

NORTHERN CHAUTAUQUA
COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

April 27, 2009

To the Board of Directors of
Northern Chautauqua Community Foundation

We have audited the accompanying statement of financial position of the Northern Chautauqua Community Foundation (a nonprofit organization) as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Chautauqua Community Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

Johnson, Mackowiak & Associates, LLP

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Certified Public Accountants & Consultants

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008

ASSETS

Cash and cash equivalents	\$	43,435
Investments		11,920,156
Cash surrender value of life insurance		<u>16,116</u>
Total current assets		11,979,707
Fixed assets, net		<u>18,103</u>
TOTAL ASSETS	\$	<u>11,997,810</u>

LIABILITIES AND NET ASSETS

Liabilities		
Grants payable	\$	89
Gift annuities payable		90,255
Funds held for agencies		1,458,018
Funds held for pass-through		<u>83,351</u>
Total liabilities		<u>1,631,713</u>
Unrestricted Net Assets		
Operating		24,288
Unreserved - fixed assets		18,103
Gift annuities		(4,022)
Board designated for endowment purposes		-
Endowments - unrestricted		2,367,180
Endowments - specific purpose		<u>7,960,548</u>
Total net assets		<u>10,366,097</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>11,997,810</u>

See accompanying notes and auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

UNRESTRICTED NET ASSETS

SUPPORT AND REVENUE

Contributions	\$ 850,494
Fundraising revenue	26,945
Interest and dividends	311,284
Realized gains (losses)	(262,361)
Unrealized gains (losses)	(3,124,489)
Patron dues and miscellaneous income	32,975
Change in value of split-interest agreement	(21,075)
Change in cash surrender value of life insurance	<u>785</u>
 Total support and revenue	 <u>(2,185,442)</u>

EXPENSES

Grants	387,869
General and administrative expenses	232,565
Fundraising expenses	<u>20,875</u>
 Total expenses	 <u>641,309</u>

CHANGE IN NET ASSETS (2,826,751)

NET ASSETS AT JANUARY 1 (before restatement) 13,064,975

Prior period adjustment 127,873

NET ASSETS AT JANUARY 1 (as restated) 13,192,848

NET ASSETS AT DECEMBER 31 \$ 10,366,097

See accompanying notes and auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (2,826,751)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Net realized (gains) losses on investments	262,361
Net unrealized (gains) losses on investments	3,124,489
Change in value of split-interest agreement	21,075
Change in cash surrender value of life insurance	(785)
Depreciation expense	9,207
Change in operating assets and liabilities:	
Grants payable	(511)
Gift annuity payable	5,670
Funds held for agencies	(47,616)
Funds held for pass-through	4,620
<u>Cash provided by operating activities</u>	<u>551,759</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from redemptions	10,481,613
Expenditures for purchase	(11,872,375)
Proceeds from life insurance redemption	<u>833,842</u>
<u>Cash used for investing activities</u>	<u>(556,920)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,161)
CASH AND CASH EQUIVALENTS, beginning	<u>48,596</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 43,435</u></u>

See accompanying notes and auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES - The Northern Chautauqua Community Foundation is a publicly supported not-for profit corporation created in 1986. The administration of the Foundation's operations and the approval of its grants are the responsibility of a board of directors. The directors are elected by a plurality of votes cast at the annual meeting of the membership. The Foundation operates solely in the Northern Chautauqua region and receives and invests gifts from individuals, corporations, foundations, and other not-for-profit organizations. These funds are invested permanently with the income generated thereon used for the community's charitable needs.

BASIS OF ACCOUNTING - The accompanying financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred.

VARIANCE POWER - Generally accepted accounting principles provide that if the governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary, such contributions must be classified as unrestricted net assets. The Board of Directors of the Foundation has this variance power; however, the Board of Directors would generally intend to exercise this authority only if the stated purpose of a contribution becomes no longer applicable and incapable of fulfillment. Accordingly, the Foundation's financial statements classify substantially all funds, including the corpus of endowment funds, as unrestricted net assets, but segregate for internal management and endowment record keeping the portion that is held as endowment from the funds that are currently available for grants. Under the definition of Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements for Not-For-Profit Organizations, the Foundation does not have any assets that would be considered temporarily or permanently restricted.

INVESTMENTS - Investments are reported at market value. Realized and unrealized gains and losses on investments are reflected in the statement of activities.

INCOME TAX STATUS - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from New York State income taxes under Article 7-A of the New York State Executive Law. Therefore, no provision has been made for Federal or New York State income taxes in the accompanying financial statements. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an Agency other than a private foundation under Section 509(a)(2) of the Internal Revenue Code. The Foundation adopted the provisions of FASB Interpretation No. 48 (FIN48), *Accounting for Uncertainty in Income Taxes*, on January 1, 2008. There is no impact on the Foundation's financial statements as a result of the implementation of FIN48.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

MANAGEMENT OF ENDOWMENT ASSETS - The Foundation has adopted a total return approach to the long-term management of its endowment assets. This approach combines asset growth and income. It takes the assets' total market value averaged over three years, along with a board authorized spending rate, into consideration in determining amounts available for each year's distribution. By smoothing the market volatility and reviewing the spending rate annually, the Foundation maintains relative stability in the amount of funds available for charitable distribution and provides for increasing contributions over time, as well as protection from inflation.

The Spending Policy establishes the rate in terms of a percent that determined the amount expended for charitable purposes and administration. The spending rate in effect until December 31, 2008 was 4.5% at which time the Board of Directors voted to lower the rate to 4.0% effective January 1, 2009.

The Spending Policy considers the Uniform Management of Institutional Funds Act (UMIFA). UMIFA limits endowment spending to the lesser of ordinary income (i.e. dividends and interest) or the Spending Policy when the fair market value of a fund is less than its historical dollar value.

ESTIMATES - Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenue and expenses. Accordingly, actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS - The Foundation maintains its cash balances at more than one financial institution. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year, the balances in these accounts exceeded the Federal Deposit Insurance Corporation limit.

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be a cash equivalent. Cash and cash equivalents in the amount of \$916,635 invested with HSBC Bank were classified as investments as of December 31, 2008.

DONATED SERVICES - No amounts have been reflected in the financial statements for donated services. The Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs, campaign solicitations and various committee assignments.

NOTE 2 – FUNDS HELD FOR AGENCIES

The Foundation follows Statement of Financial Accounting Standard No. 136, "Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others" (SFAS No. 136). This statement establishes standards for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both, to a not-for-profit organization that is specified by the donor. SFAS No. 136 specifically requires that if the donor is a not-for-profit organization that established a fund at the Foundation using its own funds, and for its own benefit, the Foundation must account for the transfer of such assets as a liability. The Foundation refers to these funds as agency funds.

The Foundation maintains variance power and legal ownership of agency funds and as such continues to report the funds as assets of the Foundation. However, in accordance the SFAS No. 136, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments to be made to the nonprofit organization.

As of December 31, 2008, the Foundation was the owner of approximately twenty three agency funds with a combined value of \$1,458,018. The Foundation also had approximately eight pass-through funds with a combined value of \$83,351 as of December 31, 2008. All financial activity related to agency and pass-through funds are recorded as liabilities on the statement of financial position and in the statement of activities.

The Foundation has disclosed the agency and pass-through funds' activity in Note 7 "Transactions in Funds Held for Agencies and Pass-Throughs."

NOTE 3 – FIXED ASSETS

Fixed assets as of December 31, 2008 consisted of the following:

Equipment	\$	51,601
Less: Accumulated depreciation		<u>33,498</u>
FIXED ASSETS, net	\$	<u>18,103</u>

Equipment is depreciated using the straight-line method over an estimated life of five years and totaled \$9,207 for the year ended December 31, 2008.

NOTE 4 – LEASES

The Foundation currently rents office space in Dunkirk, New York. The lease agreement was signed for a three-year period that expired December 31, 2007. Rent expense totaled \$7,140 for the year ending December 31, 2008. The organization is currently operating on a month-to-month basis with regards to its office space.

NOTE 5 - INVESTMENTS

The Foundation carries investments at market value for financial statement purposes. Endowment funds were invested as follows at December 31, 2008:

Investment Description	Cost	Market
HSBC Bank - Courier Capital:		
Cash & Cash Equivalents	\$ 788,681	\$ 789,609
Fixed Income	4,297,350	4,369,901
HSBC Bank - Manning & Napier:		
Cash & Cash Equivalents	126,881	127,026
Fixed Income	286,549	294,024
Equities	3,754,408	2,768,001
TIFF Funds:		
US Equity Fund	2,378,861	1,441,531
International Equity Fund	212,563	145,012
Vanguard Funds:		
500 Index Fund	979,859	703,670
Total International Stock Index Fund	142,943	122,454
Total Stock Market Index Fund	1,297,604	1,018,136
Emerging Markets Stock Index Fund	306,623	140,792
TOTAL	\$ 14,572,322	\$ 11,920,156

NOTE 6 – GIFT ANNUITIES PAYABLE

A charitable gift annuity is a contract between the Foundation and the Donor. The Foundation agrees to pay the Donor (or other person named by the Donor) a lifetime annuity in return for a gift of cash or securities. The Foundation used fair market value for recognizing assets related to the gift annuities payable in the financial statements. The Foundation has segregated investments in U. S. Treasury Funds restricted for the payment of the five remaining annuities. This amount met the required investment by New York State Insurance Law.

NOTE 6 – GIFT ANNUITIES PAYABLE, continued

The following assumptions were made for the gift annuities payable at December 31, 2008:

	<u>Discount Rate</u>	<u>Lifetime Expectancy</u>	<u>Amount of Payable</u>
Annuity I	7.50%	9.4	\$ 12,518
Annuity II	10.10%	5.3	32,527
Annuity V	7.70%	8.9	12,764
Annuity VII	6.20%	15.3	21,279
Annuity VIII	7.00%	11.2	<u>11,167</u>
TOTAL			<u><u>\$ 90,255</u></u>

NOTE 7 - TRANSACTIONS IN FUNDS HELD FOR AGENCIES AND PASS-THROUGHS

Transactions in agency and pass-through funds are summarized as follows for the year ended December 31, 2008:

Additions:		
Contributions		\$ 131,061
Fundraising revenues		61,013
Realized gains (losses)		(37,830)
Unrealized gains (losses)		(464,308)
Investment income		<u>45,313</u>
Total additions		<u>(264,751)</u>
Deductions:		
Grants		(85,622)
Fundraising expenses		(47,219)
Administrative expenses		<u>(19,669)</u>
Total deductions		<u>(152,510)</u>
Change in balance		<u>(417,261)</u>
Balance at beginning of year (before restatement)		2,086,503
Prior period adjustment		<u>(127,873)</u>
Balance at beginning of year (as restated)		<u>1,958,630</u>
Balance end of year		<u><u>\$ 1,541,369</u></u>

NOTE 8 - UNDERWATER FUNDS

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions. Under UMIFA, the Foundation is limited to spending only the current income from these underwater funds without permission from the donor. At September 30, 2008 (the look at date established by the Board of Directors to identify underwater funds), the Foundation identified 31 funds with deficiencies whose historical gift value totaled \$1,706,730 and whose fair market value totaled \$1,586,925. At December 31, 2008 that fair market value of these 31 funds totaled \$1,405,224.

A contingency fund of \$42,000 (\$21,000 for operational expenses and \$21,000 for grant making) was established to cover the shortfall from these underwater funds. At December 31, 2008, these funds had not been utilized.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The Foundation recorded a prior period adjustment to reflect funds that were previously classified as Funds Held for Agency and Funds Held for Pass Through to Endowments. The effect of the adjustment was to increase unrestricted net assets as of December 31, 2007 by \$127,873.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
 SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Endowments	Agency and Pass-through Funds	Total
Salaries and benefits	\$ 153,229	\$ 12,959	\$ 166,188
Payroll taxes	11,224	949	12,173
Rent	6,583	557	7,140
Utilities	4,832	409	5,241
Conferences and meetings	4,902	414	5,316
Office supplies and expenses	13,655	1,155	14,810
Dues and subscriptions	3,639	308	3,947
Telephone	1,834	155	1,989
Insurance	1,192	101	1,293
Travel and promotion	6,110	517	6,627
Computer support	8,794	743	9,537
Professional fees	4,333	367	4,700
Depreciation expense	8,489	718	9,207
Miscellaneous	3,749	317	4,066
Total expenses	\$ 232,565	\$ 19,669	\$ 252,234

See auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
SCHEDULE OF CHANGES IN LIABILITIES AND NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Beginning Liabilities and Net Assets <small>(as restated)</small>	Prior Period Adjustment	Beginning Liabilities and Net Assets <small>(as restated)</small>	Contributions	Fundraising Revenues	Investment Income	Realized Gains
LIABILITIES							
Grants payable	\$ 600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gift annuity payable	84,585	-	-	-	-	-	-
Funds held for agencies	1,990,258	(100,537)	1,889,721	29,250	22,539	43,660	(36,533)
Funds held as pass-throughs	98,245	(27,335)	68,809	101,811	38,474	1,653	(1,197)
Total Liabilities	<u>2,171,688</u>	<u>(127,873)</u>	<u>1,958,630</u>	<u>131,061</u>	<u>61,013</u>	<u>45,313</u>	<u>(37,830)</u>
UNRESTRICTED NET ASSETS							
Board Designated	477,016	(477,016)	-	-	-	-	-
Endowments - Unrestricted	3,134,625	(298,055)	2,836,570	231,442	26,945	68,519	(59,211)
Endowments - Specific purpose	9,345,247	930,158	10,245,405	613,146	-	238,401	(199,713)
Undesignated - Fixed Assets	27,310	-	27,310	-	-	-	-
Operating Fund	35,026	2,786	37,812	5,906	-	1,404	(1,065)
Subtotal	<u>13,019,224</u>	<u>127,873</u>	<u>13,147,097</u>	<u>850,494</u>	<u>26,945</u>	<u>308,324</u>	<u>(259,989)</u>
Gift Annuities	45,751	-	45,751	-	-	2,860	(2,372)
Total net assets	<u>13,064,975</u>	<u>127,873</u>	<u>13,182,848</u>	<u>850,494</u>	<u>26,945</u>	<u>311,284</u>	<u>(262,361)</u>
TOTAL NET ASSETS & LIABILITIES	<u>\$ 15,236,663</u>	<u>\$ -</u>	<u>\$ 15,151,478</u>	<u>\$ 981,555</u>	<u>\$ 87,958</u>	<u>\$ 356,597</u>	<u>\$ (300,181)</u>

Unrealized Gains and Change in CSV Split Int	Patron Dues, Miscellaneous Income	Grants	General and Administrative Expenses	Fundraising Expenses	Inter- Fund Activity	Change in Liability	Ending Liabilities and Net Assets
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (511)	\$ 89
-	-	-	-	-	-	5,670	80,255
(447,881)	-	(15,749)	(18,034)	(8,745)	-	-	1,458,018
<u>(16,317)</u>	<u>-</u>	<u>(69,873)</u>	<u>(1,635)</u>	<u>(38,474)</u>	<u>-</u>	<u>-</u>	<u>83,351</u>
<u>(484,308)</u>	<u>-</u>	<u>(65,622)</u>	<u>(19,069)</u>	<u>(47,219)</u>	<u>-</u>	<u>5,159</u>	<u>1,631,713</u>
-	-	-	-	-	-	-	-
(542,327)	-	(64,105)	(30,653)	-	-	-	2,367,180
(2,440,030)	-	(323,764)	(133,022)	(20,875)	(19,000)	-	7,960,548
-	-	-	(9,207)	-	-	-	18,103
<u>(12,443)</u>	<u>32,975</u>	<u>-</u>	<u>(58,301)</u>	<u>-</u>	<u>19,000</u>	<u>-</u>	<u>24,289</u>
(3,094,800)	32,975	(387,869)	(232,183)	(20,875)	-	-	10,370,119
<u>(49,878)</u>	<u>-</u>	<u>-</u>	<u>(382)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,022)</u>
<u>(3,144,778)</u>	<u>32,975</u>	<u>(387,869)</u>	<u>(232,565)</u>	<u>(20,875)</u>	<u>-</u>	<u>-</u>	<u>10,366,097</u>
<u>\$ (3,609,087)</u>	<u>\$ 32,975</u>	<u>\$ (473,491)</u>	<u>\$ (252,234)</u>	<u>\$ (68,094)</u>	<u>\$ -</u>	<u>\$ 5,159</u>	<u>\$ 11,997,610</u>

See auditor's report