

SOUTHSIDE HEALTH EDUCATION FOUNDATION

FINANCIAL REPORT

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southside Health Education Foundation
Colonial Heights, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Southside Health Education Foundation which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 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 auditors' 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 Southside Health Education Foundation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Mitchell, Wiggins & Company LLP

Petersburg, Virginia
November 17, 2015

SOUTHSIDE HEALTH EDUCATION FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS

Cash and cash equivalents	\$ 507,799
Grants receivable	45,000
Pledges receivable	9,908
Notes receivable	8,625
Property and equipment, net	204
Investments	<u>1,641,857</u>
Total assets	<u>\$2,213,393</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	<u>\$ 2,645</u>
Total liabilities	<u>2,645</u>

Net assets:

Unrestricted	
Operations	162,470
Board-designated	602,802
Temporarily restricted	1,411,602
Permanently restricted	<u>33,874</u>
Total net assets	<u>2,210,748</u>
Total liabilities and net assets	<u>\$2,213,393</u>

See Notes to Financial Statements.

SOUTHSIDE HEALTH EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

	Temporarily Permanently			
	Unrestricted	Restricted	Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 19,420	\$ 330,400	\$ 1,000	\$ 350,820
Investment return	39,681	90,742	-	130,423
Special event, net of expenses of \$20,310	18,360	-	-	18,360
Net assets released from restrictions	295,386	(295,386)	-	-
Total revenues, gains, and other support	372,847	125,756	1,000	499,603
Functional expenses:				
Program services	317,403	-	-	317,403
Management and general	14,120	-	-	14,120
Total functional expenses	331,523	-	-	331,523
Changes in net assets	41,324	125,756	1,000	168,080
Net assets, beginning	723,948	1,285,846	32,874	2,042,668
Net assets, ending	\$ 765,272	\$1,411,602	\$ 33,874	\$2,210,748

See Notes to Financial Statements.

SOUTHSIDE HEALTH EDUCATION FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2014

	Program Services	Management and General	Total
Salaries	62,345	\$ 3,655	\$ 66,000
Payroll Taxes	4,769	280	5,049
Employee Benefits	6,325	371	6,696
Total Salaries and related expenses	73,439	4,306	77,745
Advertising and public relations	643	492	1,135
CME Series event	7,951	-	7,951
Contract services	40,012	2,346	42,358
Contributions	-	100	100
Depreciation	-	606	606
Dues and subscriptions	-	1,385	1,385
Insurance	-	1,395	1,395
Meals and entertainment	229	120	349
Miscellaneous	1,045	-	1,045
Office	84	1,697	1,781
Postage	84	195	279
Scholarships	193,840	-	193,840
Telephone	-	1,389	1,389
Travel and education	76	89	165
	\$317,403	\$ 14,120	\$331,523

See Notes to Financial Statements.

SOUTHSIDE HEALTH EDUCATION FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

Operating Activities	
Changes in net assets	\$ 168,080
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	606
Unrealized gain on investments	(99,197)
Changes in operating assets and liabilities:	
Increase in assets:	
Grants receivable	(11,524)
Pledges receivable	(9,108)
Notes receivable	(5,250)
Decrease in liabilities:	
Accounts payable and accrued expenses	(7,261)
Net cash provided by operating activities	<u>36,346</u>
Investing Activities	
Purchases of investments	<u>(1,311,166)</u>
Net cash used in investing activities	<u>(1,311,166)</u>
Financing Activities	
Receipt of temporarily restricted contributions to be invested	<u>1,280,015</u>
Net cash provided by financing activities	<u>1,280,015</u>
Increase in cash and cash equivalents	5,195
Cash and cash equivalents, beginning	<u>502,604</u>
Cash and cash equivalents, ending	<u>\$ 507,799</u>

See Notes to Financial Statements.

SOUTHSIDE HEALTH EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of activities: Southside Health Education Foundation (the “Foundation”) is a private, not-for-profit non-stock Virginia corporation that supports education through scholarships. The Foundation is committed to growing the number of healthcare workers who live and work in Southside Virginia.

Basis of accounting: The Foundation’s financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Accounting Standards Codification Topic (ASC) 958 Not-for-Profit Entities. Under ASC 958, 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.

Cash and cash equivalents: For purposes of the statements of cash flows, all highly liquid non-restricted investments purchased with a maturity of three months or less is considered to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments. The cash and cash equivalents consist of checking and money market accounts maintained at a financial institution and mutual fund company. As of December 31, 2014, the Foundation had balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Pledges and grants receivable: Pledges and grants receivable are recorded as received. Pledges and grants receivable due in the next year are reflected as current pledges and grants receivable and are recorded at their net realizable value. Pledges and grants receivable represent funds that the Foundation will receive during the next fiscal year. No allowance for uncollectible accounts has been provided because management has evaluated the receivables and believes they are fully collectible.

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 statements of activities as net assets released from restrictions.

Notes receivable: The Foundation administers a forgivable student loan program (the” Program”) which is designed to encourage students to complete professional educational training as nurses and to commit to accept employment in the nursing profession within the geographical area surrounding Petersburg, Virginia. Recipients of advances made under the Program enter into a work commitment agreement whereby beginning with the commencement of employment the recipient is required to be employed within the defined geographical area for six months for each

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (Continued)

academic semester that funds have been provided under the Program to cover approved academic expenses

If the recipient continues to remain employed in the defined geographical area and complies with each of the duties set forth in the work commitment agreement for the entire service period, the Foundation will forgive the amounts advanced in full which includes principal and interest. If the recipient is in default, amounts advanced are payable upon demand with interest accrued at 6%.

Investments: Investments in mutual funds with readily determinable fair values are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Property and equipment: Property and equipment is valued at cost or if donated at fair market value at the date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expense when incurred.

Donated materials and services: No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers donated significant amounts of their time in the Foundation's activities.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue recognition: Contributions which include unconditional promises to give are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor. Program support grants are recognized as revenue at the time of award if they are unconditional.

The Foundation reports grants and contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the statements of activities.

Advertising cost: Advertising cost is expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Unrestricted net assets: The Foundation reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's management and Board of Directors to support the Foundation's purpose and operations. As of December 31, 2014, the Board of Directors has designated a portion of unrestricted net assets to support the goals of the Foundation.

Temporarily restricted net assets: The Foundation reports gifts of cash and other assets as temporarily 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 statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted net assets as of December 31, 2014 consist of contributions restricted by donor designation to support specific initiatives within the Foundation.

Permanently restricted net assets: Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be utilized only for purposes specified by the donor. At December 31, 2014, the income from these permanently restricted net assets may be used to support the various programs sponsored by the Foundation at the discretion of the Board of Directors.

Income taxes: The Foundation is exempt from Federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. The Foundation had no unrelated business income during the year ended December 31, 2014.

The Foundation follows generally accepted accounting principles regarding "Accounting for Uncertain Tax Positions". This standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the Foundation's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. The tax years of 2011 to 2013 remain subject to examination by the taxing authorities.

The Foundation includes penalties and interest assessed by income taxing authorities in operating expenses. The Foundation did not have penalties and interest expenses for the year ended December 31, 2014.

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments

Investments at December 31, 2014 of the following:

	Cost	Fair Value	Gross Unrealized Losses	Gross Unrealized Gains
Mutual funds	<u>\$ 1,522,628</u>	<u>\$ 1,641,857</u>	<u>\$ -</u>	<u>\$ 119,229</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended December 31, 2014:

	Temporarily Restricted			Permanently Restricted	Total
	Unrestricted	Restricted	Restricted		
Interest and dividend income	\$ 9,540	\$ 21,686	\$ -	\$ -	\$ 31,226
Net unrealized gains	30,141	69,056	-	-	99,197
Total investment return	<u>\$ 39,681</u>	<u>\$ 90,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,423</u>

Investments include amounts held for the board designated and permanent endowment funds.

Note 3. Property and Equipment

Property and equipment at cost, less accumulated depreciation, as of December 31, 2014 on the statements of financial position include the following major classifications:

Furniture and equipment	\$ 1,843
Software	<u>2,534</u>
	<u>4,377</u>
Accumulated depreciation	<u>(4,173)</u>
	<u>\$ 204</u>

Note 4. Fair Value Measurements

U. S. GAAP has established a framework to measure fair value, and defined the required disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also established 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The classification of investments by level within the valuation hierarchy as of December 31, 2014 is as follows:

	Fair Value Measurements at Reporting Date Using			
	December 31,			
	2014	Level 1	Level 2	Level 3
Assets				
Balanced Index Fund	\$ 1,641,857	\$ 1,641,857	\$ -	\$ -

Note 5. Functional Allocation of Expenses

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

Note 6. Economic Dependency

For the year ended December 31, 2014, 100% of total grants receivable or \$45,000, represent promises to give from two donors.

For the year ended December 31, 2014, approximately 62% of total revenue and support for the year came from two funding sources.

Note 7. Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

Awards	\$ 2,621
Careers Exploring Program	10,948
Endowment Funds	1,219,795
Loan Fund	11,886
Medical Education Series	11,297
Middle School Careers Camp	5,000
Scholarships	147,389
Workforce Development Summit	2,666
	<u>\$ 1,411,602</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Restricted Net Assets (Continued)

Permanently restricted net assets consist of endowment fund investments to be held indefinitely. The income from which is expendable to support the Organization.

Note 8. Endowment

The Foundation's endowment consists of eleven individual funds established for purposes which support the Foundation. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of relevant state law: The Board of Directors of the Foundation has interpreted the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 52,588	\$ 33,874	\$ 86,462
Board-designated endowment funds	602,802	1,167,207	-	1,770,009
Total endowment funds	\$ 602,802	\$ 1,219,795	\$ 33,874	\$ 1,856,471

NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment (Continued)

The following schedule summarizes the net asset composition by type of fund as of December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 52,588	\$ 33,874	\$ 86,462
Board-designated endowment funds	602,802	1,167,207	-	1,770,009
Unrestricted funds	162,470	-	-	162,470
Temporarily restricted funds	-	191,807	-	191,807
Total net assets	\$ 765,272	\$ 1,411,602	\$ 33,874	\$ 2,210,748

The following schedule summarizes the changes in endowment net assets for the year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 576,431	\$ 1,145,231	\$ 32,874	\$ 1,754,536
Investment return:				
Investment income	9,465	21,494	-	30,959
Net appreciation, realized and unrealized	30,141	68,445	-	98,586
Total investment return	39,606	89,939	-	129,545
Contributions	-	-	1,000	1,000
Appropriation of endowment assets for expenditure	(13,235)	(15,375)	-	(28,610)
Endowment net assets, end of year	\$ 602,802	\$ 1,219,795	\$ 33,874	\$ 1,856,471

NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment (Continued)

A description of the amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of December 31, 2014 is as follows:

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 33,874</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 33,874</u>

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	<u>\$ 52,588</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 52,588</u>

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2014.

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to earn a real total return that is at least equal to the annual spending rate plus inflation as measured by the Consumer Price Index, while assuming a moderate level of risk. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital preservation and current yield (interest and dividends). The Foundation targets a diversified asset allocation for capital preservation, which includes money market funds and mutual funds, in order to minimize risks while preserving capital.

Note 9. Subsequent Events

Management has evaluated subsequent events through November 17, 2015, the date the financial statements were available for issue.