



COMBINED FINANCIAL
STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**THE GREATER KANAWHA VALLEY
FOUNDATION & AFFILIATED
SUPPORTING ORGANIZATION**

DECEMBER 31, 2003 AND 2002

C O N T E N T S

	PAGE
INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS	
Combined statements of assets and fund balances - modified cash basis	2
Combined statements of support, revenue and expenses - modified cash basis	3
Combined statements of changes in fund balances - modified cash basis	4
Notes to combined financial statements	5

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Greater Kanawha Valley Foundation and
Affiliated Supporting Organization
Charleston, West Virginia

We have audited the accompanying combined statements of assets and fund balances - modified cash basis of The Greater Kanawha Valley Foundation and its affiliated supporting organization as of December 31, 2003 and 2002 and the related combined statements of support, revenue and expenses - modified cash basis and changes in fund balances - modified cash basis for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audits 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 our audits provide a reasonable basis for our opinion.

As described in Note A, The Greater Kanawha Valley Foundation and its affiliated supporting organization prepare their combined financial statements on the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined assets and fund balances of The Greater Kanawha Valley Foundation and its affiliated supporting organization as of December 31, 2003 and 2002 and the combined support, revenue and expenses and changes in fund balances for the years then ended, on the basis of accounting described in Note A.

Simpson & Osborne

March 8, 2004

Charleston Office
Suite 1100 Laidley Tower
Post Office Box 1747
Charleston, WV 25326

304 343-0168 tel
304 343-1895 fax
800-924-6697

Morgantown Office
150 Clay Street, Suite 410
Post Office Box 1556
Morgantown, WV 26507

304 292-7343 tel
304 292-7099 fax
877 826-6372

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

**COMBINED STATEMENTS OF ASSETS AND FUND BALANCES -
MODIFIED CASH BASIS**

December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CASH AND SHORT-TERM MONEY MARKET FUNDS	\$ 2,540,236	\$ 2,465,185
INVESTMENTS, AT FAIR MARKET VALUE		
Corporate stocks	1,473	7,776
Collective funds	103,090,839	79,902,448
Other	<u>37,872</u>	<u>27,666</u>
	103,130,184	79,937,890
NOTES RECEIVABLE	157,685	183,190
REAL ESTATE	<u>2,050</u>	<u>2,050</u>
	<u>\$105,830,155</u>	<u>\$ 82,588,315</u>
FUND BALANCES		
EXPENDABLE		
Unrestricted	5,268,900	4,239,678
Restricted	<u>6,626,082</u>	<u>6,410,648</u>
	11,894,982	10,650,326
ENDOWMENT	<u>93,935,173</u>	<u>71,937,989</u>
	<u>\$105,830,155</u>	<u>\$ 82,588,315</u>

See notes to combined financial statements.

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

**COMBINED STATEMENTS OF SUPPORT, REVENUE AND EXPENSES -
MODIFIED CASH BASIS**

Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
SUPPORT AND REVENUE		
Contributions and gifts	\$ 684,568	\$ 753,328
Interest and dividends, net of trustee bank fees of \$243,872 in 2003 and \$198,135 in 2002		
Unrestricted	590,988	790,234
Restricted	795,493	952,567
Rental and other income	<u>60,077</u>	<u>48,948</u>
 Total support and revenue	 2,131,126	 2,545,077
EXPENSES		
Grants to charitable organizations, net of refunds	2,829,435	3,430,433
Scholarship grants, net of refunds	800,133	880,594
Investment consultant fees	44,922	49,307
Salaries, payroll taxes and employee benefits	491,121	525,746
Operating expenses	286,764	352,043
Other fund expenses	<u>120,836</u>	<u>35,692</u>
 Total expenses	 <u>4,573,211</u>	 <u>5,273,815</u>
 Deficiency of support and revenue over expenses before realized and unrealized losses	 (2,442,085)	 (2,728,738)
 Realized and unrealized gains (losses) - expendable	 <u>3,686,741</u>	 <u>(2,535,617)</u>
 Excess (deficiency) of support and revenue over expenses before nonexpendable additions (reductions)	 1,244,656	 (5,264,355)
NONEXPENDABLE ADDITIONS (REDUCTIONS)		
Contributions received	8,682,492	2,829,389
Realized and unrealized gains (losses) - endowment	<u>13,314,692</u>	<u>(8,815,203)</u>
 Total nonexpendable additions (reductions)	 <u>21,997,184</u>	 <u>(5,985,814)</u>
 Excess (deficiency) of support and revenue over expenses after nonexpendable additions (reductions)	 <u>\$ 23,241,840</u>	 <u>\$(11,250,169)</u>

See notes to combined financial statements.

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

**COMBINED STATEMENTS OF CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS**

Years Ended December 31, 2003 and 2002

	Expendable Unrestricted Funds	Expendable Restricted Funds	Endowment Funds	Total All Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance, December 31, 2001	6,879,644	9,035,037	77,923,803	93,838,484
Deficiency of support and revenue over expenses before nonexpendable reductions	(2,639,966)	(2,624,389)	-	(5,264,355)
Nonexpendable reductions	<u> -</u>	<u> -</u>	<u>(5,985,814)</u>	<u>(5,985,814)</u>
Fund balance, December 31, 2002	\$ 4,239,678	\$ 6,410,648	\$ 71,937,989	\$ 82,588,315
Excess of support and revenue over expenses before nonexpendable additions	1,029,222	215,434	-	1,244,656
Nonexpendable additions	<u> -</u>	<u> -</u>	<u>21,997,184</u>	<u>21,997,184</u>
Fund balance, December 31, 2003	<u>\$ 5,268,900</u>	<u>\$ 6,626,082</u>	<u>\$ 93,935,173</u>	<u>\$105,830,155</u>

See notes to combined financial statements.

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

NOTES TO COMBINED FINANCIAL STATEMENTS

Years Ended December 31, 2003 and 2002

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Greater Kanawha Valley Foundation (the "Foundation") is a charitable community trust organized and operated under the laws of West Virginia.

Basis of Presentation – The accounts of the Foundation and its affiliated supporting organization are maintained on the modified cash basis of accounting. Under this basis of accounting, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. In addition, revenue is recognized for contributions of certain noncash assets based on fair market value at the date of gift. The accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

The financial statements include the accounts of the Foundation and its affiliated supporting organization, TGKVF, Inc. TGKVF, Inc. was formed on December 9, 1986, primarily to operate for the benefit of, and to carry out the purposes of, the Foundation (See Note G).

Fund Accounting – To ensure observance of designations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which donations for various purposes are classified for accounting and reporting purposes into funds established according to their designations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds having similar characteristics have been combined into fund groups as follows:

- Unrestricted expendable funds, which represent resources (principal and income) available for administrative and general charitable purposes.
- Restricted expendable funds, which represent resources (principal and income) restricted for various specific purposes.
- Endowment funds, which represent funds that are subject to restrictions of donative instruments requiring in perpetuity that the principal be invested and only the income from such investments be expended.

Nonexpendable Additions (Reductions) – Nonexpendable additions (reductions) represent contributions and net realized and unrealized gains (losses) from investment and real estate transactions which are permanently restricted as to distribution.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

It has been the policy of the Foundation's Board of Trustees that if the documents creating a new fund are not clear as to whether an invasion of principal is allowed, the fund will be classified as an Endowment Fund and only the income of the fund will be available for distribution.

Income Tax – The Foundation is classified as "an other than a private foundation" and is exempt from income taxes under applicable provisions of the Internal Revenue Code.

Equipment – The Foundation's policy is to expense equipment purchases in the year the expenditures are made.

Concentration of Credit Risk – The Foundation maintains its administrative cash account at a financial institution. The balance, at times, may exceed federally insured limits.

Investments – Investments are recorded at their current market value, which is generally based on published market quotes determined principally by the last reported sales price on the last business day of the year. Investments received as a bequest or gift are recorded at the market value as of the date of receipt. Any change in the valuation of the assets is reported as realized and unrealized gains or losses.

Investment Income – Ordinary income from investments and notes receivable is accounted for in the fund which holds the respective assets, except for income derived from investments of endowment funds, which is accounted for in the unrestricted expendable fund or the restricted expendable funds, depending upon the nature of the specific endowment fund.

Contributed Services – Certain individuals have made significant contributions of their time to manage and operate the Foundation. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Reclassifications – Certain amounts in the 2002 statements have been reclassified to agree to the 2003 statement presentation.

Spending Policy – Effective December 11, 2002, the Greater Kanawha Valley Foundation's Board of Trustees implemented a revised spending policy with the dual objectives of preserving the real (after inflation) value of its current and subsequently acquired assets and providing the maximum flow of funds for grant making.

The revised spending policy provides that the amount which the Foundation makes available for grants, operating expenses and fees will be calculated by multiplying a Percentage by a Base.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

This computation will be made at the beginning of each fiscal year to include the last 20 quarters, estimating the last quarter, if necessary.

The Base for grant distributions will be the twenty-quarter moving average of the market value of the Foundation's total assets. The Foundation recognizes that certain circumstances may call for a different Base to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the period of time used for the Base.

The determination of the Percentage factor for grant distributions will be reviewed periodically in the light of evolving trends with respect to investment returns and the rate of inflation, and adjustment will be made when it is considered appropriate. It was the Foundation's judgment that for 2003 and 2002 an annual percentage factor of 5 percent was appropriate. Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees.

During the year ended December 31, 2003 the Foundation temporarily suspended expenditures from various funds because the market value of the funds had fallen below original corpus plus any subsequent contributions. The total fair market values of these funds totaled \$20,510,464 and the original corpus plus subsequent contributions totaled \$21,463,402 which results in an aggregate deficiency of \$952,938.

The Foundation recognizes that extremely unusual circumstances with respect either to financial markets or the needs of the communities it serves may, in rare instances, require temporary departures from the strict application of these Investment and/or spending policies.

NOTE B - ADMINISTRATIVE FEES

For the years ended December 31, 2003 and 2002, the Foundation assessed each fund an administrative fee of 1.0000 percent and 0.9985 percent, respectively, on the market value of each fund. These fees are used by the Foundation to pay for administrative costs incurred in managing the Foundation and administering the funds. Administrative fees for the years ended December 31, 2003 and 2002 were \$772,728 and \$871,204, respectively. For financial statement purposes, the administrative fee income collected by the Foundation is netted against the administrative fee expense recognized by the funds. These amounts net to zero and no income or expense is reported.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE C - INVESTMENTS

The following summarizes the relationship between cost or donated values and the market values of investments.

Investments and related values at December 31, 2003 are:

	<u>Market Value</u>	<u>Cost or Donated Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Corporate stocks	\$ 1,473	\$ -	\$ 1,473
Collective funds	103,090,839	91,332,033	11,758,806
Other	<u>37,872</u>	<u>37,872</u>	<u>-</u>
	<u>\$103,130,184</u>	<u>\$91,369,905</u>	<u>\$11,760,279</u>

Investments and related values at December 31, 2002 were:

	<u>Market Value</u>	<u>Cost or Donated Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Corporate stocks	\$ 7,776	\$ 495	\$ 7,281
Collective funds	79,902,448	86,284,661	(6,382,213)
Other	<u>27,666</u>	<u>27,666</u>	<u>-</u>
	<u>\$ 79,937,890</u>	<u>\$ 86,312,822</u>	<u>\$ (6,374,932)</u>

NOTE D - GRANT COMMITMENTS

As of December 31, 2003, a balance of approximately \$190,429 in grants approved by the Foundation's Board of Trustees had not been disbursed, but is scheduled for disbursement during the year ending December 31, 2004.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE D - GRANT COMMITMENTS (Continued)

The Foundation's Board of Trustees has approved various long-term grants totaling \$4,342,500. These grants are to be paid out annually through the year ending December 31, 2009. As of December 31, 2003, \$3,237,500 had been disbursed. The remaining balance of \$1,095,000 will be disbursed as follows:

Year Ended <u>December 31,</u>	
2004	\$ 350,000
2005	210,000
2006	135,000
2007	135,000
2008	135,000
Thereafter	<u>130,000</u>
	<u>\$ 1,095,000</u>

NOTE E - RELATED PARTY TRANSACTIONS

Certain members of the Board of Trustees of the Foundation also participate in the management of or are members of the boards of various organizations throughout the state. During the years ended December 31, 2003 and 2002, the Foundation approved grants totaling approximately \$353,822 and \$293,150, respectively, to these organizations.

NOTE F -RETIREMENT PLAN

The Foundation has a defined contribution retirement plan that covers all full-time employees having at least one year of service. For 2003 and 2002, contributions to the plan were computed at eight percent of compensation. During 2003 and 2002, contributions to the plan were \$25,834 and \$25,414, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE G - AFFILIATED SUPPORTING ORGANIZATION

As discussed in Note A, the Foundation has an affiliated supporting organization. Summarized financial information for this supporting organization for 2003 and 2002 is:

	<u>2003</u>	<u>2002</u>
Cash and short-term funds	\$ 231,253	\$ 132,025
Collective funds	8,219,703	6,306,159
Project fund transfer from the Foundation to the affiliated supporting organization	883,837	-
Other assets	<u>30,998</u>	<u>38,761</u>
 Total assets	 <u>\$ 9,365,791</u>	 <u>\$ 6,476,945</u>
 Fund balance	 <u>\$ 9,365,791</u>	 <u>\$ 6,476,945</u>
 Interest and dividend income	\$ 110,813	\$ 131,290
Contributions and gifts	1,127,225	854,450
Grants, net of refunds	(308,188)	(415,824)
Scholarships, net of refunds	(19,000)	(25,200)
Bank fees	(10,827)	(7,804)
Administrative fees	(59,933)	(60,291)
Realized and unrealized gains (losses)	1,344,166	(907,726)
Other income (expenses)	(100,515)	(22,357)
Transfers from (to) other funds	<u>805,105</u>	<u>(194,024)</u>
 EXCESS OF SUPPORT AND REVENUE OVER EXPENSES	 <u>\$ 2,888,846</u>	 <u>\$ (647,486)</u>

These amounts are included in the accompanying combined financial statements.

On July 16, 2003, the Foundation transferred three funds to TGKVF by the authority of the Foundation's Board of Trustees. These funds were classified as expendable unrestricted funds and remain as such.

NOTE H - PROGRAM RELATED INVESTMENT

On November 23, 1998, TGKVF, Inc. provided a \$50,000 loan to a third-party for the construction and renovation of low to moderate income housing in the city of Charleston. The amount was disbursed to the third party as a note receivable bearing interest at 4.5 percent annually. In 2000, the Foundation received monthly interest payments on the amount outstanding.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE H - PROGRAM RELATED INVESTMENT (Continued)

In 2002, the Foundation's Board of Trustees approved a request for modification to the Project Program Related Investment by the West Virginia Housing Development Fund. The request stated that additional funds were needed to complete the project and that the Housing Fund was willing to advance the additional funding provided that the following conditions were met: (1) the funders group (including the Foundation) would subordinate their repayment requirement on additional units to be completed until such time as the additional funding had been paid in full, except where repayment originated from units that had been completed from monies advanced prior to the additional funding; and (2) the funders group would renew the notes to September 30, 2003. The Foundation's Investment Committee agreed to the Housing Fund's request with the stipulation that the project's \$112,000 line of credit be drawn down and applied pro rata to the current outstanding balances and that the monthly interest payments to the Foundation be kept current through the project. The remaining balance at December 31, 2003 and 2002 was \$30,998 and \$38,761, respectively.

The Foundation's Board of Trustees believe the program related investment is for a charitable purpose as defined by the Internal Revenue Code.

NOTE I - OPERATING LEASE

In March 1998, the Foundation began leasing office space under an operating lease expiring in 2002. This lease has been extended through February 2009. Rent expense for the year ended December 31, 2003 and 2002 was \$94,970 and \$92,133, respectively.

Minimum future rental payments under this operating lease as of December 31, 2003 are:

Year Ended <u>December 31,</u>	
2004	\$ 93,808
2005	93,500
2006	93,500
2007	95,837
2008	98,734
Thereafter	<u>16,537</u>
	<u>\$ 491,916</u>