



COMBINED FINANCIAL
STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

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

DECEMBER 31, 2005 AND 2004

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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 financial position - modified cash basis of The Greater Kanawha Valley Foundation and its affiliated supporting organization as of December 31, 2005 and 2004 and the related combined statements of activity - modified cash basis and changes in net assets - 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 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 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 financial position of The Greater Kanawha Valley Foundation and its affiliated supporting organization as of December 31, 2005 and 2004 and the results of their operations and changes in net assets for the years then ended, on the basis of accounting described in Note A.

Simpson & Osborne A. C.

February 27, 2006

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

**COMBINED STATEMENTS OF FINANCIAL POSITION -
MODIFIED CASH BASIS**

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and equivalents	\$ 5,804,655	\$ 4,207,891
Investments, at fair market value	117,511,064	111,684,737
Notes receivable	168,119	197,580
Real estate	<u>2,100</u>	<u>2,050</u>
	<u>\$ 123,485,938</u>	<u>\$ 116,092,258</u>
NET ASSETS		
Expendable		
Unrestricted	5,354,180	5,444,711
Restricted	<u>5,620,280</u>	<u>5,975,465</u>
	10,974,460	11,420,176
Endowment	<u>112,511,478</u>	<u>104,672,082</u>
	<u>\$ 123,485,938</u>	<u>\$ 116,092,258</u>

See notes to combined financial statements.

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

**COMBINED STATEMENTS OF ACTIVITY -
MODIFIED CASH BASIS**

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
SUPPORT AND REVENUE		
Contributions and gifts	\$ 5,639,206	\$ 957,454
Interest and dividends, net of trustee bank fees of \$263,533 in 2005 and \$277,624 in 2004		
Unrestricted	723,357	492,413
Restricted	910,646	704,898
Rental and other income	<u>60,230</u>	<u>108,807</u>
 Total support and revenue	 7,333,439	 2,263,572
EXPENSES		
Grants to charitable organizations, net of refunds	7,599,635	3,039,298
Scholarship grants, net of refunds	750,499	731,540
Investment consultant fees	62,234	56,423
Salaries, payroll taxes and employee benefits	523,761	491,449
Operating expenses	318,521	284,921
Other fund expenses	<u>8,070</u>	<u>39,110</u>
 Total expenses	 <u>9,262,720</u>	 <u>4,642,741</u>
 Deficiency of support and revenue over expenses before realized and unrealized losses	 (1,929,281)	 (2,379,169)
 Realized and unrealized gains - expendable	 <u>1,483,565</u>	 <u>1,904,363</u>
 Deficiency of support and revenue over expenses before endowment additions	 (445,716)	 (474,806)
ENDOWMENT ADDITIONS		
Contributions received	1,649,489	3,042,471
Realized and unrealized gains	<u>6,189,907</u>	<u>7,694,438</u>
 Total endowment additions	 <u>7,839,396</u>	 <u>10,736,909</u>
 Excess of support and revenue over expenses after endowment additions	 <u>\$ 7,393,680</u>	 <u>\$ 10,262,103</u>

See notes to combined financial statements.

The Greater Kanawha Valley Foundation and Affiliated Supporting Organization

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS -
MODIFIED CASH BASIS**

Years Ended December 31, 2005 and 2004

	Expendable Unrestricted Funds	Expendable Restricted Funds	Endowment Funds	Total All Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net assets, December 31, 2003	\$ 5,268,900	\$ 6,626,082	\$ 93,935,173	\$105,830,155
Excess (deficiency) of support and revenue over expenses before nonexpendable additions	175,811	(650,617)	-	(474,806)
Endowment additions	<u>-</u>	<u>-</u>	<u>10,736,909</u>	<u>10,736,909</u>
Net assets, December 31, 2004	<u>\$ 5,444,711</u>	<u>\$ 5,975,465</u>	<u>\$104,672,082</u>	<u>\$116,092,258</u>
Deficiency of support and revenue over expenses before nonexpendable additions	(90,531)	(355,185)	-	(445,716)
Endowment additions	<u>-</u>	<u>-</u>	<u>7,839,396</u>	<u>7,839,396</u>
Net assets, December 31, 2005	<u>\$ 5,354,180</u>	<u>\$ 5,620,280</u>	<u>\$112,511,478</u>	<u>\$123,485,938</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, 2005 and 2004

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. The Foundation is a collection of funds ranging from ten thousand dollars to more than seven million dollars. The Foundation accepts contributions, creates and administers funds, and makes grants for the benefit of the people of the Greater Kanawha Valley.

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 generally accepted accounting principles.

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 H).

Use of Estimates – The preparation of the financial statements requires management to make estimates. These estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The actual results could vary from the estimates used.

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 and Statement of Financial Accounting Standards ("SFAS") No. 117. This is the procedure by which donations for various purposes are classified for accounting and reporting purposes into funds established according to their designations according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. 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:

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

- Unrestricted expendable funds (unrestricted net assets), which represent resources (principal and income) available for administrative and general charitable purposes.
- Restricted expendable funds (temporarily restricted net assets), which represent resources (principal and income) restricted for various specific purposes.
- Endowment funds (permanently restricted net assets), 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.

Income Tax – The Foundation is classified as "an other than a private foundation" and is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been recorded.

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 substantially 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.

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

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.

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.

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 management's judgment that for 2005 and 2004 an annual factor of 4.5% 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 as permitted by the law.

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.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE B - CHANGES IN EXPENDABLE NET ASSETS

The following table provides the changes in expendable net assets for the years ended December 31, 2004 and 2005:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Expendable Net Assets
Net assets, December 31, 2003	\$ 5,268,900	\$ 6,626,082	\$ 11,894,982
Contributions and gifts	479,065	478,389	957,454
Interest and dividends, net of trustee bank fees	492,413	704,898	1,197,311
Rental and other income	<u>70,363</u>	<u>38,444</u>	<u>108,807</u>
Total support and revenue	1,041,841	1,221,731	2,263,572
Grants to charitable organizations, net of refunds	3,039,298	-	3,039,298
Scholarship grants, net of refunds	731,540	-	731,540
Investment consultant fees	56,423	-	56,423
Salaries, payroll taxes and employee benefits	491,449	-	491,449
Operating expenses	284,921	-	284,921
Other fund expenses	<u>39,110</u>	<u>-</u>	<u>39,110</u>
Total expenses	4,642,741	-	4,642,741
(Deficiency) excess of support and revenue over expenses before realized and unrealized gains	(3,600,900)	1,221,731	(2,379,169)
Realized and unrealized gains	<u>988,389</u>	<u>915,974</u>	<u>1,904,363</u>
(Deficiency) excess of support and revenue over expenses before transfers	(2,612,511)	2,137,705	(474,806)
Interfund transfers	<u>2,788,322</u>	<u>(2,788,322)</u>	<u>-</u>
Excess (deficiency) of support and revenue over expenses	<u>175,811</u>	<u>(650,617)</u>	<u>(474,806)</u>
Net assets, December 31, 2004	<u>\$ 5,444,711</u>	<u>\$ 5,975,465</u>	<u>\$ 11,420,176</u>

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE B - CHANGES IN EXPENDABLE NET ASSETS (Continued)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Expendable Net Assets
Net assets, December 31, 2004	\$ 5,444,711	\$ 5,975,465	\$ 11,420,176
Contributions and gifts	4,588,067	1,051,139	5,639,206
Interest and dividends, net of trustee bank fees	723,357	910,646	1,634,003
Rental and other income	<u>552</u>	<u>59,678</u>	<u>60,230</u>
Total support and revenue	5,311,976	2,021,463	7,333,439
Grants to charitable organizations, net of refunds	7,599,635	-	7,599,635
Scholarship grants, net of refunds	750,499	-	750,499
Investment consultant fees	62,234	-	62,234
Salaries, payroll taxes and employee benefits	523,761	-	523,761
Operating expenses	318,521	-	318,521
Other fund expenses	<u>8,070</u>	<u>-</u>	<u>8,070</u>
Total expenses	9,262,720	-	9,262,720
(Deficiency) excess of support and revenue over expenses before realized and unrealized gains	(3,950,744)	2,021,463	(1,929,281)
Realized and unrealized gains	<u>753,437</u>	<u>730,128</u>	<u>1,483,565</u>
(Deficiency) excess of support and revenue over expenses before transfers	(3,197,307)	2,751,591	(445,716)
Interfund transfers	<u>3,106,776</u>	<u>(3,106,776)</u>	<u>-</u>
Deficiency of support and revenue over expenses	<u>(90,531)</u>	<u>(355,185)</u>	<u>(445,716)</u>
Net assets, December 31, 2005	<u>\$ 5,354,180</u>	<u>\$ 5,620,280</u>	<u>\$ 10,974,460</u>

NOTE C - ADMINISTRATIVE FEES

For the years ended December 31, 2005 and 2004, the Foundation assessed each fund an administrative fee of 0.95% 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, 2005 and 2004 were \$1,002,722 and \$897,366, 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 D - INVESTMENTS

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

Investments and related values at December 31, 2005 are:

	<u>Market Value</u>	<u>Cost or Donated Value</u>	<u>Net Unrealized Gain</u>
Corporate Stocks	\$ 74,830	\$ 71,856	\$ 2,974
Mutual Funds	425,851	370,156	55,695
US Core Equities	35,051,323	29,365,373	5,685,950
US Mid/Small Growth Equities	9,889,325	7,323,464	2,565,861
US Mid/Small Value Equities	10,457,862	8,524,017	1,933,845
International Core Equities	21,419,595	12,515,196	8,904,399
Alternatives	18,571,580	15,978,310	2,593,270
Fixed Income	<u>21,620,698</u>	<u>21,711,905</u>	<u>(91,207)</u>
	<u>\$117,511,064</u>	<u>\$ 95,860,277</u>	<u>\$ 21,650,787</u>

The following table summarizes the investment return and its classification in the combined statements of activity for the year ended December 31, 2005:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Interest and dividends, net of bank fees	\$ 723,357	\$ 910,646	\$ -	\$ 1,634,003
Net realized gains	414,870	232,513	2,074,331	2,721,714
Net unrealized gains	<u>338,567</u>	<u>497,615</u>	<u>4,115,576</u>	<u>4,951,758</u>
Total return on investments	<u>\$ 1,476,794</u>	<u>\$ 1,640,774</u>	<u>\$ 6,189,907</u>	<u>\$ 9,307,475</u>
Reported as follows:				
Support and revenue				
Interest and dividends, net of bank fees	\$ 723,357	\$ 910,646	\$ -	\$ 1,634,003
Realized and unrealized gains - expendable	753,437	730,128	-	1,483,565
Realized and unrealized gains - endowment	<u>-</u>	<u>-</u>	<u>6,189,907</u>	<u>6,189,907</u>
Total return on investments, as reported	<u>\$ 1,476,794</u>	<u>\$ 1,640,774</u>	<u>\$ 6,189,907</u>	<u>\$ 9,307,475</u>

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE D - INVESTMENTS (Continued)

Investments and related values at December 31, 2004 are:

	<u>Market Value</u>	<u>Cost or Donated Value</u>	<u>Net Unrealized Gain</u>
Corporate Stocks	\$ 5,469	\$ 2,438	\$ 3,031
Mutual Funds	359,607	317,437	42,170
US Core Equities	32,476,370	28,505,207	3,971,163
US Mid/Small Growth Equities	9,304,383	7,128,237	2,176,146
US Mid/Small Value Equities	10,264,843	7,961,796	2,303,047
International Core Equities	20,673,832	13,187,315	7,486,517
Alternatives	17,912,418	17,092,931	819,487
Fixed Income	<u>20,687,815</u>	<u>20,348,755</u>	<u>339,060</u>
	<u>\$111,684,737</u>	<u>\$ 94,544,116</u>	<u>\$ 17,140,621</u>

Amounts reported above as alternatives consist of investments in two funds, the Lehman Brothers Diversified Arbitrage, Ltd. fund and the Meridian Performance Partners, Ltd. fund. The Lehman Brothers Diversified Arbitrage, Ltd. fund is a multi-manager fund of hedge funds that will invest in convertible bond, merger, statistical, options, and capital structure arbitrage strategies as well as distressed securities and restructuring investing. The Meridian Performance Partners, Ltd. fund utilizes a fund of funds approach to invest in event-driven, equity market neutral and hedged equity strategies.

The following table summarizes the investment return and its classification in the combined statements of activity for the year ended December 31, 2004:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Interest and dividends, net of bank fees	\$ 492,414	\$ 704,898	\$ -	\$ 1,197,312
Net realized gains	203,817	187,808	1,366,616	1,758,241
Net unrealized gains	<u>783,572</u>	<u>728,166</u>	<u>6,327,822</u>	<u>7,839,560</u>
Total return on investments	<u>\$ 1,479,803</u>	<u>\$ 1,620,872</u>	<u>\$ 7,694,438</u>	<u>\$ 10,795,113</u>
Reported as follows:				
Support and revenue				
Interest and dividends, net of bank fees	\$ 492,414	\$ 704,898	\$ -	\$ 1,197,312
Realized and unrealized gains - expendable	987,389	915,974	-	1,903,363
Realized and unrealized gains - endowment	<u>-</u>	<u>-</u>	<u>7,694,438</u>	<u>7,694,438</u>
Total return on investments, as reported	<u>\$ 1,479,803</u>	<u>\$ 1,620,872</u>	<u>\$ 7,694,438</u>	<u>\$ 10,795,113</u>

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE E - GRANT COMMITMENTS

As of December 31, 2005, a balance of approximately \$504,434 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, 2006.

The Foundation's Board of Trustees has approved various long-term grants totaling \$6,213,390. These grants are to be paid out in future years. As of December 31, 2005, \$4,168,956 had been disbursed. The remaining balance of \$2,044,434 will be disbursed as follows:

<u>Year Ended</u> <u>December 31,</u>	
2005	\$ 504,434
2006	430,000
2007	310,000
2008	185,000
2009	185,000
Thereafter	<u>430,000</u>
	<u>\$ 2,044,434</u>

NOTE F -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, 2005 and 2004, the Foundation approved grants totaling approximately \$201,421 and \$167,684, respectively, to these organizations.

NOTE G - RETIREMENT PLAN

The Foundation has a defined contribution retirement plan that covers all full-time employees having at least one year of service. For 2005 and 2004, contributions to the plan were computed at eight percent of compensation. During 2005 and 2004, the foundation recorded expense of \$29,494 and \$24,704, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

NOTE H - AFFILIATED SUPPORTING ORGANIZATION

As discussed in Note A, the Foundation has an affiliated supporting organization. Summarized financial information for this supporting organization for 2005 and 2004 is:

	<u>2005</u>	<u>2004</u>
Cash and short-term funds	\$ 285,236	\$ 1,452,325
Investments	<u>14,608,361</u>	<u>11,234,910</u>
 Total assets	 <u>\$ 14,893,597</u>	 <u>\$ 12,687,235</u>
 Fund balance	 <u>\$ 14,893,597</u>	 <u>\$ 12,687,235</u>
 Interest and dividend income	\$ 195,975	\$ 136,678
Contributions and gifts	4,031,472	2,977,809
Grants, net of refunds	(2,423,776)	(430,607)
Scholarships, net of refunds	(2,450)	(2,000)
Bank fees	(16,368)	(13,859)
Administrative fees	(88,489)	(83,867)
Realized and unrealized gains (losses)	685,406	876,061
Other income (expenses)	(12,778)	3,500
Transfers from (to) other funds	<u>(162,630)</u>	<u>(142,271)</u>
 EXCESS OF REVENUE OVER EXPENSES	 <u>\$ 2,206,362</u>	 <u>\$ 3,321,444</u>

These amounts are included in the accompanying combined financial statements.

NOTE I - OPERATING LEASE

The Foundation leases its office space under an operating lease expiring in February 2009. Rent expense for the years ended December 31, 2005, and 2004 was \$96,140 and \$88,024, respectively.

Minimum future rental payments under this operating lease as of December 31, 2005 are:

Year Ended	
<u>December 31,</u>	
2006	\$ 93,500
2007	96,071
2008	98,977
2009	16,537
2010	-
Thereafter	-
	<u><u>\$ 305,085</u></u>