NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

April 20, 2010

To the Board of Directors of
Northern Chautauqua Community Foundation

We have audited the accompanying statements of financial position of the Northern Chautauqua Community Foundation (a nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Chautauqua Community Foundation as of December 31, 2009 and 2008, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 15 through 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the 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 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 taken as a whole.

Johnson, Mackowiak & Associates, LLP

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

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 49,147	$ 43,435
Investments	14,120,302	11,920,156
Cash surrender value of life insurance	16,885	16,116
Equipment, net	11,208	18,103
TOTAL ASSETS	$ 14,197,542	$ 11,997,810
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	$ -	$ 89
Gift annuities payable	84,749	90,255
Funds held for agencies	1,742,805	1,458,018
Funds held for pass-through	150,858	83,351
Total liabilities	1,978,412	1,631,713
Unrestricted Net Assets		
Operating	(723)	24,288
Unreserved - fixed assets	11,207	18,103
Gift annuities	4,307	(4,022)
Community benefit funds	2,851,610	2,367,182
Designated funds	3,323,657	2,830,484
Donor advised funds	711,832	594,127
Dunkirk scholarship funds	1,394,420	1,167,327
Fredonia scholarship funds	469,953	386,040
Miscellaneous scholarship funds	2,940,744	2,539,877
Westfield scholarship funds	512,123	442,691
Total net assets	12,219,130	10,366,097
TOTAL LIABILITIES AND NET ASSETS	$ 14,197,542	$ 11,997,810

See accompanying notes and auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	$ 167,320	$ 850,494
Special fund fundraising revenue	31,359	26,945
Interest and dividends	272,107	311,284
Realized gains (losses)	(218,409)	(262,361)
Unrealized gains (losses)	2,105,174	(3,124,489)
Patron dues and miscellaneous income	33,369	32,975
Change in value of charitable gift annuities	(8,654)	(21,075)
Change in cash surrender value of life insurance	769	785
Total support and revenue	2,383,035	(2,185,442)
EXPENSES		
Grants	285,003	387,869
General and administrative expenses	214,701	232,565
Special fund fundraising expenses	30,298	20,875
Total expenses	530,002	641,309
CHANGE IN NET ASSETS	1,853,033	(2,826,751)
NET ASSETS AT JANUARY 1 (before restatement)	10,366,097	13,064,975
Prior period adjustment	-	127,873
NET ASSETS AT JANUARY 1 (as restated)	10,366,097	13,192,848
NET ASSETS AT DECEMBER 31	$ 12,219,130	$ 10,366,097

See accompanying notes and auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 1,853,033	$ (2,826,751)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Net realized (gains) losses on investments	218,409	262,361
Net unrealized (gains) losses on investments	(2,105,174)	3,124,489
Change in value of split-interest agreement	8,654	21,075
Change in cash surrender value of life insurance	(769)	(785)
Depreciation expense	7,620	9,207
Change in operating assets and liabilities:		
Grants payable	(89)	(511)
Gift annuity payable	(5,506)	5,670
Funds held for agencies	284,787	(47,616)
Funds held for pass-through	67,507	4,620
Cash provided by operating activities	328,472	551,759
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(725)	-
Proceeds from redemptions	7,754,308	10,481,613
Expenditures for purchase	(8,076,343)	(11,872,375)
Proceeds from life insurance redemption	-	833,842
Cash used for investing activities	(322,760)	(556,920)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,712	(5,161)
CASH AND CASH EQUIVALENTS, beginning	43,435	48,596
CASH AND CASH EQUIVALENTS, ending	$ 49,147	$ 43,435

See accompanying notes and auditor's report

NORTHERN CHAUTAUQUA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

INCOME TAX STATUS - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from New York State income taxes under Article 7-A of the New York State Executive Law. Therefore, no provision has been made for Federal or New York State income taxes in the accompanying financial statements. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an Agency other than a private foundation under Section 509(a)(2) of the Internal Revenue Code. The Foundation adopted the provisions of FASB 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

MANAGEMENT OF ENDOWNMENT 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. The spending rate in effect until December 31, 2008 was 4.5% at which time the Board of Directors voted to lower the rate to 4.0% effective January 1, 2009. In February 2009, the Board of Directors lowered the spending rate from 4.0% to 2.5% retroactive to January 1, 2009.

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.

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. Cash and cash equivalents in the amount of $933,841 and $915,562 invested with HSBC Bank were classified as investments as of December 31, 2009 and 2008, respectively.

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.

RECLASSIFICATION - Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

NOTE 2 – FUNDS HELD FOR AGENCIES

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

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

As of December 31, 2009 and 2008, the Foundation was the owner of approximately twenty three agency funds with a combined value of $1,742,805 and $1,458,018, respectively. The Foundation also had approximately nine pass-through funds with a combined value of $150,858 and $83,351 as of December 31, 2009 and 2008, 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 – EQUIPMENT

Equipment consisted of the following as of December 31:

	2009	2008
Office furniture and equipment	$ 52,326	$ 51,601
Less: Accumulated depreciation	41,118	33,498
EQUIPMENT, net	$ 11,208	$ 18,103

Office furniture and equipment is depreciated using the straight-line method over an estimated life of five years and totaled $7,620 and $9,207 for the years ended December 31, 2009 and 2008, respectively.

NOTE 4 – LEASES

The Foundation currently rents office space in Dunkirk, New York. The lease agreement was signed for a three-year period that expired December 31, 2007. Rent expense totaled $7,140 and $7,140 for the years ending December 31, 2009 and 2008 respectively. The organization is currently operating on a month-to-month basis with regards to its office space.

NOTE 5 - INVESTMENTS

The Foundation carries investments at market value for financial statement purposes. Endowment funds were invested as follows at December 31, 2009:

Investment Description	Cost	Market
HSBC Bank - Courier Capital:		
Cash & Cash Equivalents	$ 732,782	$ 732,782
Fixed Income	3,909,967	3,977,731
Equities	5,522	5,413
HSBC Bank - Manning & Napier:		
Cash & Cash Equivalents	201,059	201,059
Fixed Income	465,723	472,751
Equities	3,613,549	3,995,784
TIFF Funds:		
US Equity Fund	2,391,532	1,917,702
International Equity Fund	225,591	198,849
Vanguard Funds:		
500 Index Fund	998,703	890,990
Total International Stock Index Fund	146,847	167,428
Total Stock Market Index Fund	1,323,015	1,311,616
Emerging Markets Stock Index Fund	309,821	248,197
TOTAL	$ 14,324,111	$ 14,120,302

NOTE 5 - INVESTMENTS, continued

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

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

The FASB Statement on Fair Value Measurements 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 the FASB Statement 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.

NOTE 5 - INVESTMENTS, continued

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, 2009 and 2008.

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.

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, 2009:

	Level 1	Level 2	Level 3
Stock	$ 3,113,330	$ -	$ -
Bonds	4,450,482	-	-
Mutual funds	5,622,649	-	-
Money market funds	-	933,841	-
	$ 13,186,461	$ 933,841	$ -

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3
Stock	$ 2,203,201	$ -	$ -
Bonds	4,663,925	-	-
Mutual funds	4,136,395	-	-
Money market funds	-	916,635	-
	$ 11,003,521	$ 916,635	$ -

NOTE 6 – GIFT ANNUITIES PAYABLE

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

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

2009	Discount Rate	Lifetime Expectancy	Amount of Payable
Annuity I	7.30%	8.8	$ 11,890
Annuity II	9.50%	5.0	29,372
Annuity V	7.50%	8.3	12,096
Annuity VII	5.90%	14.6	20,752
Annuity VIII	6.70%	10.6	10,639
TOTAL			$ 84,749

2008	Discount Rate	Lifetime Expectancy	Amount of Payable
Annuity I	7.50%	9.4	$ 12,518
Annuity II	10.10%	5.3	32,527
Annuity V	7.70%	8.9	12,764
Annuity VII	6.20%	15.3	21,279
Annuity VIII	7.00%	11.2	11,167
TOTAL			$ 90,255

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:

	2009	2008
Additions:		
Contributions	$ 119,003	$ 131,061
Special fund fundraising revenues	24,340	61,013
Realized gains (losses)	(31,278)	(37,830)
Unrealized gains (losses)	303,058	(464,308)
Investment income	39,067	45,313
Total additions	454,190	(264,751)
Deductions:		
Grants	(76,780)	(85,622)
Special fund fundraising expenses	(9,594)	(47,219)
Administrative expenses	(15,522)	(19,669)
Total deductions	(101,896)	(152,510)
Change in balance	352,294	(417,261)
Balance at beginning of year (before restatement)	1,541,369	2,086,503
Prior period adjustment	-	(127,873)
Balance at beginning of year (as restated)	1,541,369	1,958,630
Balance end of year	$ 1,893,663	$ 1,541,369

NOTE 8 - ENDOWMENTS

The Foundation's endowments consist of approximately 306 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.

NOTE 8 - ENDOWMENTS, continued

Interpretation of Relevant Law

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.

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, 2009 and 2008 resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions. Under UMIFA, the Foundation is limited to spending only the current income from these funds with deficiencies without permission from the donor. The Board of Directors established September 30th as the look at date to identify funds with deficiencies. At September 30, 2009, the Foundation identified 94 funds with deficiencies whose historical gift value totaled $5,055,754 and whose fair value totaled $4,756,925. At September 30, 2008, the Foundation identified 31 funds with deficiencies whose historical gift value totaled $1,706,730 and whose fair market value totaled $1,586,925. At December 31, 2009 and 2008, the fair market value of these funds totaled $4,973,728 and $1,405,224, respectively. At December 31, 2009, only 52 of the funds identified as funds with deficiencies at September 30, 2009 continued to have deficiencies.

To support granting making from funds with deficiencies, the Board of Directors created two contingency funds in 2008. 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. One contingency fund was to support granting making and the other was to support operational expenses. Both funds consisted of $21,000. At December 31, 2009 and 2008, $27,505 ($11,971 for operational expenses and $15,534 for grant making) and $0 of these funds have been utilized, respectively.

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, overtime, to provide an average rate of return of approximately 5% after inflation annually. Actual returns in any given year may vary from this amount.

NOTE 8 - ENDOWMENTS, continued

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 - PRIOR PERIOD ADJUSTMENT

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