

YORK COUNTY COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2008

**YORK COUNTY COMMUNITY FOUNDATION
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PHILIP R. FRIEDMAN AND ASSOCIATES LLP

Certified Public Accountants

YORK, PENNSYLVANIA 17403

1601 SOUTH QUEEN STREET

TELEPHONE (717) 843-3804 FAX (717) 854-0533

E-MAIL prfa@prfa.com

**DAVID R. KLUNK, CPA
STEVEN M. MERRICK, CPA
TODD A. SPAHR, CPA, CFP®
AMY GOHN ANSTINE, CPA**

**DEBRA A. TAYLOR, CPA
META S. PALMER, CPA
M. ELIZABETH SNYDER, CPA
RYAN M. KLEINFELTER, CPA
IRENE LEFFLER, CPA**

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PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT

Board of Directors
York County Community Foundation

We have audited the accompanying statement of financial position of the York County Community Foundation 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 U.S. generally accepted auditing standards. 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 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 York County Community Foundation as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Philip R. Friedman and Associates LLP

York, Pennsylvania
April 29, 2009

YORK COUNTY COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2008
(With Comparative Totals for December 31, 2007)

ASSETS	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 63,929	\$ 154,870
Investments	47,548,005	70,383,011
Contributions receivable	1,242,511	1,652,394
Beneficial interest in trusts	685,678	1,048,949
Cash surrender value of life insurance	72,020	70,983
Leasehold improvements and equipment (less accumulated depreciation: 2008, \$191,616; 2007, \$100,347)	<u>426,246</u>	<u>510,637</u>
	<u>\$ 50,038,389</u>	<u>\$ 73,820,844</u>
 LIABILITIES AND NET ASSETS 		
Liabilities		
Grants and fund distribution payables	\$ 211,862	\$ 202,514
Accounts payable and accrued liabilities	71,833	49,019
Liability to life income beneficiaries under split-interest agreements	3,142,990	4,686,186
Funds held as agency endowments	<u>6,440,060</u>	<u>9,655,096</u>
	<u>9,866,745</u>	<u>14,592,815</u>
 Net Assets		
Unrestricted	37,383,444	54,340,820
Temporarily restricted	2,102,523	3,838,260
Permanently restricted	<u>685,677</u>	<u>1,048,949</u>
	<u>40,171,644</u>	<u>59,228,029</u>
	<u>\$ 50,038,389</u>	<u>\$ 73,820,844</u>

See accompanying notes to financial statements.

YORK COUNTY COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	2008			Total	<u>2007</u> Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, Gains and Support					
Total amounts raised	\$ 5,882,130	\$ 161,746	\$ 0	\$ 6,043,876	\$ 14,909,413
Less: Amounts received as agency endowments	<u>703,503</u>	<u>0</u>	<u>0</u>	<u>703,503</u>	<u>918,673</u>
Contributions	<u>5,178,627</u>	<u>161,746</u>	<u>0</u>	<u>5,340,373</u>	<u>13,990,740</u>
Investment income	694,510	0	0	694,510	1,537,593
Less: Investment income for agency endowments	<u>31,745</u>	<u>0</u>	<u>0</u>	<u>31,745</u>	<u>180,564</u>
	<u>662,765</u>	<u>0</u>	<u>0</u>	<u>662,765</u>	<u>1,357,029</u>
Investment gains (losses)	(21,896,971)	0	0	(21,896,971)	2,719,820
Less: Investment gains (losses) for agency endowments	<u>(3,580,248)</u>	<u>0</u>	<u>0</u>	<u>(3,580,248)</u>	<u>486,153</u>
	<u>(18,316,723)</u>	<u>0</u>	<u>0</u>	<u>(18,316,723)</u>	<u>2,233,667</u>
Change in value of split-interest agreements	25,753	(1,323,644)	0	(1,297,891)	323,937
Losses from beneficial interest in trusts	(12,803)	0	(363,272)	(376,075)	(2,573)
Other income	19,658	0	0	19,658	6,356
Net assets released from restrictions	<u>573,839</u>	<u>(573,839)</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>606,447</u>	<u>(1,897,483)</u>	<u>(363,272)</u>	<u>(1,654,308)</u>	<u>327,720</u>
	<u>(11,868,884)</u>	<u>(1,735,737)</u>	<u>(363,272)</u>	<u>(13,967,893)</u>	<u>17,909,156</u>
Expenses					
Program Services					
Distributions from funds	4,319,896	0	0	4,319,896	4,585,048
Less: Distributions from agency endowments	<u>370,037</u>	<u>0</u>	<u>0</u>	<u>370,037</u>	<u>306,299</u>
Grant distributions	<u>3,949,859</u>	<u>0</u>	<u>0</u>	<u>3,949,859</u>	<u>4,278,749</u>
Charitable programs	<u>427,775</u>	<u>0</u>	<u>0</u>	<u>427,775</u>	<u>407,513</u>
Total program services	<u>4,377,634</u>	<u>0</u>	<u>0</u>	<u>4,377,634</u>	<u>4,686,262</u>
Administrative	470,614	0	0	470,614	402,801
Development	<u>240,244</u>	<u>0</u>	<u>0</u>	<u>240,244</u>	<u>236,089</u>
	<u>5,088,492</u>	<u>0</u>	<u>0</u>	<u>5,088,492</u>	<u>5,325,152</u>
Change in net assets	(16,957,376)	(1,735,737)	(363,272)	(19,056,385)	12,584,004
Net assets - beginning of year	<u>54,340,820</u>	<u>3,838,260</u>	<u>1,048,949</u>	<u>59,228,029</u>	<u>46,644,025</u>
Net assets - end of year	<u>\$ 37,383,444</u>	<u>\$ 2,102,523</u>	<u>\$ 685,677</u>	<u>\$ 40,171,644</u>	<u>\$ 59,228,029</u>

See accompanying notes to financial statements.

YORK COUNTY COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008
(With Comparative Totals for December 31, 2007)

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Change in net assets	\$(19,056,385)	\$ 12,584,004
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	92,490	59,893
Net unrealized and realized investment (gains) losses	21,896,971	(2,719,820)
Non-cash contributions	(2,158,279)	(2,637,830)
Contributions received for long-term purposes	(161,746)	(1,574,746)
Increase in cash surrender value of life insurance	(1,037)	(8,795)
Changes in operating assets and liabilities:		
Contributions receivable	409,883	(354,275)
Beneficial interest in trusts	363,271	(866,326)
Accounts payable and accrued liabilities	22,814	(6,909)
Grants payable	9,348	(2,428)
Life income beneficiaries payable	(1,543,196)	72,886
Funds held as agency endowments	<u>(3,215,036)</u>	<u>1,279,091</u>
Net cash provided (used) by operating activities	<u>(3,340,902)</u>	<u>5,824,745</u>
Cash Flows from Investing Activities		
Purchase of investments	(13,235,441)	(27,629,117)
Proceeds from sale of investments	13,820,620	19,840,082
Capital expenditures	<u>(8,098)</u>	<u>(527,349)</u>
Net cash provided (used) by investing activities	<u>577,081</u>	<u>(8,316,384)</u>
Cash Flows from Financing Activities		
Investment in split-interest agreements	161,746	705,847
Investment in perpetual trust	<u>0</u>	<u>868,899</u>
Net cash provided by financing activities	<u>161,746</u>	<u>1,574,746</u>
Decrease in cash and cash equivalents	(2,602,075)	(916,893)
Cash and cash equivalents at beginning of year	<u>4,895,335</u>	<u>5,812,228</u>
Cash and cash equivalents at end of year	<u>\$ 2,293,260</u>	<u>\$ 4,895,335</u>

See accompanying notes to financial statements.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies

The York County Community Foundation (the "Foundation") is a community foundation. Under Internal Revenue Code Sections 501(c) (3), 170(b) (1) (A) (vi) and Section 509(a), it is a public support charitable organization, gifts to which are deductible for tax purposes. The accompanying financial statements of the Foundation have been prepared in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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.

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Contributions

Contributions are recorded as revenue when an unconditional promise to give is received. Contributions subject to conditions are recorded as revenue when the conditions limiting the transfer of assets have been satisfied, typically when the promise becomes irrevocable. Contributions are recorded at fair value at the date of donation. Contributions receivable are recorded at the present value of expected net proceeds ultimately payable to the Foundation. Contributions with donor-imposed restrictions that are met in the same year as received are reported as unrestricted.

Grants

The Foundation records grants when all conditions stipulated by the grant have been substantially met. Grant cancellations and refunds of paid grants are recorded as they occur. Direct charitable service program expenses are recorded as incurred.

Net Asset Classification

All contributions, including those with donor-imposed restrictions, are subject to the variance power of the Foundation as established in its governing documents. The variance power gives the Board of Directors the ability to modify donor restrictions 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 trusts and contributions with restrictions that will expire when stipulated time restrictions end or purpose restrictions are fulfilled. When donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Asset Classification (Continued)

Permanently restricted net assets represent contributions which are subject to donor-imposed stipulations which restrict spendability. Permanently restricted net assets are comprised of interest in perpetual trusts held by a third party.

Cash Equivalents

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments

The goal of the Foundation is to invest its assets in a manner that will preserve and enhance the real value of the assets over time. The investment policy strives to achieve a total rate of return sufficient to replace the assets spent for grants and expenses and recoup any value lost due to inflation. To minimize risk, the Foundation diversifies its investments among various financial instruments and asset categories and uses multiple managers. The Foundation's portfolios are managed by outside investment managers who invest according to the investment guidelines established by the Investment Committee and approved by the Board of Directors.

Investments are stated at market value in the case of marketable securities and at estimated value for certain nonmarketable securities. Nonmarketable securities include alternative investments such as hedge funds and real estate, which are valued using current estimates of fair value obtained from the general partner or investment manager. Substantially all the underlying investments are marked to market, with the general partner reserving the right to make adjustments to such valuations or approve the use of certain estimates if deemed necessary to reflect the appropriate estimated fair value. The market value of publicly traded securities is based on quoted market

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

prices. Shares of mutual funds are valued at the net asset value of shares held by the Foundation at year end. The fair value of the common/collective trust is based on the Foundation's interest in the market value of the trust. Dividend and interest income is accrued as such income is earned.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are carried at cost. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is calculated on the straight-line method over the lesser of the estimated useful lives of the assets or the term of the lease.

Life Income Beneficiaries Payable

The Foundation acts as trustee for certain charitable remainder unitrusts. The Foundation is also an issuer of charitable gift annuities. The net present value of the anticipated benefit to be received from these agreements is recorded as contribution revenue in the year the agreement is created. The present value of the estimated future payments to be distributed during the beneficiary's expected life is recorded as a liability.

The Foundation also maintains a pooled income fund. Contributed assets are recognized when received and contribution revenues are discounted for the donors' life expectancies. The difference between the fair value of the assets when received and the revenue recognized is recorded as deferred revenue, representing the amount of the discount for future interest. Income on the fund is recorded as a liability.

As required distributions are made to these beneficiaries, the liabilities are reduced. Adjustments to the liabilities to reflect amortization of the discount, reevaluations of the present value of the estimated future payments and changes in actuarial assumptions are recognized in the statement of activities as a change in the value of split-interest agreements.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is a tax exempt organization. Accordingly, no provision for federal or state income taxes is required.

Note 2 - Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<u>2008</u>	<u>2007</u>
Cash	\$ 63,929	\$ 154,870
Cash equivalents shown as investments	<u>2,229,331</u>	<u>4,740,465</u>
	<u>\$2,293,260</u>	<u>\$4,895,335</u>

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Contributions Receivable

Unconditional promises to give resulting from various campaigns are as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 735,291	\$ 1,156,452
Receivable in one to five years	240,100	226,559
Receivable in more than five years	<u>139,827</u>	<u>14,992</u>
 Total unconditional promises to give	 1,115,218	 1,398,003
 Less: discount to net present value	 <u>(71,839)</u>	 <u>(33,891)</u>
	1,043,379	1,364,112
 Charitable Remainder Trusts for which York County Community Foundation is not the trustee	 <u>199,132</u>	 <u>288,282</u>
	<u>\$ 1,242,511</u>	<u>\$ 1,652,394</u>

Note 5 - Investments

Investments are at fair value and consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Cash equivalents	\$ 2,229,331	\$ 4,740,465
Bonds, notes and fixed income funds	11,841,371	16,820,105
Equity securities	26,608,702	42,900,714
Real estate funds	1,789,129	2,765,809
Hedge funds	<u>5,079,472</u>	<u>3,155,918</u>
	<u>\$47,548,005</u>	<u>\$70,383,011</u>

Investment income on the statement of activities is reported net of manager, consultant and custodian fees of \$360,817 and \$492,240 for the years ended 2008 and 2007, respectively.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Investments (Continued)

For assets measured at fair value on a recurring basis during the period, SFAS No. 157 requires quantitative disclosures about fair value measurements separately for each major category as follows:

<u>Description</u>	<u>2008</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments	<u>\$ 47,548,005</u>	<u>\$ 40,705,479</u>	<u>\$ 1,763,054</u>	<u>\$ 5,079,472</u>

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, SFAS No. 157 requires a reconciliation of the beginning and ending balances as follows:

	<u>Fair Value Measurements Using Significant Unobservable Inputs</u>
Beginning balance	\$ 3,155,918
Total gains or losses (realized/unrealized) included in changes in net assets	(1,300,726)
Purchases	<u>3,224,280</u>
Ending balance	<u>\$ 5,079,472</u>

As permitted under Financial Accounting Standards Board Staff Position FAS 157-2, the Foundation has elected to defer the provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities.

Note 6 - Line of Credit

The Foundation has a \$250,000 unsecured line of credit which is renewable annually. The interest rate was fixed at 6.75% until October 1, 2008, at which time it reverted to the Wall Street Journal prime rate less 1/2%. There were no borrowings under this credit facility at December 31, 2008.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Grants and Fund Distributions

Grants and fund distributions approved and paid in 2008 and those committed for future payments consisted of the following at December 31, 2008:

	<u>Grants</u>	<u>Distributions from Agency Endowments</u>	<u>Total</u>
Payable December 31, 2007	\$ 68,944	\$ 133,570	\$ 202,514
2008 grants approved	3,949,859	370,037	4,319,896
2008 grants paid	<u>(3,961,850)</u>	<u>(348,698)</u>	<u>(4,310,548)</u>
Payable December 31, 2008	<u>\$ 56,953</u>	<u>\$ 154,909</u>	<u>\$ 211,862</u>

Grants and distributions from agency endowments are payable in 2009.

Note 8 - Funds Held as Agency Endowments

The Foundation maintains variance power and legal ownership of organization endowment funds, and as such, continues to report the funds as assets of the Foundation. However, in accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, a liability has been established as funds held as agency endowments, which is equivalent to the funds' current fair market value.

	<u>2008</u>	<u>2007</u>
Net assets at end of year	\$6,440,060	\$9,655,096
Grants payable	<u>154,909</u>	<u>133,570</u>
Organization endowment funds held for others	<u>\$6,594,969</u>	<u>\$9,788,666</u>

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 9 - Retirement Plan

The Foundation maintains a 403(b) (7) tax-deferred retirement plan that covers employees who meet certain eligibility requirements. The Foundation's contributions to the plan are comprised of a matching contribution equal to 100% of an employee's contribution, not to exceed 5% of an employee's compensation. Participants may make voluntary contributions to the plan up to Internal Revenue Service guideline amounts. Employer contributions to the plan were \$21,117 and \$14,630 for 2008 and 2007, respectively.

Note 10 - Operating Lease

The Foundation has a lease agreement for office space. Renovations to the expanded space are capitalized as leasehold improvements. Rent expense under the lease for the year ended 2008 and 2007 was \$26,260 and \$19,695, respectively. The Foundation has the option to renew the lease for five additional terms, through 2013.

Note 11 - Concentration of Credit Risk

In the normal course of business, the Foundation has cash deposits in a financial institution in excess of the amount insured by agencies of the federal government. Management has not experienced any losses in such accounts and believes it is not exposed to a significant credit risk.

**YORK COUNTY COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

Note 12 - Pennsylvania Educational Improvement Tax Credit

York County Community Foundation was approved by the Pennsylvania Department of Community and Economic Development as a qualifying scholarship organization under the Educational Improvement Tax Credit. Qualifying businesses may receive tax credits of 75% or 90% of their contributions to the scholarship program, up to \$200,000 annually. Program activity for the year ended December 31, 2008 follows:

Balance - beginning of year		\$ 131,538
Contributions under tax credit		306,600
Scholarship program grants	\$414,575	
Administration	<u>15,330</u>	
		<u>429,905</u>
Balance - end of year		<u>\$ 8,233</u>