HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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Report of Independent Accountants

Board of Directors of
Hampton Roads Community Foundation

We have audited the accompanying consolidated statement of net assets of the Hampton Roads Community Foundation and its supporting organization (collectively the Foundation) as of December 31, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and of cash flows for each of the years in the three year period ended December 31, 2014, and the related notes to the consolidated 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 audits 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at December 31, 2014 and 2013 and the changes in its net assets and cash flows for each of the years in the three year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

Cavanaugh Nelson PLC

June 9, 2015

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HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF NET ASSETS

	December 31, 2014	December 31, 2013
Assets		
Investments, at fair value:		
Cash equivalents	$ 8,221,257	$ 8,531,432
Fixed income funds	1,440,145	1,088,880
Equity funds	3,267,363	3,309,579
Investment partnerships	275,032,677	258,590,041
Other	369,930	94,317
Total investments	288,331,372	271,614,249
Cash and cash equivalents	669,993	533,735
Property and equipment, net	173,864	176,214
Other assets	25,132	-
Restricted assets:		
Contributions receivable	19,062,263	22,141,945
Beneficial interest in insurance trusts	349,009	339,387
Total assets	$ 308,611,633	$ 294,805,530
Liabilities and net assets		
Funds held for others	$ 10,079,794	$ 8,741,697
Grants payable	1,431,989	1,137,392
Other liabilities	70,833	45,833
Total liabilities	11,582,616	9,924,922
Net assets:		
Unrestricted	277,617,745	262,399,276
Temporarily restricted	19,411,272	22,481,332
Total net assets	297,029,017	284,880,608
Total liabilities and net assets	$ 308,611,633	$ 294,805,530

The notes to consolidated financial statements are an integral part of these financial statements.

HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	For the years ended December 31, 2014	2013	2012
Changes in unrestricted net assets:			
Revenue and support:			
Contributions and bequests	$ 11,217,873	$ 10,475,168	$ 8,244,176
Investment income	16,483,326	29,979,974	22,693,130
Other income	56,234	180,405	58,819
Net assets released from restrictions	4,122,840	3,998,125	3,166,840
Total revenue and support	31,880,273	44,633,672	34,162,965
Expenses:			
Program services:			
Grants	14,284,948	14,080,733	14,720,687
Other	953,542	874,554	678,295
Total program services	15,238,490	14,955,287	15,398,982
Supporting services:			
Management and general	840,972	885,481	801,928
Development	582,342	542,319	462,692
Total supporting services	1,423,314	1,427,800	1,264,620
Total expenses	16,661,804	16,383,087	16,663,602
Increase in unrestricted net assets	15,218,469	28,250,585	17,499,363
Changes in temporarily restricted net assets:			
Contributions	-	1,559,505	800,000
Change in value of future interests	1,052,780	1,562,410	1,617,431
Net assets released from restrictions	(4,122,840)	(3,998,125)	(3,166,840)
Decrease in temporarily restricted net assets	(3,070,060)	(876,210)	(749,409)
Increase in net assets	12,148,409	27,374,375	16,749,954
Net assets at beginning of year	284,880,608	257,506,233	240,756,279
Net assets at end of year	$ 297,029,017	$ 284,880,608	$ 257,506,233

The notes to consolidated financial statements are an integral part of these financial statements.

HAMPTON ROADS COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December 31,		
	2014	**2013**	**2012**
Cash flows from operating activities:			
Changes in unrestricted and temporarily restricted net assets	$ 12,148,409	$ 27,374,375	$ 16,749,954
Net gains on investments	(16,137,039)	(29,696,644)	(22,537,656)
Depreciation	47,242	44,484	34,646
Loss on disposal of assets	-	9,140	-
Changes in:			
Charitable gift annuity asset	(275,613)	(16,355)	(10,157)
Other assets	(25,132)	-	-
Contributions receivable	3,079,682	684,118	696,950
Beneficial interest in insurance trusts	(9,622)	192,092	52,459
Funds held for others	1,338,097	1,561,012	2,003,064
Grants payable	294,597	95,392	722,754
Other liabilities	25,000	25,000	19,164
Net cash provided by (used for) operating activities	485,621	272,614	(2,268,822)
Cash flows from investing activities:			
Purchases of property and equipment	(44,892)	(55,211)	(36,545)
Proceeds from sales and maturities of investments	2,115,888	5,083,482	27,367,654
Purchases of investments	(2,730,534)	(11,935,389)	(31,222,369)
Net cash used for investing activities	(659,538)	(6,907,118)	(3,891,260)
Decrease in cash	(173,917)	(6,634,504)	(6,160,082)
Cash and cash equivalents at beginning of year	9,065,167	15,699,671	21,859,753
Cash and cash equivalents at end of year	$ 8,891,250	$ 9,065,167	$ 15,699,671
Cash and cash equivalents at end of year consist of:			
Investments – cash equivalents	$ 8,221,257	$ 8,531,432	$ 13,367,846
Operating cash and cash equivalents	669,993	533,735	2,331,825
Cash and cash equivalents at end of year	$ 8,891,250	$ 9,065,167	$ 15,699,671

The notes to consolidated financial statements are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and purpose

The consolidated financial statements include the accounts of the Hampton Roads Community Foundation and its supporting organization, Foundation Realty (collectively the Foundation).

The Hampton Roads Community Foundation is a non-profit, non-stock, tax exempt entity organized in 1950 to provide for the permanent administration of funds placed in trust by individuals, corporations and other entities for charitable purposes. Its supporting organization, Foundation Realty, was organized in 2007 for the administration of certain real assets that support the Foundation's charitable purposes.

Financial statement presentation and fund accounting

The Foundation presents its financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Under GAAP 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. The Foundation's temporarily restricted net assets consist of irrevocable charitable remainder trusts, charitable lead trusts, and contributions receivable. The Foundation does not hold any net assets classified as permanently restricted. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Although the Foundation follows GAAP for financial reporting purposes, the Foundation continues to maintain donated assets in individual component funds established primarily by donors. Management of the Foundation believes that this framework classifies the Foundation’s resources into funds established in accordance with the Foundation’s objectives and ensures the observance of donor intentions. Grants charged to the individual funds are directed to purposes identified by donors and by the Foundation’s Board of Directors. In addition, the Foundation maintains an operating fund for current administrative purposes, which is funded primarily through an annual pro rata component fund assessment.

Classification of revenue and support, and net assets

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of donor restrictions. Contributions that have no use or time restrictions are classified as unrestricted contributions.

The bylaws of the Foundation include a variance provision giving the Board of Directors (the “Board”) the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Based on that provision, the Foundation classifies contributions, except as noted below, as unrestricted for financial statement presentation. This classification does not alter the long-standing policy of the Foundation to distribute assets entrusted to the Foundation in accordance with the intentions of the Foundation’s donors and to manage the assets of the component funds in a manner similar to an endowment with only a portion of each component fund (see spending policy below) distributed annually, unless advised otherwise by the donor.

Support not subject to the variance provision that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other such donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Component fund investments and spending policy

Investments in short-term, fixed income and equity securities and funds are carried at quoted market prices, if available. Investment partnerships are stated at fair value as determined by the investee managers (see Note 3). Due to the inherent uncertainty of investment valuation, the partnership fair values may differ significantly from the values that would have been used had a ready market for all investments existed, and the differences could be material.

The Foundation occasionally receives contributions of assets for which a readily determinable market value does not exist. In such instances, the Foundation estimates the value of the contribution and related asset based on, as applicable, real estate assessments, comparable sales data and appraisals.

The Foundation manages the majority of the component funds on a total return basis in order to provide portfolio management flexibility, preserve the purchasing power (real value) of component funds and aid the Foundation's distribution process. Under the total return concept, the Foundation establishes a realistic return objective, including interest, dividends and net investment appreciation. The Foundation then uses a spending-rate formula, applied to a twelve-quarter average of the specific fund's fair market value, to determine how much of the return will be used for annual distributions. Effective January 1, 2005 the spending policy was established at 4.5%. Accordingly, while actual returns in any given year will vary from the objective, income in excess of the spending-rate is available to maintain or increase the real value of the applicable component funds.

Credit risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, and investments**,** including those investments held in charitable trusts which form the basis for the Foundation's contributions receivable. To mitigate credit risk the Foundation's cash and cash equivalents are placed with highly regarded financial institutions, and the Foundation's investments are managed by professional investment managers chosen for their expertise.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows includes cash and cash equivalents held by custodians and investment managers.

Property and equipment

Property and equipment are stated at cost less an allowance for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Gains and losses arising from retirements or dispositions are recognized currently.

Contributions receivable and beneficial interest in trusts

The Foundation is a beneficiary under various irrevocable charitable lead, remainder and insurance trusts, the assets of which are not controlled by management of the Foundation. Although the Foundation has no control over the administration or investment of the funds held in these trusts, the estimated present value of the expected future cash flows from such irrevocable trusts is recognized as a contribution in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to the Foundation to receive benefits and the benefits are clearly measurable.

The Foundation is also a beneficiary under various wills, including several where the Foundation's interest is not presently determinable. Such amounts are recorded as contributions and restricted assets when the Foundation's interest is clearly established and measurable.

Funds held for others

The Foundation holds numerous funds as operating endowments for not-for-profit organizations. The Foundation accounts for such funds in accordance with GAAP and, accordingly, if the resource provider specifies itself or its affiliate as the beneficiary of such assets, the Foundation records the receipt of the assets as funds held for others.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from such estimates and assumptions.

Reclassifications

Certain prior year account balances have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on previously reported net assets or changes in net assets.

Subsequent events

The Foundation evaluated subsequent events through June 9, 2015 the date the financial statements were available to be issued, for purposes of determining whether such events required recordation or disclosure in the accompanying financial statements.

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME

Investment allocation

The Foundation's investments were allocated among different investment classes as follows at December 31 (investments exceeding 5% of the totals are identified separately within each classification):

	Percent of total investments	
	2014	**2013**
Cash and cash equivalents	2.9%	3.1%
Fixed income funds	0.5	0.4
Equity funds	1.1	1.2
Investment partnerships:		
The Richmond Fund, L.P. (Note 4)	94.1	93.7
Other	1.3	1.6
Total investment partnerships	95.4	95.3
Other	0.1	0.0
Total	100.0%	100.0%

The Richmond Fund

In order to diversify investment risk and avoid undue concentration in any one asset class or group of assets, Foundation management invests in investment partnerships and funds with demonstrated investment management expertise. Due in part to the University of Richmond's (the University) success in accomplishing these objectives, the Foundation has a substantial investment in the Richmond Fund, a Virginia limited partnership affiliated with the University's endowment manager, organized to provide an asset management vehicle for certain non-profit organizations. The General Partner of the Richmond Fund is managed by Spider Management Company, LLC a controlled affiliate of the University. One of the goals of the Richmond Fund is to achieve gross investment returns for its investors that mirror the returns achieved by the University's endowment.

The Richmond Fund's investments are diversified globally and by sector, and at December 31, 2014 and 2013 were allocated among the following asset classes:

	December 31,	
	2014	**2013**
Investments in investment funds:		
Hedge funds	43.2%	47.8%
Private equity	16.4	14.3
Real assets	6.9	7.0
Real estate	2.4	3.5
	68.9	72.6
Investments in securities:		
Common and preferred stocks	23.4	22.2
Comingled funds	3.1	3.3
	26.5	25.5
Other investments	0.1	0.2
The Richmond Fund's investments as a percentage of its total partners' capital	95.5%	98.3%

Liquidity

As part of the Foundation's investment in The Richmond Fund, L.P. (the Richmond Fund), limitations exist on the Foundation's ability to redeem certain investments. The limitations on redemptions are governed by partnership agreements and generally exist for five years. Redemptions can be further delayed based on investee liquidity. At December 31, 2014, approximately 40% of the Foundation's investment partnership portfolio was available for redemption within the next twelve months.

Investment income

Investment income for the years ended December 31, consists of the following:

	2014	**2013**	**2012**
Net gains on investments	$ 16,137,039	$ 29,696,644	$ 22,537,656
Interest and dividends (net of fees)	346,287	283,330	155,474
	$ 16,483,326	$ 29,979,974	$ 22,693,130

Activity for endowment type funds

A summary of activity for those funds that function in a manner similar to an endowment follows for the years ended December 31:

	2014	2013	2012
Balance at beginning of year	$ 226,433,697	$ 197,897,457	$ 179,504,505
Contributions	10,988,892	10,319,106	5,785,835
Investment income, net of fees	14,176,105	25,873,393	19,570,018
Program expenses	(7,639,255)	(6,007,402)	(5,399,087)
Administrative assessment	(2,096,062)	(1,648,857)	(1,563,814)
Balance at end of year	$ 241,863,377	$ 226,433,697	$ 197,897,457

NOTE 3 – FAIR VALUE MEASUREMENTS

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a three level fair value hierarchy that describes and prioritizes the inputs to valuation techniques used to measure fair value.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1: The asset and liability fair values are based on quoted prices in active markets for identical assets or liabilities.

Level 2: The asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable and can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange traded instruments.

Level 3: The asset and liability fair values are based on unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Foundation estimates the fair value of its investment in the Richmond Fund based on the Foundation's proportionate share of the Richmond Fund's audited net assets. The fair value of the Richmond Fund's investments in *investment funds* is estimated by the General Partner on the basis of the net asset value per share (NAV) of the investment (or its equivalent) when available. When the NAV is not fair value based or is not calculated as of year-end, the General Partner adjusts the same if necessary to estimate NAV. Funds for which the NAV is not available are valued based upon valuations determined in good faith by the underlying investment managers and reviewed by the General Partner, giving consideration to a variety of factors based on the specific investment. Such factors include the pricing of recent redemptions or purchases, restrictions on redemptions, pricing models and valuations, market inputs, recent sales and purchase data of comparable companies or securities. The use of observable inputs is maximized when available. Substantially all Richmond Fund investments in *securities* are recorded at fair value based upon quoted prices in active markets.

At December 31, 2014 and 2013, 58.6% and 66.1%, respectively, of the Richmond Fund investments were valued based on either quoted prices in active markets or by the use of significant other observable inputs.

In the fair value hierarchy, if the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the hierarchy classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Accordingly, the Foundation's investment partnerships are classified as Level 3 assets under the GAAP hierarchy even though the majority of the Richmond Fund's assets are categorized as Level 1 or Level 2.

The following table presents the Foundation's assets that are measured at fair value on a recurring basis for each hierarchy level at December 31:

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2014:				
Investment securities:				
Cash equivalents	$ 8,221,257	$ -	$ -	$ 8,221,257
Fixed income funds	-	1,440,145	-	1,440,145
Equity funds	3,196,921	-	70,442	3,267,363
Investment partnerships (Note 4)	-	-	275,032,677	275,032,677
Other	-	369,930	-	369,930
Total investment securities	11,418,178	1,810,075	275,103,119	288,331,372
Contributions receivable	-	19,062,263	-	19,062,263
Beneficial interest in insurance trusts	-	349,009	-	349,009
	$ 11,418,178	$ 21,221,347	$ 275,103,119	$ 307,742,644

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2013:				
Investment securities:				
Cash equivalents	$ 8,531,432	$ -	$ -	$ 8,531,432
Fixed income funds	-	1,088,880	-	1,088,880
Equity funds	3,239,137	-	70,442	3,309,579
Investment partnerships (Note 4)	-	-	258,590,041	258,590,041
Other	-	94,317	-	94,317
Total investment securities	11,770,569	1,183,197	258,660,483	271,614,249
Contributions receivable	-	22,141,945	-	22,141,945
Beneficial interest in insurance trusts	-	339,387	-	339,387
	$ 11,770,569	$ 23,664,529	$ 258,660,483	$ 294,095,581

The following table presents a reconciliation of investment securities in which significant unobservable inputs (Level 3) were used to determine fair value for the years ended December 31:

	2014	2013
Balance, beginning of year	$ 258,660,483	$ 222,442,416
Realized gains, net	322,504	683,232
Change in unrealized gains, net	16,836,640	30,069,973
Purchases	4,002,541	9,218,340
Sales and settlements	(4,719,049)	(3,753,478)
Balance, end of year	$ 275,103,119	$ 258,660,483

NOTE 4 – IRREVOCABLE TRUSTS

Charitable Lead Trusts

The Foundation is named as a beneficiary of certain charitable lead trusts. Under the terms of the trust agreements, the Foundation received $2,788,108 during each of the years in the three year period ended December 31, 2014. The trusts will provide the Foundation $2,788,108 annually for each of the next three years, $2,510,119 for the fourth year, $2,218,985 for the fifth year and $12,398,518 thereafter, to be received in varying annual amounts through the year ending December 31, 2028. The Foundation records the contributions and related receivables of such trusts at the present value of the future payments on the date of gift. The change in value of these gifts is included in the statement of activities as temporarily restricted revenue and support.

Charitable Remainder Trusts

The Foundation is the named residual beneficiary under certain charitable remainder trust agreements (CRT). Under these trust agreements, the trusts pay an annual benefit to certain named individuals throughout their lives, based on a fixed amount or a percentage of the fair value of the trust assets each year. Contributions receivable and related temporarily restricted revenue and support are recognized to the extent that the fair value of the trust assets exceeds the estimated present value of the future payments to the individuals named in the trusts. Temporarily restricted contribution income for the years ended December 31, 2014, 2013 and 2012 includes a CRT contribution of $0, $60,305 and $0, respectively. Changes in the fair value of such charitable remainder trusts are included in the statement of activities as temporarily restricted revenue and support. In addition, the Foundation is named as beneficiary under certain other irrevocable charitable remainder trust agreements for which the Foundation’s interest in the value of the applicable trust assets is not reasonably estimable or the trust corpus can be invaded on behalf of another beneficiary. Accordingly, the value of these trust agreements is not recognized in the Foundation’s financial statements.

Insurance Trusts

The Foundation is also the named beneficiary in certain insurance trusts. Under the terms of the insurance trusts, the Foundation will receive the applicable death benefit from the related insurance policies and, accordingly, the Foundation’s interest in the insurance policies is recorded as an asset at fair value. The fair value of the insurance policies is presumed to be the policies’ cash surrender value at the end of the Foundation’s reporting period. Changes in the fair value of the trust assets, over any applicable trust obligations, are included in the statement of activities as temporarily restricted revenue and support. The Foundation received $0, $203,417 and $203,732 during the years ended December 31, 2014, 2013 and 2012, respectively, from insurance trusts.

Other

In addition to the above, the Foundation has been named beneficiary in several wills and intervivos trusts, which are subject to life interests. Proceeds from such estates and certain intervivos trusts are not recognized until an irrevocable benefit has been established and such benefit is clearly measurable.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2014	2013
Furniture	$ 166,299	$ 166,299
Computer equipment and software	185,625	151,782
Other office equipment	71,567	60,567
Leasehold improvements	58,257	58,257
	481,748	436,905
Less – accumulated depreciation	307,884	260,691
	$ 173,864	$ 176,214

NOTE 6 – LINE OF CREDIT

On April 10, 2014, the Foundation obtained a $1,000,000 line of credit with a commercial bank. The line of credit must be renewed annually and is currently available through July 10, 2015. Outstanding balances are payable on demand with interest payable monthly equal to the one month LIBOR rate plus 1.0% per annum. The line of credit is secured by Foundation deposits and investments held with SunTrust Bank.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Foundation has several conditional commitments payable from discretionary funds, including certain multi-year grants that will be considered authorized for distribution when the contingency requirements are met. At December 31, 2014, these conditional commitments approximated $5.1 million. In addition to these conditional commitments, it is the practice of the Foundation to continue scholarship grants for up to four years, provided the student continues successfully in school.

In 2011, the Foundation entered into a noncancellable operating lease for office space which will require payments of approximately $154,000 a year, on average, for the years ending December 31, 2015 through December 31, 2021. The lease terminates on March 31, 2022.

NOTE 8 – TAX STATUS OF THE FOUNDATION

Internal Revenue Service regulations accord certain qualifying community foundations special status as publicly supported charities. Consequently, the Hampton Roads Community Foundation is not classified as a private foundation and accordingly not subject to excise taxes on its net investment income under Section 4940 of the Internal Revenue Code. In addition, the Foundation and its supporting organization have qualified under Section 501(c)(3) of the Internal Revenue Code as organizations exempt from taxes on net income, with the exception of unrelated business income earned on certain investments.

The Foundation's investments include alternative investments that can generate unrelated business income. The taxes on such income is generally immaterial to the financial statements and when applicable is charged against the related investment income. The Foundation paid $335,500 during the year ended December 31, 2014 related to unrelated business income and expects to pay $5,500 for the same during the year ended December 31, 2015. No such taxes were paid during the years ended December 31, 2013 or 2012.

The Foundation’s tax returns are generally subject to examination by authorities for a period of three years from the date they are filed and, consequently, the Foundation’s tax returns filed for the years December 31, 2013, 2012, and 2011 remain subject to examination.

NOTE 9 – NATURAL CLASSIFICATION OF NON-GRANT EXPENSES

The Foundation's expenses are presented in the statement of activities on a functional basis. The natural classification of the Foundation's non-grant expenses consist of the following for the years ended December 31:

	2014	2013	2012
Salaries	$ 1,306,396	$1,153,005	$ 988,329
Payroll taxes and employee benefits	258,083	212,147	183,900
Occupancy	141,942	129,823	121,247
Software support, service contracts and maintenance	96,334	67,629	63,791
Telephone	8,946	9,144	8,666
Supplies and postage	13,089	15,119	15,323
Dues, memberships and subscriptions	27,356	29,150	30,728
Professional development and travel	16,307	18,125	18,058
Insurance	14,767	10,730	11,275
Professional fees and other services	235,213	430,527	273,013
Printing and communications	129,604	112,024	118,036
Depreciation	47,242	44,484	34,646
Special events, hospitality and cultivation	50,768	37,766	52,014
Website	4,136	1,572	2,186
Loss on disposal of assets	-	9,140	-
Miscellaneous	1,497	587	726
Other program related expenses	25,176	21,382	20,977
	$ 2,376,856	$2,302,354	$1,942,915

The above expenses are presented in the accompanying statement of activities as follows for the years ended December 31:

	2014	2013	2012
Program services	$ 953,542	$ 874,554	$ 678,295
Supporting Services:			
Management and general	840,972	885,481	801,928
Development	582,342	542,319	462,692
	$ 2,376,856	$2,302,354	$1,942,915

NOTE 10 – SUBSEQUENT EVENT

Subsequent to December 31, 2014 and through the date of these financial statements, the Foundation has withdrawn $1,000,000 and has submitted a request to withdraw another $4 million effective July 1, 2015 from The Richmond Fund, LP.