

NORTHERN CHAUTAUQUA
COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

April 15, 2013

To the Board of Directors of
Northern Chautauqua Community Foundation

We have audited the accompanying financial statements of the Northern Chautauqua Community Foundation (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the 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 controls 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 audit 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 controls 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 financial statements referred to above present fairly, in all material respects, the financial position of the Northern Chautauqua Community Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 17 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Johnson, Mackowiak & Associates, LLP

Johnson, Mackowiak & Associates, LLP
Certified Public Accountants & Consultants

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 92,253	\$ 103,489
Investments	19,257,789	17,113,333
Cash surrender value of life insurance	19,217	18,422
Building, equipment and land, net	69,802	73,562
TOTAL ASSETS	\$ 19,439,061	\$ 17,308,806
LIABILITIES AND NET ASSETS		
Liabilities		
Grants and accounts payable	\$ 4,074	\$ 350
Gift annuities payable	47,413	70,100
Funds held for agencies	2,447,332	2,094,229
Funds held for pass-through	237,564	165,203
Total liabilities	2,736,383	2,329,882
Unrestricted Net Assets		
Operating	(10,873)	8,817
Unreserved - fixed assets	69,802	73,562
Community benefit funds	4,856,883	4,295,340
Designated funds	4,762,824	4,220,089
Donor advised funds	804,629	738,776
Brocton scholarship funds	88,179	-
Dunkirk scholarship funds	1,691,044	1,511,239
Fredonia scholarship funds	587,171	535,497
Miscellaneous scholarship funds	3,316,681	3,103,534
Westfield scholarship funds	559,669	510,786
Gift annuities	(23,331)	(18,716)
Total net assets	16,702,678	14,978,924
TOTAL LIABILITIES AND NET ASSETS	\$ 19,439,061	\$ 17,308,806

See accompanying notes and independent auditor's report.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 552,723	\$ 1,447,923
Special fund fundraising revenue	113,798	24,033
Interest and dividends	349,047	315,809
Realized gains (losses)	215,754	(249,113)
Unrealized gains (losses)	1,080,448	(412,167)
Patron dues and miscellaneous income	27,822	31,898
Change in value of charitable gift annuities	(3,238)	(12,264)
Change in cash surrender value of life insurance	795	773
	<u>2,337,149</u>	<u>1,146,892</u>
Total support and revenue		
EXPENSES		
Grants	338,122	281,356
General and administrative expenses	247,813	233,828
Special fund fundraising expenses	61,632	69,466
	<u>647,567</u>	<u>584,650</u>
Total expenses		
CHANGE IN NET ASSETS	<u>1,689,582</u>	<u>562,242</u>
NET ASSETS AT JANUARY 1 (before restatement)	14,978,924	14,659,077
Prior period adjustment	<u>-</u>	<u>(224,495)</u>
NET ASSETS AT JANUARY 1 (as restated)	<u>14,978,924</u>	<u>14,434,582</u>
Charitable fund transfers	<u>34,172</u>	<u>(17,900)</u>
NET ASSETS AT DECEMBER 31	<u><u>\$ 16,702,678</u></u>	<u><u>\$ 14,978,924</u></u>

See accompanying notes and independent auditor's report.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,689,582	\$ 562,242
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized (gains) losses on investments	(215,754)	249,113
Net unrealized (gains) losses on investments	(1,080,448)	412,167
Change in value of split-interest agreement	3,238	12,264
Change in cash surrender value of life insurance	(795)	(773)
Depreciation expense	3,760	4,505
Charitable fund transfers	34,172	(17,900)
Change in operating assets and liabilities:		
Grants payable	3,724	350
Gift annuity payable	(22,687)	(3,512)
Funds held for agencies	128,608	(47,382)
Funds held for pass-through	72,361	39,657
	615,761	1,210,731
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	-	(71,387)
Proceeds from redemptions	3,600,879	8,085,612
Expenditures for purchase	(4,452,371)	(10,054,265)
	(851,492)	(2,040,040)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(235,731)	(829,309)
CASH AND CASH EQUIVALENTS, beginning	103,489	932,798
CASH AND CASH EQUIVALENTS, ending	\$ (132,242)	\$ 103,489

See accompanying notes and independent 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 FASB ASC 958-205-50 (formerly SFAS No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*), 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 ASC 740-10 (formerly FASB Interpretation No. 48), *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 ASC 740-10.

The Foundation files federal Returns of Organization Exempt from Income Tax (Form 990) and New York State's Annual Filing for Charitable Organizations (CHAR500). The Foundation's returns prior to 2009 are closed.

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 percentage rate that determines the amount available for charitable purposes. In February 2011, the Board of Directors raised the spending rate from 2.5% to 3.0% retroactive to January 1, 2011. At December 31, 2012, the spending rate remains at 3.0%.

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

On September 17, 2010, the State of New York adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). This legislation now dictates the Spending Policy for fiscal years beginning in 2011 and provides discretion to the Foundation with respect to the accumulation or expenditure of amounts in the endowment fund including portions of the original dollar value of the donor's gift. NYPMIFA also requires grant spending to be calculated based on quarterly market values of the endowment over a period of not less than 5 years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 years, 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. At December 31, 2012, cash and cash equivalents classified as investments totaled \$1,483,802 invested with Lake Shore Savings Bank, TD Ameritrade and Charles Schwab. At December 31, 2011, cash and cash equivalents classified as investments totaled \$3,923,805 invested with Lake Shore Savings Bank, TD Ameritrade and Charles Schwab.

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 FASB ASC 958 (formerly 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*). 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. FASB ASC 958 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 FASB ASC 958, 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.

NOTE 2 – FUNDS HELD FOR AGENCIES, continued

As of December 31, 2012 and 2011, the Foundation was the owner of approximately twenty two agency funds with a combined value of \$2,222,837 and \$1,869,734, respectively. The Foundation also had approximately twenty pass-through funds with a combined value of \$462,059 and \$389,698 as of December 31, 2012 and 2011, respectively. 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 – BUILDING, EQUIPMENT AND LAND

Building, equipment and land consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Office furniture and equipment	\$ 47,933	\$ 47,933
Building	60,798	60,798
Land	10,000	10,000
Less: accumulated depreciation	<u>(48,929)</u>	<u>(45,169)</u>
EQUIPMENT, net	<u><u>\$ 69,802</u></u>	<u><u>\$ 73,562</u></u>

Office furniture and equipment is depreciated using the straight-line method over an estimated life of five years and depreciation totaled \$2,201 and \$3,726 for the years ended December 31, 2012 and 2011, respectively. The building is depreciated using the straight-line method over an estimated life of thirty-nine years and depreciation totaled \$1,559 and \$779 for the years ended December 31, 2012 and 2011, respectively

NOTE 4 – LEASES

The Foundation rented office space in Dunkirk, New York through March 2011, at which time the Foundation purchased the building it leased. The last lease agreement was signed for a three-year period that expired December 31, 2007, after which the organization operated on a month-to-month basis. Rent expense totaled \$0 and \$1,785 for the years ending December 31, 2012 and 2011 respectively.

NOTE 5 - INVESTMENTS

The Foundation carries investments at market value for financial statement purposes. Endowment funds were invested as follows at December 31, 2012:

Investment Description	<u>Cost</u>	<u>Market</u>
Lakeshore Savings and Loan		
Cash & Cash Equivalents	\$ 883,148	\$ 883,148
TD Ameritrade - Courier Capital:		
Cash & Cash Equivalents	169,891	169,891
Fixed Income	4,871,477	5,137,164
Charles Schwab - Manning & Napier:		
Cash & Cash Equivalents	430,763	430,763
Fixed Income	1,298,572	1,329,440
Equities	7,083,555	7,811,293
Vanguard Funds:		
500 Index Fund	1,064,262	1,213,517
Total International Stock Index Fund	159,978	187,955
Total Stock Market Index Fund	1,408,870	1,809,289
Emerging Markets Stock Index Fund	326,308	285,329
TOTAL	<u>\$ 17,696,824</u>	<u>\$ 19,257,789</u>

Endowment funds were invested as follows at December 31, 2011:

Investment Description	<u>Cost</u>	<u>Market</u>
Lakeshore Savings and Loan		
Cash & Cash Equivalents	\$ 3,277,075	\$ 3,277,075
TD Ameritrade - Courier Capital:		
Cash & Cash Equivalents	401,026	401,026
Fixed Income	4,543,528	4,611,589
Charles Schwab - Manning & Napier:		
Cash & Cash Equivalents	245,704	245,704
Fixed Income	1,064,782	1,063,797
Equities	4,325,324	4,513,961
Vanguard Funds:		
500 Index Fund	1,038,239	1,046,455
Total International Stock Index Fund	154,505	159,002
Total Stock Market Index Fund	1,370,766	1,554,591
Emerging Markets Stock Index Fund	320,146	240,133
TOTAL	<u>\$ 16,741,095</u>	<u>\$ 17,113,333</u>

NOTE 5 - INVESTMENTS, continued

The Foundation adopted provisions of FASB ASC 820 (SFAS No. 157 *Fair Value Measurements*) effective January 1, 2008. FASB ASC 820 establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in inactive markets, (3) inputs other than quoted prices that are observable for the asset or liability, (4) inputs that are derived from or corroborated by observable market data by correlation or other means, (5) if the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Mutual Funds - Valued at the net asset value (NAV) of shares held at year end. The NAV is the closing price reported on the active market on which the securities are traded. Mutual funds are classified as level 1 investments.

Money Market Funds - Valued at cost plus accrued interest. Money market funds are classified as level 2 instruments.

NOTE 5 - INVESTMENTS, continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Stock	\$ 6,024,638	\$ -	\$ -
Bonds	5,682,089	-	-
Mutual funds	6,067,260	-	-
Money market funds	-	1,483,802	-
	<u>\$ 17,773,987</u>	<u>\$ 1,483,802</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Stock	\$ 4,513,961	\$ -	\$ -
Bonds	5,675,386	-	-
Mutual funds	3,000,181	-	-
Money market funds	-	3,923,805	-
	<u>\$ 13,189,528</u>	<u>\$ 3,923,805</u>	<u>\$ -</u>

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 four remaining annuities. This amount met the required investment by New York State Insurance Law. The Foundation had two gift annuities remaining at December 31, 2012 and four gift annuities remaining at December 31, 2011.

NOTE 6 – GIFT ANNUITIES PAYABLE, continued

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

2012	<u>Discount Rate</u>	<u>Lifetime Expectancy</u>	<u>Amount of Payable</u>
Annuity II	9.00%	4.1	\$ 26,235
Annuity VII	5.80%	12.4	<u>21,178</u>
TOTAL			<u>\$ 47,413</u>
2011	<u>Discount Rate</u>	<u>Lifetime Expectancy</u>	<u>Amount of Payable</u>
Annuity I	9.00%	4.3	\$ 8,068
Annuity II	9.80%	4.3	28,135
Annuity V	9.20%	5.6	11,047
Annuity VII	6.30%	13.1	<u>22,850</u>
TOTAL			<u>\$ 70,100</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 years ended December 31:

	<u>2012</u>	<u>2011</u>
Additions:		
Contributions	\$ 317,303	\$ 144,225
Special projects - Amazing County	-	17,186
Special fund fundraising revenues	20,658	27,130
Realized gains (losses)	33,262	(34,470)
Unrealized gains (losses)	162,340	(58,149)
Investment income	<u>53,690</u>	<u>43,296</u>
Total additions	<u>587,253</u>	<u>139,218</u>

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

Deductions:		
Grants	94,029	91,145
Special projects - Amazing County	-	34,458
Special fund fundraising expenses	28,460	16,433
Administrative expenses	24,300	22,809
	<hr/>	<hr/>
Total deductions	146,789	164,845
	<hr/>	<hr/>
Change in balance	440,464	(25,627)
	<hr/>	<hr/>
Balance at beginning of year (prior to restatement)	2,259,432	2,042,664
Prior period adjustment	-	224,495
	<hr/>	<hr/>
Balance at beginning of year (as restated)	2,259,432	2,267,159
	<hr/>	<hr/>
Charitable fund transfers	(15,000)	17,900
	<hr/>	<hr/>
Balance end of year	<u>\$ 2,684,896</u>	<u>\$ 2,259,432</u>

At the request of donors, during 2012, \$15,000 in charitable funds were transferred from funds held for pass-throughs to unrestricted net assets. In 2011, \$17,900 in charitable funds were transferred from unrestricted net assets to funds held for pass-throughs.

NOTE 8 - ENDOWMENTS

The Foundation's endowments consist of approximately 372 individual funds established for a variety of purposes. Its total endowments includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Prior to New York State's adoption of the New York Prudent Management of Institutional Funds Act (NYPMIFA) in September 2010, the Board of Directors of the Foundation has interpreted the New York State Not-for-Profit Corporation Law as limiting distributed 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 value.

NOTE 8 - ENDOWMENTS, continued

In accordance with the provisions of NYPMIFA, the Foundation will only make expenditures over the historical expenditures over the historical dollar value of the fund for such funds established prior to NYPMIFA only upon the express approval of the original donor (if such donors can be reasonably identified and reasonable attempts are made to contact them.)

Funds with Deficiencies

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 existing at December 31, 2011 and 2010 resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions. Under NYIMPFA, the Foundation is limited to spending only the current income from these funds with deficiencies without permission from the donor. Beginning December 2011, the Board of Directors voted to change the look at date to identify funds with deficiencies from September 30th to June 30th. At June 30, 2012, the Foundation identified 18 funds with deficiencies whose historical gift value totaled \$1,529,541 and whose fair market value totaled \$1,406,442. At June 30, 2011 there were no funds with deficiencies. At September 30, 2011, the Foundation identified 93 funds with deficiencies whose historical gift value totaled \$7,771,321 and whose fair value \$7,372,321 totaled.

At December 31, 2012 and 2011, the fair market value of these funds totaled \$1,488,949 and \$8,192,128, respectively. At December 31, 2012, six funds identified as funds with deficiencies at June 30, 2012 continued to have deficiencies.

The Board of Directors created two contingency funds in 2008. One of the contingency funds supplemented the annual distributions from many of the funds with deficiencies, which otherwise would have had significantly less to distribute within the community than in previous years. The second contingency fund was designated to support operational expenses. Each fund originally consisted of \$21,000. During the years ended December 31, 2012 and 2011, \$0 and \$0 of these funds had been utilized for operational expenses, respectively.

NOTE 8 - ENDOWMENTS, continued

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the underlying endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce average investment results that exceed the spending needs of the Foundation by 2% to 3% annually while assuming a low to moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% after inflation annually. Actual returns in any given year may vary from this amount.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized gains and losses) and current yield (interest and dividends).

NOTE 9 - SUBSEQUENT EVENTS

Events and transactions which have occurred from December 31, 2012 through April 15, 2013, the date of the financial statements, have been evaluated by management for the purposes of determining whether there were any events that might require disclosure in these financial statements. No such event or transaction was noted.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

The Foundation recorded a prior period adjustment to reflect funds that were incorrectly classified as Endowment funds not Funds Held for Agency. The effect of the adjustment was to decrease unrestricted net assets as of December 31, 2010 by \$224,495.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Endowments</u>	<u>Agency and Pass-through Funds</u>	<u>Total</u>
Salaries and benefits	\$ 177,766	\$ 17,431	\$ 195,197
Payroll taxes	12,744	1,250	13,994
Utilities	3,955	388	4,343
Conferences and meetings	5,825	571	6,396
Office supplies and expenses	9,767	958	10,725
Dues and subscriptions	2,218	217	2,435
Telephone	1,841	180	2,021
Insurance	3,528	346	3,874
Travel and promotion	3,911	383	4,294
Computer support	10,681	1,047	11,728
Professional fees	5,624	551	6,175
Depreciation expense	3,424	336	3,760
Building maintenance	3,870	379	4,249
Miscellaneous	2,659	263	2,922
	<u>247,813</u>	<u>24,300</u>	<u>272,113</u>
Total expenses	<u>\$ 247,813</u>	<u>\$ 24,300</u>	<u>\$ 272,113</u>

See independent auditor's report.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
 SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Endowments</u>	<u>Agency and Pass-through Funds</u>	<u>Total</u>
Salaries and benefits	\$ 154,373	\$ 15,058	\$ 169,431
Payroll taxes	11,172	1,090	12,262
Rent	3,847	375	4,222
Utilities	4,352	425	4,777
Conferences and meetings	6,839	667	7,506
Office supplies and expenses	8,707	849	9,556
Dues and subscriptions	2,534	247	2,781
Telephone	1,945	190	2,135
Insurance	2,161	211	2,372
Travel and promotion	6,552	639	7,191
Computer support	13,290	1,296	14,586
Professional fees	5,193	507	5,700
Depreciation expense	4,105	400	4,505
Building maintenance	3,180	310	3,490
Miscellaneous	5,578	545	6,123
	<u>\$ 233,828</u>	<u>\$ 22,809</u>	<u>\$ 256,637</u>
Total expenses	<u>\$ 233,828</u>	<u>\$ 22,809</u>	<u>\$ 256,637</u>

See independent auditor's report.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
SCHEDULE OF CHANGES IN LIABILITIES AND NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Beginning Liabilities and Net Assets	Contributions	Special Fund Fundraising Revenues	Investment Income	Realized Gains/ (Losses)	Unrealized Gains/(Losses) and Change in CSV Gift Annuities	Patron Dues, Miscellaneous Income
LIABILITIES							
Grants payable	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gift annuity payable	70,100	-	-	-	-	-	-
Funds held for agencies	2,094,229	157,327	-	50,608	31,356	153,815	-
Funds held as pass-throughs	165,203	159,976	20,658	3,082	1,906	8,525	-
Total Liabilities	2,329,882	317,303	20,658	53,690	33,262	162,340	-
UNRESTRICTED NET ASSETS							
Operating Fund	8,817	5,981	-	100	-	-	27,822
Undesignated - Fixed Assets	73,562	-	-	-	-	-	-
Community Benefit Funds	4,295,340	195,075	7,266	102,345	63,105	319,555	-
Designated Funds	4,220,089	150,399	29,079	98,048	60,652	304,542	-
Donor Advised Funds	738,776	10,201	52,179	17,048	10,541	52,839	-
Brocton Scholarships	-	87,457	-	880	440	1,689	-
Dunkirk Scholarships	1,511,239	58,250	25,274	34,777	21,550	107,132	-
Fredonia Scholarships	535,497	15,675	-	12,362	7,666	38,126	-
Miscellaneous Scholarships	3,103,534	13,730	-	71,104	44,100	219,354	-
Westfield Scholarships	510,786	15,955	-	11,728	7,270	36,365	-
Subtotal	14,997,640	552,723	113,798	348,392	215,324	1,079,602	27,822
Gift Annuities	(18,716)	-	-	655	430	(1,597)	-
Total net assets	14,978,924	552,723	113,798	349,047	215,754	1,078,005	27,822
TOTAL LIABILITIES & NET ASSETS	\$ 17,308,806	\$ 870,026	\$ 134,456	\$ 402,737	\$ 249,016	\$ 1,240,345	\$ 27,822

<u>Grants</u>	<u>General and Administrative Expenses</u>	<u>Special Fund Fundraising Expenses</u>	<u>Annuity Transfers</u>	<u>Charitable Fund Transfers</u>	<u>Change in Liability</u>	<u>Ending Liabilities and Net Assets</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,724	\$ 4,074
-	-	-	(19,172)	-	(3,515)	47,413
(17,203)	(22,800)	-	-	-	-	2,447,332
<u>(76,826)</u>	<u>(1,500)</u>	<u>(28,460)</u>	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>237,564</u>
<u>(94,029)</u>	<u>(24,300)</u>	<u>(28,460)</u>	<u>(19,172)</u>	<u>(15,000)</u>	<u>209</u>	<u>2,736,383</u>
-	(53,593)	-	-	-	-	(10,873)
-	(3,760)	-	-	-	-	69,802
(90,376)	(46,579)	-	14,995	(3,843)	-	4,856,883
(70,459)	(44,434)	(11,759)	8,060	18,607	-	4,762,824
(30,664)	(7,751)	(38,540)	-	-	-	804,629
(1,750)	(537)	-	-	-	-	88,179
(32,416)	(23,665)	(11,333)	-	236	-	1,691,044
(16,580)	(5,575)	-	-	-	-	587,171
(78,522)	(56,619)	-	-	-	-	3,316,681
<u>(17,155)</u>	<u>(5,280)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>559,669</u>
(337,922)	(247,793)	(61,632)	23,055	15,000	-	16,726,009
<u>(200)</u>	<u>(20)</u>	<u>-</u>	<u>(3,883)</u>	<u>-</u>	<u>-</u>	<u>(23,331)</u>
<u>(338,122)</u>	<u>(247,813)</u>	<u>(61,632)</u>	<u>19,172)</u>	<u>15,000)</u>	<u>-</u>	<u>16,702,678</u>
<u>\$ (432,151)</u>	<u>\$ (272,113)</u>	<u>\$ (90,092)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209</u>	<u>\$ 19,439,061</u>

See independent auditor's report.

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
SCHEDULE OF CHANGES IN LIABILITIES AND NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Beginning Liabilities and Net Assets <small>(before restatement)</small>	Prior Period Adjustment	Beginning Liabilities and Net Assets <small>(as restated)</small>	Contributions	Amazing County/ Special Fund Fundraising Revenues	Investment Income	Realized Gains/ (Losses)
LIABILITIES							
Grants payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gift annuity payable	73,612	-	73,612	-	-	-	-
Funds held for agencies	1,917,117	224,495	2,141,612	21,825	27,130	41,565	(32,438)
Funds held as pass-throughs	125,547	-	125,547	122,400	17,186	1,731	(2,032)
Total Liabilities	2,116,276	-	2,116,276	144,225	44,316	43,296	(34,470)
UNRESTRICTED NET ASSETS							
Operating Fund	3,694	-	3,694	31,216	-	558	-
Undesignated - Fixed Assets	6,680	-	6,680	-	-	-	-
Community Benefit Funds	3,812,972	-	3,812,972	953,018	-	81,744	(66,575)
Designated Funds	4,193,917	(224,495)	3,969,422	259,630	-	89,683	(72,270)
Donor Advised Funds	796,771	-	796,771	58,073	-	16,883	(12,710)
Dunkirk Scholarships	1,553,492	-	1,553,492	20,550	24,033	33,334	(25,768)
Fredonia Scholarships	509,050	-	509,050	64,375	-	11,584	(9,485)
Miscellaneous Scholarships	3,249,302	-	3,249,302	58,501	-	69,209	(52,641)
Westfield Scholarships	541,347	-	541,347	2,560	-	11,505	(8,748)
Subtotal	14,667,225	(224,495)	14,442,730	1,447,923	24,033	314,500	(248,197)
Gift Annuities	(8,148)	-	(8,148)	-	-	1,309	(916)
Total net assets	14,659,077	(224,495)	14,434,582	1,447,923	24,033	315,809	(249,113)
TOTAL LIABILITIES & NET ASSETS	\$ 16,775,353	\$ (224,495)	\$ 16,550,858	\$ 1,592,148	\$ 68,349	\$ 359,105	\$ (283,583)

Unrealized Gains/(Losses) and Change in CSV Gift Annuities	Patron Dues, Miscellaneous Income	Grants	General and Administrative Expenses	Amazing County/ Special Fund Fundraising Expenses	New Fixed Asset	Charitable Fund Transfers	Change in Liability	Ending Liabilities and Net Assets
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350	\$ 350
-	-	-	-	-	-	-	(3,512)	70,100
(52,719)	-	(23,766)	(19,112)	(9,868)	-	-	-	2,094,229
<u>(5,430)</u>	<u>-</u>	<u>(67,379)</u>	<u>(3,697)</u>	<u>(41,023)</u>	<u>-</u>	<u>17,900</u>	<u>-</u>	<u>165,203</u>
<u>(58,149)</u>	<u>-</u>	<u>(91,145)</u>	<u>(22,809)</u>	<u>(50,891)</u>	<u>-</u>	<u>17,900</u>	<u>(3,162)</u>	<u>2,329,882</u>
-	31,898	-	(59,162)	-	(71,387)	72,000	-	8,817
-	-	-	(4,505)	-	71,387	-	-	73,562
(118,589)	-	(73,041)	(39,289)	-	-	(254,900)	-	4,295,340
(107,746)	-	(53,839)	(42,291)	-	-	177,500	-	4,220,089
(22,929)	-	(19,949)	(7,694)	(57,169)	-	(12,500)	-	738,776
(42,896)	-	(25,870)	(13,339)	(12,297)	-	-	-	1,511,239
(16,789)	-	(17,955)	(5,283)	-	-	-	-	535,497
(89,548)	-	(74,422)	(56,867)	-	-	-	-	3,103,534
<u>(14,283)</u>	<u>-</u>	<u>(16,280)</u>	<u>(5,315)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>510,786</u>
(412,780)	31,898	(281,356)	(233,745)	(69,466)	-	(17,900)	-	14,997,640
<u>(10,878)</u>	<u>-</u>	<u>-</u>	<u>(83)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,716)</u>
<u>(423,658)</u>	<u>31,898</u>	<u>(281,356)</u>	<u>(233,828)</u>	<u>(69,466)</u>	<u>-</u>	<u>(17,900)</u>	<u>-</u>	<u>14,978,924</u>
<u>\$ (481,807)</u>	<u>\$ 31,898</u>	<u>\$ (372,501)</u>	<u>\$ (256,637)</u>	<u>\$ (120,357)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,162)</u>	<u>\$ 17,308,806</u>

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