

Consolidated Statements of Financial Position

December 31,	2008	2007
ASSETS		
Cash and cash equivalents	\$ 33,705,925	\$ 61,887,775
Investments (note 3)	1,491,968,108	2,066,329,336
Receivables	1,804,042	2,463,666
Pension asset (note 4)	—	2,340,380
Fixed assets, net	2,389,736	2,669,866
Total assets	\$ 1,529,867,811	\$ 2,135,691,023
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 556,669	\$ 534,155
Grants payable	38,348,137	35,982,319
Deferred rent credits (note 5)	2,813,291	2,857,648
Pension liability (note 4)	2,705,909	—
Accrued postretirement benefit obligation (note 4)	2,617,039	2,440,927
Total liabilities	47,041,045	41,815,049
Net assets:		
Unrestricted:		
Endowment	1,429,833,670	2,030,947,358
Available for grants	50,114,690	55,827,774
Available for administration	2,878,406	7,100,842
Total net assets	1,482,826,766	2,093,875,974
Total liabilities and net assets	\$ 1,529,867,811	\$ 2,135,691,023

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

Years ended December 31,	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues:		
Contributions	\$ 59,813,005	\$ 175,657,416
Investment return	(474,020,489)	178,729,186
Less:		
Investment expenses	(11,298,935)	(12,189,425)
Provision for unrelated business income taxes	(1,166,543)	(1,188,125)
	(486,485,967)	165,351,636
Other	45,080	40,000
Net assets released from restrictions	—	1,003,354
Total unrestricted revenues	(426,627,882)	342,052,406
Expenses:		
Grants and services to beneficiaries	167,769,641	166,053,450
September 11th Fund grants	—	1,003,354
Grantmaking expenses	4,185,957	4,444,535
Administrative expenses	5,320,580	5,808,926
Development expenses	2,361,511	2,161,614
Total expenses	179,637,689	179,471,879
(Decrease) increase in unrestricted net assets before impact of SFAS No. 158	(606,265,571)	162,580,527
Impact of SFAS No. 158 (note 4)	(4,783,637)	(1,612,556)
(Decrease) increase in unrestricted net asset	(611,049,208)	160,967,971
Changes in temporarily restricted net assets:		
Contributions	—	22,922
Interest and dividends	—	26,482
Net assets released from restrictions	—	(1,003,354)
Decrease in temporarily restricted net assets	—	(953,950)
(Decrease) increase in net assets	(611,049,208)	160,014,021
Net assets at beginning of year	2,093,875,974	1,933,861,953
Net assets at end of year	\$ 1,482,826,766	\$ 2,093,875,974

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (611,049,208)	\$ 160,014,021
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Net depreciation (appreciation) in fair value of investments	531,441,730	(104,420,640)
Depreciation and amortization expense	318,576	557,248
Impact of SFAS No. 158	4,783,637	1,612,556
Decrease (increase) in receivables	659,624	(416,207)
Increase in pension asset	—	(572,843)
Increase (decrease) in accounts payable	22,514	(31,153)
Increase (decrease) in grants payable	2,365,818	(70,728,451)
(Decrease) increase in deferred rent credits	(44,357)	1,006,228
Increase in pension liability	218,298	—
Increase in accrued postretirement benefit obligation	220,466	234,867
Net cash used in operating activities	(71,062,902)	(12,744,374)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(615,129,757)	(483,016,050)
Proceeds from sales of investments	658,049,255	525,947,579
Capital expenditures	(38,446)	(47,649)
Net cash provided by investing activities	42,881,052	42,883,880
Net (decrease) increase in cash and cash equivalents	(28,181,850)	30,139,506
Cash and cash equivalents at beginning of year	61,887,775	31,748,269
Cash and cash equivalents at end of year	\$ 33,705,925	\$ 61,887,775
Supplemental disclosure of cash flow information:		
Taxes paid on unrelated business income	\$ 1,166,543	\$ 1,188,125

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Organization

The New York Community Trust and Community Funds, Inc. (including its Long Island and Westchester Divisions) (The Trust) are community foundations created to build permanent charitable endowments for the areas they serve. The Trust, as the consolidated foundations are hereinafter referred to, is tax exempt under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined not to be a private foundation under Section 509(a)(1) of the Code. The Trust administers nearly 2,000 individual charitable funds, each established with an instrument of gift describing either the general or specific purposes for which grants are to be made, usually from income only, but in some cases from principal.

(2) Summary of Significant Accounting Policies

Accounting standards provide that if the governing body of an organization has the ability to remove a donor restriction, the contributions should be classified as unrestricted net assets. However, under New York State law and The Trust's governing instruments, the assets are held as endowment funds until such time (if ever) as the governing body deems it prudent and appropriate to expend some part of the principal or appreciation. Accordingly, the consolidated financial statements classify all net assets as unrestricted, except for those net assets restricted for the September 11th Fund, but segregate the portion that is held as endowment from the funds that are currently available for grants and administration.

Cash equivalents represent short-term investments with original maturities of 90 days or less, except for those short-term investments managed as part of long-term investment strategies.

Fixed assets are recorded at cost and are depreciated on a straight-line basis over the estimated life of the respective asset. Leasehold improvements are depreciated over the life of the respective improvement or the remaining term of the lease, whichever is shorter. Fixed assets are reported net of accumulated depreciation of \$1,425,942 in 2008 and \$1,107,366 in 2007.

Investment expenses include fees for bank trustees, investment managers, and custodians.

Grants and services to beneficiaries are expensed with approval of the Distribution Committee of The New York Community Trust (NYCT) or the Board of Directors of Community Funds, Inc. (CFI), and usually paid within one year.

The Trust has adopted a constant growth spending plan for many of its funds. This approach allows spending to increase at a steady rate within the confines of a floor, a ceiling and a cap. The spending plan is not applied to funds that are considered to be underwater, as defined by New York State law. At December 31, 2008 there were about 50 funds with a market value of approximately \$17 million, and a deficiency of about \$1.5 million, considered to be underwater.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based upon management's current judgments. Actual results could differ from these estimates.

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

(3) Investments

Effective January 1, 2008, The Trust adopted Statement of Financial Accounting Standards No. 157 (SFAS No. 157) *Fair Value Measurements*. SFAS No. 157 defines fair value as the exchange price that would be received for an asset, or paid to transfer a liability, (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This pronouncement does not require any new fair value measurements, but does establish a fair value hierarchy, which requires The Trust to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset such as quoted prices for similar assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The adoption of SFAS No. 157 did not have a material effect on the changes in net assets or the financial position of The Trust.

Most of The Trust's investments are in publicly traded securities or in commingled funds, including common trust funds that are invested in publicly traded securities. Fair value for these investments is based on quoted market prices and published net asset values. For other investments, fair value is determined based upon information provided by the fund managers, which is reviewed for reasonableness, independent appraisals and discounted cash flows.

NYCT investments are held in individual trusts at the bank designated by the donor in the instrument of gift. CFI invests for long-term growth of principal and income in real terms, consistent with a reasonable degree of risk. Donor advised funds that require a high degree of liquidity are invested in cash equivalents. The breakdown is as follows:

	NYCT	CFI	2008 Total	2007 Total
U.S. large cap equities	\$ 257,719,865	\$ 86,992,924	\$ 344,712,789	\$ 605,419,227
Fixed income	220,026,157	106,721,933	326,748,090	374,641,995
Cash equivalents	59,544,610	189,042,751	248,587,361	282,901,449
International equities	83,884,248	107,569,747	191,453,995	355,090,602
U.S. mid/small cap equities	54,433,052	68,940,669	123,373,721	160,113,323
Hedge funds	2,542,373	92,328,951	94,871,324	108,263,989
Private equity	758,709	70,418,541	71,177,250	72,784,090
Real estate	20,943,162	27,247,127	48,190,289	54,369,627
Balanced funds	—	33,254,987	33,254,987	40,257,729
Other	2,281,623	7,316,679	9,598,302	12,487,305
	<u>\$ 702,133,799</u>	<u>\$ 789,834,309</u>	<u>\$ 1,491,968,108</u>	<u>\$ 2,066,329,336</u>

Certain of The Trust's investments in private equity and real estate involve future cash commitments which amount to approximately \$46 million at December 31, 2008.

As of December 31, 2008 and 2007, 86.2% and 90.3% of investments, respectively, were readily marketable.

The following table presents The Trust's fair value hierarchy as defined by SFAS No. 157 at December 31, 2008:

	<u>2008 Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. large cap equities	\$ 344,712,789	\$ 304,360,892	\$ 40,351,897	\$ -
Fixed income	326,748,091	227,141,315	99,600,820	5,956
Cash equivalents	248,587,361	248,587,361	-	-
International equities	191,453,995	80,120,127	111,333,868	-
U.S. mid/small cap equities	123,373,721	97,710,506	25,663,215	-
Hedge funds	94,871,324	-	-	94,871,324
Private equity	71,177,250	-	-	71,177,250
Real estate	48,190,289	16,867,047	-	31,323,242
Balanced funds	33,254,986	21,006,360	12,248,626	-
Other	9,598,302	2,164,643	937,778	6,495,881
	<u>\$1,491,968,108</u>	<u>\$ 997,958,251</u>	<u>\$ 290,136,204</u>	<u>\$ 203,873,653</u>
Pension Plan Assets	<u>\$ 10,716,687</u>	<u>\$ 10,716,687</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2008, 13.7% of The Trust's investment portfolio was classified as Level 3. Of this, approximately 47% of the underlying assets within these investments are liquid. Level 3 assets consist primarily of investments in hedge funds, private equity and certain real estate investments. The fair value of the Level 3 assets has been determined primarily through independent appraisals and input from fund managers utilizing market values of comparable companies and discounted cash flow projections. These valuations are reviewed for reasonableness by the management of The Trust.

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2008 to December 31, 2008:

	<u>Level 3 Assets</u>
Fair value at January 1, 2008	\$ 200,021,917
Unrealized losses	(20,744,628)
Purchases and settlements (net)	<u>24,596,364</u>
Fair value at December 31, 2008	<u>\$ 203,873,653</u>

(4) Pension and Postretirement Medical Benefit Plans

The Trust administers a noncontributory defined benefit pension plan covering substantially all employees. Benefits are based on years of service and the employee's compensation during the five highest consecutive years during the last ten years of employment. The Trust also provides medical insurance benefits for its eligible retired employees.

In 2007, The Trust adopted Financial Accounting Standards Board Statement (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Obligations and funded status at December 31 are as follows:

	Pension benefits		Other benefits	
	2008	2007	2008	2007
Benefit obligation	\$ 13,422,596	\$ 12,312,451	\$ 2,617,039	\$ 2,440,927
Fair value of plan assets	10,716,687	14,652,831	—	—
Funded status	<u>\$ (2,705,909)</u>	<u>\$ 2,340,380</u>	<u>\$ (2,617,039)</u>	<u>\$ (2,440,927)</u>
Benefit costs	\$ 218,298	\$ 248,727	\$ 271,411	\$ 285,812
Benefits paid	\$ 240,662	\$ 287,915	\$ 50,945	\$ 50,945
Plan contribution	\$ —	\$ 821,570	\$ —	\$ —

Amounts recognized in the statement of financial position related to the impact of SFAS No. 158 for the year ended December 31, 2008 consist of a decrease to the pension asset of \$4,827,991 and a decrease to the accrued postretirement benefit obligation of \$44,354. The incremental effect of applying SFAS No. 158 is a decrease to unrestricted net assets of \$4,783,637.

The discount rates used to value the pension and other benefit plans range from 6.00% to 6.18%. The weighted average expected return on plan assets and rate of compensation increase for the calculation of the pension benefits is 8% and 4% as of December 31, 2008. The health care cost trend rate assumption for 2009 is 7.5% declining each year to 5% in 2014.

The pension plan is invested in a balanced portfolio of equity and fixed income securities. Annual projected benefit payments for the pension and other benefit plans are expected to average \$732,000 and \$108,000, through 2018, respectively.

The Trust also sponsors a defined contribution retirement plan for employees, in which contributions are based upon a specified percentage of salaries. The expense for this retirement plan was \$522,372 and \$478,659 in 2008 and 2007, respectively.

(5) Commitments

On March 30, 2004, The Trust entered into a lease agreement for office space expiring March 31, 2020. Future minimum rental payments are approximately \$1.2 million in 2009, \$1.3 million in 2010 through 2013, and a total of \$9.1 million thereafter through 2020.

Rental expense is recognized on a straight-line basis, in accordance with SFAS No. 13, *Accounting for Leases*. The excess of recognized expense over actual rent payments as well as landlord provided improvements has been recorded as deferred rent credits. Rent expense for the years ended December 31, 2008 and 2007 amounted to \$1,262,904 and \$1,246,411, respectively.

Independent Auditors' Report

Distribution Committee of The New York Community Trust and
Board of Directors of Community Funds, Inc.:

We have audited the accompanying consolidated statements of financial position of The New York Community Trust and Community Funds, Inc. (including its Long Island and Westchester Divisions) (collectively, The Trust) as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Trust's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

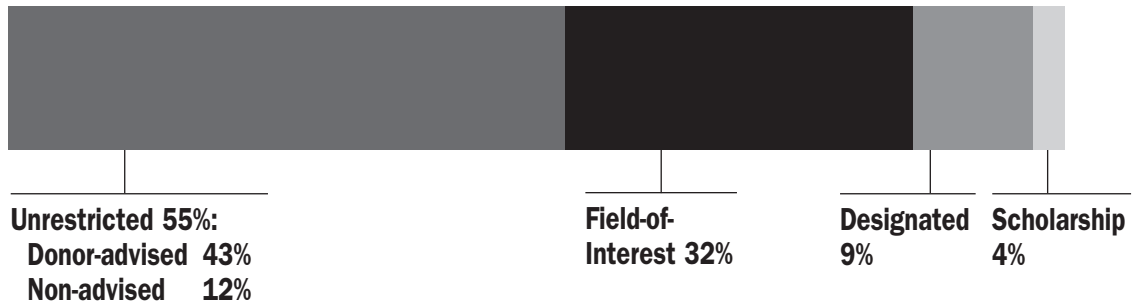
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The New York Community Trust and Community Funds, Inc. (including its Long Island and Westchester Divisions) as of December 31, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 13, 2009

ASSETS BY FUND TYPE



GRANTS BY PROGRAM AREAS



TOTAL EXPENDITURES



INVESTMENT COMMITTEE

Bruce W. Calvert, Chairman
 Principal
 CalCap Management LLC

Philip Y. Edwards
 Principal
 Curcio Webb

Kathleen A. Corbet
 Chief Executive Officer
 Cross Ridge Capital LLC

Donald R. Kurtz
 Retired Managing Director
 General Motors Investment Management Corp.

Elizabeth B. Dater
 Managing Director
 Angelo, Gordon & Co.

Lorie A. Slutsky
 President
 The New York Community Trust

Affiliation for identification purposes only.