NORTHERN PIEDMONT COMMUNITY FOUNDATION

Warrenton, Virginia

FINANCIAL REPORT

JUNE 30, 2011

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Yount Hyde & Barbour
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board
Northern Piedmont Community Foundation
Warrenton, Virginia

We have audited the accompanying statement of financial position of Northern Piedmont Community Foundation as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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 audit provides 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 Northern Piedmont Community Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Culpeper, Virginia
August 22, 2011

Connecting depth and insight with community values

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NORTHERN PIEDMONT COMMUNITY FOUNDATION

Statement of Financial Position
For the Year Ended June 30, 2011

Assets		
Current Assets		
Cash and cash equivalents	$	629,622
Accounts receivable		607
Note receivable, current portion		8,927
Other current assets		3,665
Total current assets	$	642,821
Other Assets		
Investments, fair market value	$	4,511,942
Note receivable		589,628
Equipment, net of accumulated depreciation		1,876
	$	5,103,446
Total assets	$	5,746,267
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$	1,345
Grants payable		1,440
Total current liabilities	$	2,785
Net Assets, unrestricted	$	5,743,482
Total liabilities and net assets	$	5,746,267

See Notes to Financial Statements.

NORTHERN PIEDMONT COMMUNITY FOUNDATION

Statement of Activities
For the Year Ended June 30, 2011

Revenues, Gains (Losses) and Other Support		
Contributions and gifts	$	4,837,173
Dividends and interest earned		46,923
In-kind contributions		20,995
Fundraising income		10,300
Net realized and unrealized gain on investments		91,079
Total revenues, gains and other support	$	5,006,470
Expenses		
Grants awarded	$	237,676
Management and general		74,937
Fundraising expenses		5,638
Investment management fees		12,067
Total expenses	$	330,318
Change in net assets	$	4,676,152
Net assets, beginning of year		1,067,330
Net assets, end of year	$	5,743,482

See Notes to Financial Statements.

NORTHERN PIEDMONT COMMUNITY FOUNDATION

Statement of Cash Flows
For the Year Ended June 30, 2011

Cash Flows from Operating Activities	
Change in net assets	$ 4,676,152
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	1,433
Net realized and unrealized (gains) on investments	(91,079)
Donated value of securites	(309,917)
Donated value of real property	(1,500,000)
Decrease in assets:	
Accounts receivable	(607)
Other current assets	(2,412)
(Decrease) in liabilities:	
Accounts payable	(5)
Accrued payroll taxes	(668)
Grants payable	(360)
Net cash provided by operating activities	$ 2,772,537
Cash Flows from Investing Activities	
Note receivable from sale of property	$ (600,000)
Principal payments on note receivable	1,445
Purchase of equipment	(315)
Proceeds from sale of donated real property	848,615
Proceeds from sale of investments	1,062,576
Purchase of investments	(3,688,035)
Net cash (used in) investing activities	$ (2,375,714)
Net increase in cash and cash equivalents	$ 396,823
Cash and Cash Equivalents	
Beginning	232,799
Ending	$ 629,622
Supplemental Disclosure of Cash Flow Information,	
In-kind contributions	$ 20,995
Donated value of real property	$ 1,500,000

See Notes to Financial Statements.

Note 1. Nature of Operations

The Northern Piedmont Community Foundation (the Foundation) is a nonstock corporation dedicated to building a community of givers who provide a permanent source of money available for investments in nonprofit organizations throughout the region. In addition, the Foundation will fund projects that are innovative and meet the changing needs of the community. The Foundation's mission is to build philanthropic capital to enhance and preserve the quality of life in Culpeper, Fauquier, Madison and Rappahannock Counties and to strengthen the region's nonprofit organizations. The majority of the Foundation's support is from contributions.

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.

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.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Classification of Net Assets

Unrestricted Net Assets – All contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance provision gives the Board of Directors the power to modify any restriction or condition placed on gifts to the Foundation that is incapable of fulfillment or is no longer consistent with the charitable needs of the community. As a result of the variance power, all contributions are classified as unrestricted net assets. In addition, contributions with donor-imposed restrictions that are met during the same fiscal year as the contribution is made are included as unrestricted support that increases unrestricted net assets.

Temporarily Restricted Net Assets – These are subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. The Foundation's temporarily restricted net assets may consist of contributions received under split-interest agreements wherein the Foundation or a third party serves as trustee. There are no temporarily restricted net assets as of June 30, 2011.

Permanently Restricted Net Assets – These are subject to donor-imposed restrictions that will be maintained in perpetuity. The investment income generated from these assets is available for general support of the Foundation's programs and operations. The Foundation's permanently restricted net assets may consist of contributions from, and related activity of, perpetual trusts trusteed by third parties. There are no permanently restricted net assets as of June 30, 2011.

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.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments, including certificates of deposit to be cash equivalents. The Foundation's cash accounts are maintained at two commercial banks and a brokerage firm. As of June 30, 2011, the total amount of cash on deposit in those banks exceeded the federally-insured limits by $379,848.

Investments

Investments in fixed income and 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 reported in the statement of activities. Noncash gifts are recorded at fair value at the date of acquisition.

Fair Value of Financial Instruments

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.

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.

For the fiscal year ended June 30, 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Fixed Income and Equities

The fair value of fixed income securities and equities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

The carrying amounts of the Organization's financial instruments not described above arise in the ordinary course of business and approximate fair value.

Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the equipment. Maintenance and repairs are charged to operations and major acquisitions are capitalized. Upon sale or disposal of equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in change in net assets.

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 and disclosure of contingent 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.

Income Tax Status

The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation will be taxed only to the extent it has taxable trade or business income unrelated to its exempt purpose.

Note 3. Contributed Rent and 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 contributed rent with a value of $17,995 and $15,971 and professional accounting services with a value of $3,000 during the years ended June 30, 2011 and 2010, respectively.

Note 4. Note Receivable

On April 13, 2011, Northern Piedmont Community Foundation sold a donated property for $850,000. A note receivable in the amount of $600,000 resulted from the sale. Payments are to be received over 10 years with a monthly payment of $3,221. As of June 30, 2011, the balance on the note receivable was $598,555.

Note 5. Long-Term Investments

Long-term investments, including endowment as well as other funds, as of June 30, 2011 were as follows:

	June 30, 2011	
	Cost	Market Value
Fixed income	$ 662,359	$ 672,616
Equities	3,812,895	3,839,326
	$ 4,475,254	$ 4,511,942

Subsequent to year-end, economic events have had a significant adverse impact on investment portfolios. As a result, the Foundation's investments have likely incurred a significant decline in fair value since June 30, 2011.

Note 6. Investment Administration Fee

The Foundation maintains an administrative fee schedule which is designed to defray the administrative and program costs to the Foundation for managing each fund. Each fund, regardless of size, will be charged a minimum annual fee of $100. The current administrative fee schedule is based on the balance of the fund as follows:

Balance	Administrative Fee Rate
On first $1,000,000	1.0% annually, charged against the FMV quarterly
On next $2,000,000	.80% annually, charged against the FMV quarterly
Over $3,000,000	.60% annually, charged against the FMV quarterly

Note 7. Fair Value of Financial Instruments

The following table presents the balance of financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011:

	Level 1	Level 2	Level 3
Equities	$ 3,839,326	$ --	$ --
Fixed Income	672,616	--	--
	$ 4,511,942	$ --	$ --

Note 8. 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 9. Subsequent Events

The Foundation has evaluated all subsequent events through August 22, 2011, the date the financial statements were available to be issued. The Foundation has determined there are no subsequent events that require recognition or disclosure.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board
Northern Piedmont Community Foundation
Warrenton, Virginia

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the year ended June 30, 2011, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yount, Hyde & Barbour, P.C.

Culpeper, Virginia
August 22, 2011

NORTHERN PIEDMONT COMMUNITY FOUNDATION

Schedule of Management and General Expenses

For the Year Ended June 30, 2011

Depreciation	$	1,433
Dues and subscriptions		936
Insurance		842
Marketing and communications		3,887
Meals and entertainment		127
Office supplies and other		2,986
Payroll taxes		1,739
Professional fees		20,159
Rent		17,995
Taxes and licenses		225
Telephone and internet		1,695
Travel and conferences		180
Wages		22,733
	$	74,937