of these funds lies with the Board.

Temporarily restricted net assets are restricted by donors for designated purposes or due to the passage of time. When they are used or time restrictions are removed, they are recorded in the statement of activities as assets released from restrictions.

Permanently restricted net assets represent donor-restricted donations, that is, where donated assets are to remain restricted in perpetuity, and the Foundation does not have the right to invade the principal, except as permitted by governing instruments or applicable law. There are no permanently restricted net assets as of December 31, 2014 or 2013.

Notes to Financial Statements

Factors considered in the determination of net asset classification include:

- The Foundation's articles of incorporation, by-laws and the terms of various predecessor trusts, allow the respective Board the power to use the principal amount of gifts.
- The Foundation has been granted unilateral variance power to modify restrictions or conditions on the distribution of funds if, in its sole judgment, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the needs of the community.

Note 4. Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets as of December 31, 2014 and 2013 are:

	2014	2013
Beneficial interest in split-interest agreements	\$ 64,335	\$ 86,618
Beneficial interest in residual trust	845,795	858,978
	\$ 910,130	\$ 945,596

Note 5. Investments

Investments are carried at fair value, and realized and unrealized gains and losses are reported in the statement of activities. Investments received by gift are recorded at market value at the date of the donation. Long-term investments, including endowment as well as other funds, as of December 31, 2014 and 2013 were as follows:

Summary by Type of Investment	December 31, 2014		
	Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
Cash	\$ 503,003	\$ 503,003	\$ --
Fixed income securities	3,368,929	3,397,952	29,023
Equities	4,367,891	6,054,212	1,686,321
Mutual funds	6,904,557	6,998,433	93,876
Alternative investments	327,439	352,549	25,110
	\$ 15,471,819	\$ 17,306,149	\$ 1,834,330

Notes to Financial Statements

<u>Summary by Type of Investment</u>	December 31, 2013		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash	\$ 370,383	\$ 370,383	\$ - -
Fixed income securities	3,107,124	3,128,271	21,147
Equities	5,591,072	7,464,815	1,873,743
Mutual funds	5,149,719	5,487,723	338,004
Alternative investments	371,450	405,102	33,652
	<u>\$ 14,589,748</u>	<u>\$ 16,856,294</u>	<u>\$ 2,266,546</u>

Note 6. Property and Equipment

At December 31, 2014 and 2013, the property and equipment consisted of the following:

	2014	2013
Software	\$ 40,945	\$ 40,945
Furniture and fixtures	12,953	11,524
Less accumulated depreciation	(50,641)	(50,753)
	<u>\$ 3,257</u>	<u>\$ 1,716</u>

Note 7. Funds Held as Agency Endowments

The following table summarizes activity in agency endowment funds for the years ended December 31, 2014 and 2013.

	2014	2013
Agency endowment fund balance at the beginning of the year	\$ 1,442,463	\$ 1,225,208
Amounts raised	43,177	62,196
Investment income	44,225	34,698
Realized and unrealized (loss) gain	44,220	153,189
Expenses	(35,386)	(32,828)
Agency endowment fund balance at the end of the year	<u>\$ 1,538,699</u>	<u>\$ 1,442,463</u>

Notes to Financial Statements

Note 8. Administrative Income

The Foundation's policy is to assess each component fund a total annual fee of one percent. The fee is calculated and assessed monthly based on current fair market value. Such amounts are transferred to an unrestricted discretionary fund to offset administrative costs.

Note 9. Contributed Services

Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Foundation received the following contributed services and expenses during the years ended December 31, 2014 and 2013, which are included in the statements of activities:

	<u>2014</u>	<u>2013</u>
Legal services	\$ 18,000	\$ 18,000
Posting and printing	-	296
Miscellaneous	<u>400</u>	<u>400</u>
	<u>\$ 18,400</u>	<u>\$ 18,696</u>

Note 10. Legacies Not Yet Recognizable

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts will be recognized in the financial statements when clear title is established and the proceeds are measurable.

Note 11. Split-Interest Agreements and Residual Trusts

The Foundation is the named beneficiary of various split-interest agreements and trusts. The Foundation's policy is to record the present values of their remainder interest when they learn of the agreement, the terms of the agreement are irrevocable, and the value can be readily determined. Amortization of the discount associated with the contribution and other changes in actuarial assumptions or life expectancies are recognized as a split-interest actuarial adjustment in the statement of activities. For the years ended December 31, 2014 and 2013, the split-interest actuarial adjustment amounted to \$(35,466) and \$70,027, respectively.

Notes to Financial Statements

A split-interest agreement (or charitable remainder trust) provides for the payment of distributions to the grantor or other non-charitable beneficiary for a term of years or designated beneficiary's lifetime. At the end of the trust term, the remaining assets are paid to the Foundation. These agreements are administered by third-party trustees. The portion of the trust attributable to the present value of the remainder interest is recorded in the statement of activities as temporarily or permanently restricted net assets, depending on the trust terms. There were no new agreements established in 2014 or 2013. The remainder value of these agreements as of December 31, 2014 and 2013 was \$64,335 and \$86,618, respectively, and is recorded in the statements of financial position as "Beneficial interest in split-interest agreements."

The Foundation is also a 50% beneficiary of an irrevocable residual trust whereby the income beneficiary is not entitled to any distributions of principal. The Foundation's beneficial interest in this residual trust is \$845,795 and \$858,978 as of December 31, 2014 and 2013, respectively, and is revalued annually.

Note 12. Life Insurance Policy

In November 2011, the Foundation received a contribution of a life insurance policy for which it is the beneficiary. The donor will make annual contributions in the amount of \$10,000 for five years to pay the premium. The life insurance policy is reported at its cash surrender value. The value as of December 31, 2014 and 2013 was \$24,022 and \$15,331, respectively.

Note 13. Fair Value Measurements

The following table presents the balance of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013:

December 31, 2014	Level 1	Level 2	Level 3	Total
Cash	\$ 503,003	\$ --	\$ --	\$ 503,003
Fixed income securities	3,397,952	--	--	3,397,952
Equities	6,054,212	--	--	6,054,212
Mutual funds	6,998,433	--	--	6,998,433
Alternative investments	--	--	352,549	352,549
Beneficial interest in split-interest agreements	--	--	64,335	64,335
Beneficial interest in residual trust	--	845,795	--	845,795
Life insurance policy, cash surrender value	--	24,022	--	24,022
	<u>\$ 16,953,600</u>	<u>\$ 869,817</u>	<u>\$ 416,884</u>	<u>\$ 18,240,301</u>

Notes to Financial Statements

December 31, 2013	Level 1	Level 2	Level 3	Total
Cash	\$ 370,383	\$ --	\$ --	\$ 370,383
Fixed income securities	3,128,271	--	--	3,128,271
Equities	7,464,815	--	--	7,464,815
Mutual funds	5,487,723	--	--	5,487,723
Alternative investments	--	--	405,102	405,102
Beneficial interest in split-interest agreements	--	--	86,618	86,618
Beneficial interest in residual trust	--	858,978	--	858,978
Life insurance policy, cash surrender value	--	15,331	--	15,331
	<u>\$ 16,451,192</u>	<u>\$ 874,309</u>	<u>\$ 491,720</u>	<u>\$17,817,221</u>

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 investment assets:

	2014	2013
Balance - beginning of year	\$ 491,720	\$ 415,176
Investment (loss) income	(8,541)	(25,762)
Investment (sales) purchases	(44,012)	80,867
Other changes in beneficial interests	(22,283)	21,439
	<u>\$ 416,884</u>	<u>\$ 491,720</u>

Note 14. Commitments and Subsequent Events

The Foundation has evaluated all subsequent events through April 17, 2015, the date the financial statements were available to be issued. The Foundation has determined there are no additional subsequent events that require recognition or disclosure.