

**THE FOUNDATION FOR
ENHANCING COMMUNITIES**

YEAR ENDED DECEMBER 31, 2008

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statement of Financial Position	1
Statement of Activities	2
Statement of Cash Flows	3
Notes to Financial Statements	4

Supplementary Information:

Schedule of Functional Expenses	11
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**THE FOUNDATION FOR
ENHANCING COMMUNITIES
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2008
WITH
INDEPENDENT AUDITOR'S REPORT**

MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Directors
The Foundation for Enhancing Communities

We have audited the accompanying statement of financial position of The Foundation for Enhancing Communities (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. The prior year summarized comparative information has been derived from the Foundation's financial statements and, in our report dated March 19, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the December 31, 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses presented in the supplementary information is presented for the purpose of additional analysis of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maher Duesel

Harrisburg, Pennsylvania
February 19, 2009

THE FOUNDATION FOR ENHANCING COMMUNITIES
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008
(With Comparative Totals For Year Ended December 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
Revenue, Gains, and Other Support:					
Contributions	\$ 4,604,982	\$ 924,832	\$ -	\$ 5,529,814	\$ 5,639,071
Income (loss) on investments	(14,609,219)	-	-	(14,609,219)	2,595,178
Fee income	113,184	-	-	113,184	74,902
Other income	150,107	-	-	150,107	136,864
Split-interest agreements	-	464,281	-	464,281	257,723
Change in value of split-interest agreements	-	(1,373,182)	-	(1,373,182)	72,786
Net assets released from restriction support	1,559,254	(1,467,142)	(92,112)	-	-
Total revenue, gains, and other support	(8,181,692)	(1,451,211)	(92,112)	(9,725,015)	8,776,524
Expenses:					
Program services	6,486,099	-	-	6,486,099	6,306,731
General and administrative	682,731	-	-	682,731	603,197
Asset development	148,874	-	-	148,874	229,668
Total expenses	7,317,704	-	-	7,317,704	7,139,596
Change in Net Assets	(15,499,396)	(1,451,211)	(92,112)	(17,042,719)	1,636,928
Net Assets:					
Beginning of year	49,576,797	6,952,828	203,112	56,732,737	55,095,809
End of year	\$34,077,401	\$ 5,501,617	\$ 111,000	\$39,690,018	\$56,732,737

The accompanying notes are an integral part of these financial statements.

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Foundation for Enhancing Communities (the Foundation) is a non-profit community foundation. Its primary purpose is to attract, manage, and disburse funds for philanthropic purposes to organizations in the greater Harrisburg area.

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The net realized and unrealized loss on investments presented in the Statement of Cash Flows for the year ended December 31, 2008 is reported in the financial statements as follows:

Net realized and unrealized loss on investments	\$ (16,032,905)
Attributable to assets held for resource providers	<u>(1,444,314)</u>
	<u>\$ (17,477,219)</u>

Property and Equipment

Land, furniture, and equipment are recorded at cost or fair market value (if donated), less accumulated depreciation. Donated assets are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Depreciation policies reflect the use of the straight-line method with useful lives ranging from 2 to 10 years. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments.

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax Status

The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code (Code) and is a publicly supported organization as described in Section 509(a)(1) of the Code, and files Form 990 - Return of Organization Exempt from Income Tax, on an annual basis.

Comparative 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 accounting principles generally accepted in the United States of America. 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.

Risks and Uncertainties

Financial instruments, which potentially expose the Foundation to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, the Foundation maintains cash balances only with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amount reported on the Statement of Financial Position.

Recent Accounting Pronouncement

In July 2006, FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 is effective for non-public entities for fiscal years beginning after December 15, 2008.

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

5. INVESTMENTS

The Foundation's investments are, in part, comprised of funds held awaiting distribution to approved recipients of such funds and investments held under custodial agreements.

Such invested funds are, upon approval of the Board of Directors, either disbursed in accordance with the original donor's request from a disbursing account or income is distributed at the discretion of the Board of Directors from investments held under custodial agreements.

Investments consist of the following at December 31, 2008:

	Cost/ Donated Value	Fair Value	Net Unrealized Appreciation (Depreciation)
Common stock	\$ 118,207	\$ 115,838	\$ (2,369)
Mutual funds	42,539,166	36,606,111	(5,933,055)
Land	111,000	111,000	-
	<u>\$ 42,768,373</u>	<u>\$ 36,832,949</u>	<u>\$ (5,935,424)</u>

Income on investments consists of the following for the year ended December 31, 2008:

Interest and dividends	\$ 1,423,686
Net realized and unrealized loss	(16,032,905)
	<u>\$ (14,609,219)</u>

Subsequent to year-end, the Foundation experienced additional declines in fair value due to changing market conditions. Through January 31, 2009, the Foundation's fair value decreased by approximately \$1.8 million. The Foundation is aware of these declines, and will continue to closely monitor these changes in fair value.

6. SPLIT-INTEREST AGREEMENTS

The Foundation is trustee for several charitable remainder unitrusts (unitrusts) and charitable lead trusts (lead trusts) with a fair market value of the assets at December 31, 2008 of

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

9. OFFICE LEASE

The Foundation conducts its operations from an office that was leased under an operating lease that expired in July 2002. The lease was renewed in August 2002 and amended in July 2006 extending the lease for ten years. The lease was amended again in April 2007 for additional office space. All other terms of the lease remained the same.

Under the conditions of the lease, rent is \$16.50 per rentable square foot with a 3% escalation clause on each one year anniversary. An additional rate of \$1.29 per rentable square foot will be added for ten years to repay the lessor's costs of renovation. The escalation clause does not apply to this additional rate.

During the year ended December 31, 2008, rent under the current long-term lease was \$111,151.

Future minimum rental payments under the operating lease are as follows:

2009	\$ 114,309
2010	117,566
2011	120,926
2012	124,387
2013	127,946
2014-2016	370,721
Total Future Payments	<u>\$ 975,855</u>

10. BENEFICIAL INTEREST IN TRUST HELD BY OTHERS

During the year ended December 31, 2008, certain assets of the Foundation, previously reported as beneficial interests in trust held by others and classified as permanently restricted, were released to the Foundation as the new trustee of the funds. These funds are recorded as charitable remainder trusts and reported as temporarily restricted.

SUPPLEMENTARY INFORMATION

THE FOUNDATION FOR ENHANCING COMMUNITIES

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008

(With Comparative Totals For Year Ended December 31, 2007)

	Program Services	General and Administrative	Asset Development	Total 2008	Total 2007
Expenses:					
Grants	\$ 3,818,973	\$ -	\$ -	\$ 3,818,973	\$ 3,258,617
Salaries and benefits	382,907	438,207	72,993	894,107	828,679
Staff development	3,731	4,270	711	8,712	22,267
Professional fees	42,685	48,849	8,137	99,671	151,452
Marketing	17,856	20,433	3,404	41,695	39,998
Dues and fees	4,470	5,116	852	10,438	12,932
Office	18,631	21,321	3,551	43,503	41,981
Administrative and custodial fees	4,443	5,084	847	10,374	11,005
Technology	29,820	34,126	5,684	69,630	75,990
Miscellaneous	15,142	17,329	2,887	35,358	18,179
Depreciation	4,132	4,729	788	9,649	9,522
Printing	2,175	2,488	414	5,077	10,139
Travel and meetings	10,384	11,883	1,979	24,246	18,195
Rent and office maintenance	51,071	58,447	9,737	119,255	113,801
Insurance	9,128	10,447	1,740	21,315	22,185
Special projects	2,070,551	-	-	2,070,551	2,442,131
Special events	-	-	35,150	35,150	62,523
Total expenses	\$ 6,486,099	\$ 682,731	\$ 148,874	\$ 7,317,704	\$ 7,139,596