

COMMUNITY FOUNDATION
OF THE LOWCOUNTRY, INC.
AND AFFILIATE
HILTON HEAD ISLAND, SOUTH CAROLINA
COMBINED FINANCIAL STATEMENTS

For the years ended
June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
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, as of June 30, 2009 and 2008, 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 financial statements based on our audit. The financial statements of Community Foundation of the Lowcountry, Inc. and Affiliate as of June 30, 2008, were audited by other auditors whose report dated October 20, 2008, expressed an unqualified opinion on those statements.

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 significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides 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, 2009 and 2008, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

Karp, Ronning & Tindol, P.C.

Karp, Ronning & Tindol, P.C.

Savannah, Georgia
October 26, 2009

**COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
June 30,**

	2009	2008
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,241,727	\$ 1,678,907
Pledges receivable	484,888	256,625
Assets held - charitable lead trust	78,405	109,395
Assets held - charitable remainder trusts	1,970,196	2,343,886
Investments	28,499,538	39,787,105
Property and equipment, net	739,859	733,990
Other assets	19,182	22,126
	<u>\$ 35,033,795</u>	<u>\$ 44,932,034</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	17,187	54,884
Grants payable	417,183	1,095,618
Annuities payable	1,206,323	1,260,313
Liability under unitrust agreements	1,886,686	2,364,908
Funds held for others - agency endowments	1,744,463	2,276,119
	<u>\$ 5,271,842</u>	<u>\$ 7,051,842</u>
<u>NET ASSETS</u>		
Unrestricted	29,761,953	37,482,418
Temporarily restricted	-	397,774
Permanently restricted	-	-
	<u>29,761,953</u>	<u>37,880,192</u>
TOTAL NET ASSETS	<u>\$ 29,761,953</u>	<u>\$ 37,880,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,033,795</u>	<u>\$ 44,932,034</u>

See Accountants' Report and Notes to Financial Statements

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
COMBINED STATEMENTS OF ACTIVITIES
For the Years Ended June 30,

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
Contributions received	\$ 1,827,946	\$ 4,667,530
Net realized and unrealized gains (losses)	(7,005,782)	(1,877,616)
Rental income	10,495	33,191
Other	411,046	787,192
Net assets released from restrictions	397,774	2,375,666
TOTAL REVENUES	(4,358,521)	5,985,963
EXPENSES AND SUPPORT		
Grants paid	2,267,553	2,961,279
Salaries and benefits	595,512	587,403
Professional and administrative fees	450,451	705,778
Supplies and other	10,072	447,359
Depreciation	38,356	40,720
TOTAL EXPENSES	3,361,944	4,742,539
(Decrease) increase in unrestricted net assets	(7,720,465)	1,243,424
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions received	\$ -	\$ 123,307
Net realized and unrealized gains (losses)	-	(62,999)
Change in value of split-interest agreements	-	(580,543)
Net assets released from restrictions	(397,774)	(2,375,666)
(Decrease) in temporarily restricted net assets	(397,774)	(2,895,901)
(Decrease) in net assets	(8,118,239)	(1,652,477)
Net assets at beginning of year	37,880,192	39,532,669
Net assets at end of year	\$ 29,761,953	\$ 37,880,192

See Accountants' Report and Notes to Financial Statements

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,118,239)	\$ (1,652,477)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	38,356	40,720
Unrealized (gains) losses, net	8,090,089	3,961,789
Realized (gains) losses, net	9,030	(66,911)
Net changes in operating assets and liabilities:		
Assets held in trust	404,680	(1,125,279)
Pledges and contributions receivable	(228,263)	(48,378)
Other assets	2,944	(6,577)
Grants and accounts payable	(716,132)	(68,137)
Liabilities under trust	(532,212)	1,455,840
	<u>(1,049,747)</u>	<u>2,490,590</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases, sales, and maturities of investments	3,188,507	(1,962,914)
Additions to property and equipment	(44,284)	(6,592)
	<u>3,144,223</u>	<u>(1,969,506)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds held for others	(531,656)	(264,892)
	<u>(531,656)</u>	<u>(264,892)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,562,820	256,192
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,678,907</u>	<u>1,422,715</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,241,727</u>	<u>\$ 1,678,907</u>

See Accountants' Report and Notes to Financial Statements

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A - 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 PRESENTATION

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.

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

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.

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

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 3% - 9% for the years ended June 30, 2009 and 2008, respectively.

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

NOTE B - CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Foundation maintains cash balances at a several financial institutions 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.

NOTE C - INVESTMENTS

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

	2009	2008
Assets held – charitable lead trust	\$ 78,405	\$ 109,395
Assets held – charitable remainder trusts	1,970,196	2,343,886
Investments	28,499,538	39,787,105
	<u>\$ 30,548,139</u>	<u>\$ 42,240,386</u>

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE C – INVESTMENTS continued

Investments at June 30 are classified as follows:

	2009	2008
Marketable Equitable Securities	\$ 21,385,789	\$ 35,404,944
Money market	414,926	5,885,943
Fixed income	8,109,823	209,258
Investment in limited partnership	637,601	699,797
Other	0	40,444
	<u>\$ 30,548,139</u>	<u>\$ 42,240,386</u>

Net investment gains (losses) are comprised of the following for the years ending June 30, 2009 and 2008:

	2009	2008
Net realized gains/(losses)	\$ (9,030)	\$ 66,911
Net unrealized gains/(losses)	(8,090,089)	(3,961,789)
Interest and dividend income	1,093,337	1,954,263
	<u>\$ (7,005,782)</u>	<u>\$ (1,940,615)</u>

NOTE D - PLEDGES RECEIVABLE

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

	2009	2008
Receivable in less than one year	\$ 29,916	\$ 18,649
Receivable in one to five years	314,972	25,183
Receivable in six or more years	300,000	300,000
Pledges receivable, gross	644,888	343,832
Less: discount	(160,000)	(87,207)
Pledges receivable, net	<u>\$ 484,888</u>	<u>\$ 256,625</u>

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE E – FIXED ASSETS

Property and equipment consist of the following at June 30:

	2009	2008
Land	\$ 160,000	\$ 160,000
Building	942,151	922,315
Furniture and equipment	87,415	182,003
Leasehold equipment	-0-	10,144
	1,189,566	1,274,462
Less: accumulated depreciation	(449,707)	(540,472)
	\$ 739,859	\$ 733,990

NOTE F – OPERATING LEASES

The Foundation leases office space to a various tenants at various terms as follows:

- A Chiropractor, annual rental \$9,000 expiring March 31, 2010
- A not-for-profit, annual rental of \$3,000 expiring June 30, 2011
- An insurance office, annual rental of \$9,270 expiring September 30, 2011
- A not-for-profit for \$12 annual rental (\$1 per month), expiring June 30, 2010

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, 2009 are as follows:

2010 \$19,000
2011 \$19,000

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.

Lease expense for the years ended June 30, 2009 and 2008 amounted to approximately \$5,700.

See Accountants' Report

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE G – EMPLOYEES' RETIREMENT SAVINGS PLAN

The Foundation sponsors a defined contribution retirement savings plan for all regular fulltime 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 \$24,000 and \$19,000 to the plan during the years ending June 30, 2009 and 2008, respectively.

See Accountants' Report