

COMMUNITY FOUNDATION  
OF THE LOWCOUNTRY, INC.  
AND AFFILIATE

Combined Financial Statements

June 30, 2008 and 2007

( with Independent Auditors'  
Report thereon )

**COMMUNITY FOUNDATION  
OF THE LOWCOUNTRY, INC.  
AND AFFILIATE**

June 30, 2008 and 2007

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## Independent Auditors' Report

The Board of Trustees  
Community Foundation of the Lowcountry, Inc.  
and Affiliate  
Hilton Head Island, South Carolina

We have audited the accompanying combined statements of financial position of Community Foundation of the Lowcountry, Inc. and Affiliate (the "Foundation") as of June 30, 2008 and 2007, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of the Lowcountry, Inc. and Affiliate as of June 30, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Dixon Hughes PLLC*

October 20, 2008

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**COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE**

Combined Statements of Financial Position

June 30, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,678,907	\$ 1,422,715
Pledges receivable	256,625	208,247
Assets held - charitable lead trust	109,395	124,608
Assets held - charitable remainder trusts	2,343,886	1,203,394
Investments	39,787,105	41,719,069
Property and equipment, net	733,990	768,118
Other assets	22,126	15,549
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Total assets	\$ 44,932,034	\$ 45,461,700
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<b><u>Liabilities and Net Assets</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 54,884	\$ 25,684
Grants payable	1,095,618	1,192,955
Annuities payable	1,260,313	1,533,241
Liability under unitrust agreements	2,364,908	636,140
Funds held for others - agency endowments	2,276,119	2,541,011
	<hr/>	<hr/>
Total liabilities	7,051,842	5,929,031
	<hr/> <hr/>	<hr/> <hr/>
Net assets:		
Unrestricted	37,482,418	36,238,994
Temporarily restricted	397,774	3,293,675
	<hr/>	<hr/>
Total net assets	37,880,192	39,532,669
	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and net assets	\$ 44,932,034	\$ 45,461,700
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The accompanying notes are an integral part of these combined financial statements.

**COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE**

Combined Statements of Activities

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
Contributions	\$ 4,667,530	\$ 5,262,117
Investment gains (losses), net	(1,877,616)	5,548,696
Rental income	33,191	36,019
Other	787,192	828,652
Net assets released from restrictions	<u>2,375,666</u>	<u>-</u>
Total revenues, gains, and other support	5,985,963	11,675,484
Expenses and support:		
Grants	2,961,279	3,248,358
Salaries and benefits	587,403	590,510
Professional and administrative fees	705,778	675,424
Supplies and other	447,359	227,666
Depreciation	<u>40,720</u>	<u>45,505</u>
Total expenses and support	4,742,539	4,787,463
Increase in unrestricted net assets	<u>1,243,424</u>	<u>6,888,021</u>
Changes in temporarily restricted net assets:		
Contributions	123,307	328,527
Investment gains (losses), net	(62,999)	541,379
Change in value of split-interest agreements	(580,543)	-
Net assets released from restrictions	<u>(2,375,666)</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>(2,895,901)</u>	<u>869,906</u>
Increase (decrease) in net assets	(1,652,477)	7,757,927
Net assets at beginning of year	<u>39,532,669</u>	<u>31,774,742</u>
Net assets at end of year	<u>\$ 37,880,192</u>	<u>\$ 39,532,669</u>

The accompanying notes are an integral part of these combined financial statements.

**COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE**

Combined Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

	<u><b>2008</b></u>	<u><b>2007</b></u>
Cash flows from operating activities:		
Change in net assets	\$ (1,652,477)	\$ 7,757,927
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	40,720	45,505
Unrealized (gains) losses, net	3,961,789	(4,617,478)
Realized gains, net	(66,911)	(574,358)
Net changes in operating assets and liabilities:		
Assets held in trust	(1,125,279)	(459,994)
Pledges and contributions receivable	(48,378)	151,420
Other assets	(6,577)	-
Grants and accounts payable	(68,137)	469,927
Liabilities under trust	1,455,840	324,386
Net cash provided by operating activities	<u>2,490,590</u>	<u>3,097,335</u>
Cash flows from investing activities:		
Additions to property and equipment	(6,592)	(498)
Net change in investments	<u>(1,962,914)</u>	<u>(3,311,101)</u>
Net cash used by investing activities	<u>(1,969,506)</u>	<u>(3,311,599)</u>
Cash flows from financing activities:		
Funds held for others	<u>(264,892)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	256,192	(214,264)
Cash and cash equivalents, beginning of year	<u>1,422,715</u>	<u>1,636,979</u>
Cash and cash equivalents, end of year	<u>\$ 1,678,907</u>	<u>\$ 1,422,715</u>

The accompanying notes are an integral part of these combined financial statements.

**COMMUNITY FOUNDATION OF THE  
LOWCOUNTRY, INC. AND AFFILIATE**  
Notes to the Combined Financial Statements  
June 30, 2008 and 2007

1. **Summary of Significant Accounting Policies**

**Organization and Principles of Accounting** – The combined financial statements include the accounts of Community Foundation of the Lowcountry, Inc. (“CFL”) and its supporting organization, the Hilton Head Island Foundation, Inc. (“HHIF”), collectively referred to as the “Foundation”. All balances and transactions between the two entities have been eliminated in combination.

The Foundation is a community foundation and is governed by a board of private citizens from its service area. The Board of Trustees of the CFL elects the trustees and President/CEO of the HHIF. The purpose of the HHIF is to serve the needs and interests of the residents of the Greater Hilton Head Island community. The purpose of the CFL is to serve the needs and interests of the residents of four South Carolina counties including Beaufort, Colleton, Hampton and Jasper.

**Basis of Accounting** – The combined financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Financial Statement Presentation** – The Foundation follows Financial Accounting Standards Board in its Statement of Financial Accounting Standards (“SFAS”) No. 117, “*Financial Statements for Not-for-Profit Organizations*”. Under SFAS No. 117, the Foundation reports information regarding its combined financial position and combined activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Estimates** – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes** – The Internal Revenue Service has determined that the Foundation is exempt from income taxes as an organization described in Section 501(c)(3) of the Internal Revenue code and is classified as a public charity under Section 170(b)(1)(A)(vi).

**Cash and Cash Equivalents** – Cash and cash equivalents presented in the statement of cash flows represent cash on hand and demand deposits at financial institutions with an original maturity of three months or less.

**Investments** – Investments in debt and equity securities are reported at fair market value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Included in investments are cash and cash equivalents on deposit with money managers. Also included in investments is a private equity limited partnership. The fair value is estimated by external investment managers as market values are not readily ascertainable. These estimates involve assumptions and estimation methods that are reviewed by management. Actual valuations could differ from those estimates.

Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in the Combined Statement of Activities.

**Contributions** – Contributions are recorded at their estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

**Pledges Receivable** – Unconditional promises to give that are expected to be received within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be received in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates for United States government securities having maturities that correspond to the years in which the promises are expected to be received. Amortization of discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Foundation uses the allowance method to determine the uncollectible portion of unconditional promises to give. The allowance for uncollectible contributions is based upon management's estimates including such factors as overall economic conditions, current and historical loss experience and recent contribution activity.

**Property and Equipment** – Property and equipment are reported at cost, if purchased, or fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, ranging from three to twenty-five years.

**Grants Payable** – Grants are recorded when specifically authorized by the Board of Trustees of the Foundation and when the grant award is communicated to the grantee. Grants that are expected to be paid in future periods are recorded at net present value.

**Annuities Payable** – The Foundation has received certain unconditional promises to provide future contributions in the form of deferred giving arrangements including charitable remainder annuity trusts, charitable remainder unitrusts and pooled income funds. The various deferred giving agreements stipulate the payment of stated annuity amounts as well as the requirements for the eventual use of the principal of the donated funds.

**Funds Held for Others as Agency Endowments** – Funds held for others as agency endowments represent endowment funds established by unaffiliated not-for-profit organizations for their own benefit.

**Donated Assets** – Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

**Donated Services** – No amounts have been reflected in the combined financial statements for donated services. The Foundation pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific programs and various committee assignments.

**Net Assets** – The Foundation’s net assets and its support and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions using two classifications: unrestricted and temporarily restricted. Most contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation’s governing documents. The variance power allows the Board of Trustees to modify donor instructions that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of the variance power, most contributions are classified as unrestricted net assets for financial statement purposes.

Temporarily restricted net assets are comprised of irrevocable charitable remainder and lead trusts, charitable gift annuities, pooled income funds and pledges receivable. 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 combined statement of activities and changes in net assets released from restrictions.

**Split-Interest Agreements** – The Foundation administers various charitable remainder trusts and charitable lead trusts. A charitable remainder trust provides for the payment of distributions to designated beneficiaries over the trust’s term (usually the designated beneficiary’s lifetime). At the end of the trust’s term, the remaining assets are available for the Foundation’s use. Under the charitable lead trust, the Foundation receives distributions from the trust until the agreement terminates. At that time, the remaining assets of the trust are paid out to the donor or other named beneficiaries.

The fair value of the trusts' assets has been included in the Foundation's Combined Statements of Financial Position and a corresponding liability has been recorded to reflect the present value of required lifetime payments to the named beneficiaries using discount rates ranging from 3% - 9% and 6% - 8% for the years ended June 30, 2008 and 2007, respectively.

Also, various donors have established trusts with financial institutions, naming the Foundation as the beneficiary of these charitable remainder trusts. Under the terms of the split-interest agreements, at the time of the donor's death, the trusts terminate and trust assets are distributed to the Foundation. Based on donor life expectancy and the use of discount rates ranging from 3% - 9%, the present value of future assets expected to be received by the Foundation is included in the Foundation's Combined Statements of Financial Position. Changes in the value of the assets and amortization of the discount on the estimated present value of future benefits are included in the change in value of charitable remainder trusts in the Combined Statement of Activities.

**Spending Policy** – The Foundation has adopted a policy whereby it limits the amount of income that may be utilized for grant purposes to 5.0 percent of the average market value of investments over the prior twenty quarters. This policy enables the Foundation to preserve and strengthen its investment base for the future.

2. **Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits**

The Foundation maintains cash balances at a financial institution in excess of FDIC insured limits. Based on the credit rating of this institution, management believes there is no significant credit risk related to deposits.

3. **Investments**

The carrying amounts of investments are included in the Foundation's Combined Statements of Financial Position as follows:

	<b><u>2008</u></b>	<b><u>2007</u></b>
Assets held – charitable lead trust	\$ 109,395	\$ 124,608
Assets held – charitable remainder trusts	2,343,886	1,203,394
Investments	<u>39,787,105</u>	<u>41,719,069</u>
	<u>\$ 42,240,386</u>	<u>\$ 43,047,071</u>

Investments at June 30 are classified as follows:

	<u>2008</u>	<u>2007</u>
Marketable equity securities	\$ 35,404,944	\$ 41,907,238
Money market	5,885,943	-
Fixed income	209,258	261,936
Investment in limited partnership	699,797	877,897
Other	<u>40,444</u>	<u>-</u>
	<u>\$ 42,240,386</u>	<u>\$ 43,047,071</u>

Net investment gains (losses) are comprised of the following for the years ending June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Net realized gains	\$ 66,911	\$ 574,358
Net unrealized gains/(losses)	(3,961,789)	4,617,478
Interest and dividend income	<u>1,954,263</u>	<u>898,239</u>
	<u>\$ (1,940,615)</u>	<u>\$ 6,090,075</u>

4. **Pledges Receivable**

The Foundation's pledges receivable consists of unconditional promises to give as of June 30 as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 18,649	\$ 67,200
Receivable in one to five years	25,183	-
Receivable in six or more years	<u>300,000</u>	<u>300,000</u>
Pledges receivable, gross	343,832	367,200
Less: discount	<u>87,207</u>	<u>158,953</u>
Pledges receivable, net	<u>\$ 256,625</u>	<u>\$ 208,247</u>

5. **Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Land	\$ 160,000	\$ 160,000
Building	922,315	922,315
Furniture and equipment	182,003	175,411
Leasehold equipment	<u>10,144</u>	<u>10,144</u>
	1,274,462	1,267,870
Less: accumulated depreciation	<u>540,472</u>	<u>499,752</u>
	<u>\$ 733,990</u>	<u>\$ 768,118</u>

6. **Operating Leases**

The Foundation leases office space to a non-profit organization for \$9,270 annually, expiring September 2011. Total rental income was approximately \$33,000 and \$36,000 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments to be received under the operating leases that have a remaining term in excess of one year as of June 30, 2008 are as follows:

2009	\$	7,725
2010		9,270
2011		9,270
2012		<u>2,318</u>
	\$	<u>28,583</u>

The Foundation leases various office equipment from two organizations with payments ranging from approximately \$200 to \$5,400 annually, expiring at various times through May 2009.

Future minimum rental payments required under these leases for the fiscal years subsequent to June 30, 2008 are as follows:

2009	\$	<u>1,126</u>
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Lease expense for the years ended June 30, 2008 and 2007 amounted to approximately \$5,700.

7. **Employees' Retirement Savings Plan**

The Foundation sponsors a defined contribution retirement savings plan for all regular full-time employees who are twenty-one years of age and have completed one year of service. Under the plan, employees may contribute up to 15% of their annual compensation. The Foundation may also contribute a discretionary amount of the participants' compensation each year. The Foundation contributed approximately \$19,000 and \$15,000 to the plan during the years ending June 30, 2008 and 2007, respectively.

8. **Functional Expenses**

The cost of providing program and administrative services are summarized on a functional basis as follows:

	<u>2008</u>	<u>2007</u>
Program services and grants	\$ 4,173,434	\$ 4,212,967
Supporting services:		
Administrative	331,978	294,908
Fundraising	<u>237,127</u>	<u>279,588</u>
Total expenses	\$ <u>4,742,539</u>	\$ <u>4,787,463</u>