

Community Foundation of the Lowcountry Inc. & Affiliates

Combined Financial Statements

For the years ended

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Community Foundation of the Lowcountry, Inc. & Affiliates
Hilton Head Island, South Carolina

We have audited the accompanying financial statements of Community Foundation of the Lowcountry, Inc. (a nonprofit organization) & affiliates, which are comprised of the combined statement of financial position as of June 30, 2016 and 2015, and the related combined 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 control 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 audit. 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 from 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 control 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 Community Foundation of the Lowcountry, Inc. & affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lucas & Associates CPAs, P.C.

Lucas & Associates CPAs, P.C.

Savannah, Georgia
October 24, 2016

Community Foundation of the Lowcountry, Inc. & Affiliates
 Combined Statements of Financial Position
 June 30,

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	1,762,374	1,731,501
Pledges receivable, net	140,000	140,000
Assets held - charitable remainder trusts	2,120,533	2,310,671
Investments	47,007,562	49,391,423
Capital Counsel	1,975,653	2,453,923
The Jim and Margaret Krum Foundation, Inc.	9,718,657	10,437,733
Property and equipment, net	457,295	494,470
Other assets	29,555	34,994
Total Assets	<u><u>63,211,629</u></u>	<u><u>66,994,715</u></u>
 Liabilities and net assets		
Accounts payable and accrued expenses	102,832	64,699
Grants payable	1,694,851	2,338,373
Annuities payable	2,475,276	2,587,960
Funds held for others - agency funds	3,067,351	3,061,774
Total Liabilities	<u><u>7,340,310</u></u>	<u><u>8,052,806</u></u>
 Unrestricted	55,871,319	58,941,909
Temporarily restricted	0	0
Permanently restricted	0	0
Total Net Assets	<u><u>55,871,319</u></u>	<u><u>58,941,909</u></u>
Total liabilities and net assets	<u><u>63,211,629</u></u>	<u><u>66,994,715</u></u>

Community Foundation of the Lowcountry, Inc. & Affiliates
 Combined Statements of Activities and Change in Net Assets
 For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Income-unrestricted		
Contributions received	4,438,558	2,773,108
Net realized gains/losses	(1,656,751)	1,056,144
Net unrealized gains/losses	(1,408,075)	(2,005,906)
Investment income	1,576,412	1,066,806
Rental income	12,300	21,285
Other	730,219	656,537
Total Revenues	<u><u>3,692,663</u></u>	<u><u>3,567,974</u></u>
General and administrative expenses-unrestricted		
Grants paid	4,201,411	3,863,384
Program expenses	293,569	164,535
Salaries and benefits	801,580	797,793
Professional and administrative fees	1,010,936	1,011,442
Supplies and other	201,245	129,813
Fundraising	87,336	59,181
Changes in value of split interest agreements	130,001	118,971
Depreciation	37,175	37,175
Total Expenses	<u><u>6,763,253</u></u>	<u><u>6,182,294</u></u>
Increase (decrease) in unrestricted net assets	<u>(3,070,590)</u>	<u>(2,614,320)</u>
Increase (decrease) in net assets	(3,070,590)	(2,614,320)
Net assets beginning of year	58,941,909	61,556,229
Net assets at end of year	<u><u>55,871,319</u></u>	<u><u>58,941,909</u></u>

Community Foundation of the Lowcountry, Inc. & Affiliates
 Combined Statements of Cash Flow
 For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions	\$ 4,438,558	\$ 2,773,108
Cash received for rental income	12,300	21,285
Cash received from interest and dividend income	1,576,412	1,066,806
Cash received from other	735,658	656,537
Cash paid for grants	(4,844,933)	(4,228,658)
Cash paid for general, program, and administrative expenses	(2,269,197)	(2,096,460)
Cash paid for fundraising	<u>(87,336)</u>	<u>(59,181)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(438,538)</u>	<u>(1,866,563)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases and sales of investments	<u>469,411</u>	<u>2,110,276</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>469,411</u>	<u>2,110,276</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>0</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,873	243,713
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,731,501</u>	<u>1,487,788</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,762,374</u>	<u>\$ 1,731,501</u>
Reconciliation of change in net assets to net cash flows from operating activities:		
Change in net assets	\$ (3,070,590)	\$ (2,614,320)
Adjustments:		
Decrease (increase) in accounts receivable	0	0
Decrease (increase) in other assets	5,439	(28,030)
Decrease (increase) in change of value in investments	3,194,827	1,068,733
Increase (decrease) in accounts payable and accrued expenses	38,133	35,153
Increase (decrease) in grants payable	(643,522)	(365,274)
Depreciation and amortization	37,175	37,175
Net cash flows from operating activities	<u>\$ (438,538)</u>	<u>\$ (1,866,563)</u>

COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. & AFFILIATES
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 the Community Foundation of the Lowcountry, Inc. (“CFL”) and its supporting organizations, the Hilton Head Island Foundation, Inc. (“HHIF”), and the Jim and Margaret Krum Foundation, Inc., collectively referred to as the “Foundation”. All balances and transactions between the three 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 Directors of the CFL elects the directors 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.

The Jim and Margaret Krum Foundation, Inc. will further the CFL’s exempt purposes by making grants directly to the Foundation and to organizations which are, or could be, supported by the Foundation consistent with its own charitable purposes.

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 PREPARATION

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board. In accordance with GAAP, the Foundation reports information regarding its net assets and activities as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any external restrictions. Currently, the Foundation has no restricted assets.

ESTIMATES

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

INCOME TAXES

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

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COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. & AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented in the statements of financial position and 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. 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 Statements of Activities and Change in Net Assets.

CONTRIBUTIONS

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

PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be received within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be received in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates for United States government securities having maturities that correspond to the years in which the promises are expected to be received.

Amortization of discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Foundation uses the allowance method to determine the uncollectible portion of unconditional promises to give. The allowance to 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.

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COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. & AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

GRANTS PAYABLE

Grants are recorded when specifically authorized by the Board of Directors of the Foundation and when the grant award is communicated to the grantee.

ANNUITIES PAYABLE

The Foundation has received certain unconditional promises to provide the 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

Funds held for others as agency funds represent component funds established by unaffiliated not-for-profit organizations for their own benefit.

DONATED ASSETS

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

DONATED SERVICES

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

NET ASSETS

The Foundation's net assets and its support and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions using two classifications: unrestricted and temporarily restricted. Most contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance power allows the Board of Directors 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.

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.

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COMMUNITY FOUNDATION OF THE LOWCOUNTRY, INC. & AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

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 a discount rate of 2.6% for the years ended June 30, 2016 and 2015. A range of 2%-9% has been used in prior periods.

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 a discount rate of 2.6%, 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 Statements of Activities and Change in Net Assets.

SPENDING POLICY

The Foundation has adopted a policy whereby it limits the amount of spending that may be utilized for grant purposes from endowments to 4.5% (5% in fiscal year 2015) of the average daily balance of investments over the prior twenty quarters. However, in no event shall the distribution exceed 4.5% (5% in fiscal year 2015) of the average daily balance of the last quarter. 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 several financial institutions in excess of FDIC insured limits. Based on the credit rating of these institutions, management believes there is no significant credit risk related to deposits.

NOTE C – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 24, 2016, the date the financial statements were available to be issued.

NOTE D – INVESTMENTS

The carrying amounts of investments at June 30th are included in the Foundation's Combined Statements of Financial Position as follows:

	2016	2015
Assets held – charitable remainder trusts	\$ 2,120,533	\$ 2,310,671
Investments	58,701,872	2,283,079
Total	\$ <u>60,822,405</u>	\$ <u>64,593,750</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS

Investments at June 30th are classified as follows:

	2016	2015
Marketable Equitable Securities	\$ 30,786,455	\$ 40,708,789
Fixed Income	9,930,922	11,464,351
Other	20,105,028	12,420,610
Total	\$ <u>60,822,405</u>	\$ <u>64,593,750</u>

Net investment gains (losses) are comprised of the following for the years ending June 30, 2016 and 2015:

	2016	2015
Net realized gains/(losses)	\$ (1,656,751)	\$ 1,056,144
Net unrealized gains/(losses)	(1,408,075)	(2,005,906)
Interest and dividend income	1,576,412	1,066,806
Total	\$ <u>(1,488,414)</u>	\$ <u>117,004</u>

NOTE E – FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework 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). The 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:

- A. Quoted prices for similar assets or liabilities in active markets;
- B. Quoted prices for identical or similar assets or liabilities in inactive markets;
- C. Inputs other than quoted prices that are observable for the asset or liability;
- D. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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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 June 30, 2016 and 2015.

Mutual Funds: Value at the net asset value (NAV) of shares held by the Foundation at year end. These typically include investments in marketable equity and fixed income securities.

Money Market Funds: Value based on inputs derived from observable market data based on US currency.

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 the 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, with the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016 and 2015:

Assets at Fair Value as of June 30, 2016				
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 53,362,332	7,460,073	0	60,822,405
Money Market Funds	1,762,374	0	0	1,762,374
Total assets at fair value	\$ 55,124,706	7,460,073	0	62,584,779

Assets at Fair Value as of June 30, 2015				
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 56,620,867	\$ 7,972,883	\$ 0	\$ 64,593,750
Money Market Funds	1,731,501	0	0	1,731,501
Total assets at fair value	\$ 58,352,368	\$ 7,972,883	\$ 0	\$ 66,325,251

The Foundation did not have any level 3 assets for the years ended June 30, 2016 and 2015.

NOTE F – PLEDGES RECEIVABLE

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

	2016	2015
Receivable in less than one year	\$ 0	\$ 0
Receivable in one to five years	0	0
Receivable in six or more years	300,000	300,000
Pledges receivable, gross	300,000	300,000
Less: discount	(160,000)	(160,000)
Pledges receivable, net	\$ 140,000	\$ 140,000

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NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE G – FIXED ASSETS

Property and equipment consist of the following at June 30:

	2016		2015
Land	\$ 160,000	\$	160,000
Building	944,608		944,608
Furniture and equipment	87,414		87,414
Total property and equipment	1,192,022		1,192,022
Less: accumulated depreciation	(734,728)		(697,552)
Property and equipment, net	\$ 457,294	\$	494,470

NOTE H – OPERATING LEASES

The Foundation leases office space to various tenants at various terms with a cumulative annual rental revenue of \$12,300 for the year ended June 30, 2016 and \$21,285 for the year ended June 30, 2015.

The Foundation leases various office equipment from three organizations with payments ranging from approximately \$1,812 to \$9,099 annually, expiring at various times through June 2017.

Lease expense for the years ended June 30, 2016 and 2015 amounted to approximately \$17,676 and \$10,912, respectively.

NOTE I – EMPLOYEES' RETIREMENT SAVINGS PLAN

The Foundation sponsors a defined contribution retirement savings plan for all regular, full-time employees who are twenty-one years of age and have completed one year of service. Under the plan, employees may contribute up to 15% of their annual compensation. The Foundation may also contribute a discretionary amount of the participants' compensation each year. The Foundation contributed approximately \$21,691 and \$20,973 to the plan during the years ending June 30, 2016 and 2015, respectively.

NOTE J – FUND CLASSIFICATION

The activities and balances of the Foundation are classified for internal purposes into the following groups:

Unrestricted (Discretionary) – The Foundation's Unrestricted Funds are not designated for a specific charitable beneficiary. These funds are disbursed at the discretion of the Foundation's Board of Directors in response to requests from nonprofit organizations and based on an assessment of the most pressing needs. Unrestricted funds are also used to pay administrative expenses.

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Field-of-Interest – Field-of-Interest Funds have been created to support a specific field-of-interest, such as health or education, or a specific geographic area, such as Jasper County or the Greater Bluffton Community. The funds created by giving circles are also funds of this type.

Donor-Advised – Donor-Advised Funds are created by donors who wish to remain active in their philanthropy and have access to the Foundation’s professional advice and management. Donors may suggest charitable distributions from funds they have established, although the Foundation’s Board of Directors has final authority to approve or deny all such grants. Technically, donor-advised funds are a type of unrestricted fund.

Designated – Designated funds have been established by a donor to provide grants to a specific charitable agency or for a specific charitable purpose. The Board of Directors accepts the donor’s designation as long as the agency or purpose continues to serve the public interest. Scholarship funds and project funds are included in this category.

ADDITIONAL INFORMATION – All fund types may be established either as endowed or non-endowed funds. Endowed funds are intended to be permanent funds and are subject to the Foundation’s spending policy. Non-endowed funds are intended to be spent down over time, and are 100% spendable.

At June 30, 2016 and 2015, the balances of these internally imposed restrictions were:

	2016	2015
Net Assets – spendable	\$ 18,342,426	\$ 17,868,420
Net Assets – accumulated earnings	1,032,624	4,865,318
Net Assets – nonspendable endowment	36,496,269	36,208,171
Total net assets	<u>55,871,319</u>	<u>58,941,909</u>

NOTE K – INTERNAL FEES CHARGED TO FUNDS

The Foundation enters into agreements with donors when a fund is established that includes an internal administrative fee. The current fee schedules range from 1% to 2% of annual average daily balance of the market value of the fund based on the type of fund and services required. Minimum administrative fee is \$200 annually.