

consolidated statements of financial position

THE NEW YORK COMMUNITY TRUST AND COMMUNITY FUNDS, INC.
(INCLUDING ITS LONG ISLAND AND WESTCHESTER DIVISIONS)

| December 31, | 2004 | 2003 |
|---|-------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 14,701,655 | 9,731,105 |
| Investments (note 3) | 1,789,216,458 | 1,762,883,728 |
| Receivables | 1,686,990 | 1,679,807 |
| Prepaid expenses (note 4) | 3,603,633 | 1,563,007 |
| Fixed assets, net | 1,608,804 | 301,974 |
| Total assets | \$ 1,810,817,540 | 1,776,159,621 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and other liabilities (note 4) | \$ 1,494,319 | 1,122,800 |
| Grants payable to beneficiaries | 23,686,820 | 20,924,262 |
| Total liabilities | 25,181,139 | 22,047,062 |
| Net assets: | | |
| Unrestricted: | | |
| Endowment | 1,727,628,987 | 1,653,874,736 |
| Available for grants | 38,371,789 | 39,819,481 |
| Available for administration | 6,854,692 | 6,253,737 |
| Total net assets – unrestricted | 1,772,855,468 | 1,699,947,954 |
| Temporarily restricted: | | |
| September 11th Fund (note 6) | 12,780,933 | 54,164,605 |
| Total net assets | 1,785,636,401 | 1,754,112,559 |
| Total liabilities and net assets | \$ 1,810,817,540 | 1,776,159,621 |

See accompanying notes to consolidated financial statements.

consolidated statements of activities

THE NEW YORK COMMUNITY TRUST AND COMMUNITY FUNDS, INC.
(INCLUDING ITS LONG ISLAND AND WESTCHESTER DIVISIONS)

| Years ended December 31, | 2004 | 2003 |
|--|--------------------------------|-----------------------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | |
| Revenues: | | |
| Contributions | \$ 75,872,172 | 78,634,510 |
| Interest and dividends | 42,201,632 | 41,965,401 |
| Gain on investments (net of investment expenses of \$8,709,568 in 2004 and \$7,599,059 in 2003) | 101,630,459 | 225,825,635 |
| Other (note 4) | 2,033,212 | 85,600 |
| | <u>221,737,475</u> | <u>346,511,146</u> |
| Net assets released from restrictions (note 6) | 49,115,539 | — |
| Total unrestricted revenues | <u>270,853,014</u> | <u>346,511,146</u> |
| Expenses: | | |
| Grants and services to beneficiaries | 139,638,866 | 117,991,766 |
| September 11th Fund grants (note 6) | 49,115,539 | — |
| Grantmaking expenses | 3,024,414 | 3,076,860 |
| Administrative expenses | 4,724,391 | 4,426,851 |
| Development expenses | 1,442,290 | 1,402,978 |
| | <u>197,945,500</u> | <u>126,898,455</u> |
| Total expenses | <u>197,945,500</u> | <u>126,898,455</u> |
| Increase in unrestricted net assets | <u>72,907,514</u> | <u>219,612,691</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions | 2,601,487 | 906,500 |
| Transfer from the September 11th Fund (note 6) | 4,964,919 | — |
| Interest and dividends | 165,461 | 331,109 |
| Net assets released from restrictions (note 6) | (49,115,539) | — |
| | <u>(41,383,672)</u> | <u>1,237,609</u> |
| (Decrease) increase in temporarily restricted net assets | <u>(41,383,672)</u> | <u>1,237,609</u> |
| Increase in net assets | 31,523,842 | 220,850,300 |
| Net assets at beginning of year | <u>1,754,112,559</u> | <u>1,533,262,259</u> |
| Net assets at end of year | <u>\$ 1,785,636,401</u> | <u>1,754,112,559</u> |

See accompanying notes to consolidated financial statements.

consolidated statements of cash flows

THE NEW YORK COMMUNITY TRUST AND COMMUNITY FUNDS, INC.
(INCLUDING ITS LONG ISLAND AND WESTCHESTER DIVISIONS)

| Years ended December 31, | 2004 | 2003 |
|---|----------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 31,523,842 | 220,850,300 |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | | |
| Depreciation expense | 300,749 | 280,595 |
| Gain on investments | (110,340,027) | (233,424,694) |
| Loss on disposal of fixed assets | 10,919 | — |
| (Increase) decrease in receivables | (7,183) | 1,171,413 |
| (Increase) decrease in prepaid expenses | (2,040,626) | 347,741 |
| Increase in accounts payable and other liabilities | 371,519 | 18,081 |
| Increase in grants payable to beneficiaries | 2,762,558 | 4,443,681 |
| Net cash used in operating activities | (77,418,249) | (6,312,883) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (597,552,961) | (762,475,550) |
| Proceeds from sales of investments | 681,560,258 | 772,872,822 |
| Capital expenditures | (1,618,498) | — |
| Net cash provided by investing activities | 82,388,799 | 10,397,272 |
| Net increase in cash and cash equivalents | 4,970,550 | 4,084,389 |
| Cash and cash equivalents at beginning of year | 9,731,105 | 5,646,716 |
| Cash and cash equivalents at end of year | \$ 14,701,655 | 9,731,105 |

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

THE NEW YORK COMMUNITY TRUST AND COMMUNITY FUNDS, INC.
(INCLUDING ITS LONG ISLAND AND WESTCHESTER DIVISIONS)

(1) Organization

The New York Community Trust and Community Funds, Inc. (including its Long Island and Westchester Divisions) 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 more than 1,700 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 (see note 6), 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 \$203,341 in 2004 and \$2,029,518 in 2003.

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

Grants and services to beneficiaries are expensed upon approval of the Distribution Committee of The New York Community Trust or the Board of Directors of Community Funds, Inc.

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 those estimates.

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

(3) Investments

Investments are carried at fair value. The fair value of investments in common trust funds is based upon the fair value provided by the trust managers. Limited partnership interests are reported at fair value as determined by the general partner of each limited partnership. The carrying amounts of all other financial instruments approximate fair value.

Investments consist of the following at December 31, 2004 and 2003:

| | 2004 | 2003 |
|-------------------------------|-------------------------|----------------------|
| U.S. large cap equities | \$ 722,008,223 | 664,888,753 |
| Fixed income | 452,670,002 | 450,969,849 |
| International equities | 208,481,312 | 167,599,586 |
| Cash equivalents | 164,268,297 | 219,544,922 |
| U.S. mid/small cap equities | 154,566,856 | 172,153,882 |
| Limited partnership interests | 44,356,938 | 45,586,200 |
| Balanced funds | 29,439,361 | 30,494,246 |
| Other | 13,425,469 | 11,646,290 |
| | <u>\$ 1,789,216,458</u> | <u>1,762,883,728</u> |

notes continued

The investments of The New York Community Trust (NYCT) are held in individual trusts at the bank designated by the donor in the instrument of gift. The investments of Community Funds, Inc. (CFI) are determined based on the grant-making strategy of each individual fund. The breakdown is as follows:

| | 2004 | 2003 |
|-------------------------|-------------------------|----------------------|
| NYCT Bank Trusts | \$ 918,943,737 | 878,914,791 |
| CFI Investment Pool | 518,336,661 | 475,322,930 |
| Short term fixed income | 170,660,050 | 224,913,026 |
| CFI mutual fund pools | 123,449,327 | 119,784,837 |
| Other | 57,826,683 | 63,948,144 |
| | <u>\$ 1,789,216,458</u> | <u>1,762,883,728</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. The following sets forth financial information about the plans as of December 31, 2004 and 2003:

| | Pension benefits | | Other benefits | |
|---|-------------------------|-------------------|-----------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Benefit obligation at December 31 | \$ 10,361,166 | 9,434,838 | 1,153,931 | 1,055,197 |
| Fair value of plan assets at December 31 | <u>12,029,438</u> | <u>10,875,500</u> | <u>—</u> | <u>—</u> |
| Funded status | <u>\$ 1,668,272</u> | <u>1,440,662</u> | <u>(1,153,931)</u> | <u>(1,055,197)</u> |
| Prepaid (accrued) benefit costs recognized in the consolidated statements of financial position | \$ 3,510,619 | 1,563,007 | (1,072,066) | (1,031,557) |
| Benefit costs (credit) | (1,947,612) | (347,741) | 92,254 | 84,865 |
| Benefits paid | 288,126 | 297,876 | 51,745 | 47,548 |
| Accumulated benefit obligation | 8,008,292 | 7,056,292 | — | — |

In 2004, an adjustment was made to prepaid pension to reflect a change in the method of allocation of plan assets which is included in other revenue.

The discount rates used to value the pension and other benefit plans range from 5.75% to 6.5%. 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, 2004. The health care trend rate assumption for 2004 was 8% declining each year to 5% in 2010.

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 approximate \$400,000 and \$50,000 through 2014, respectively.

The Trust also sponsors a defined contribution retirement plan for employees, in which contributions are based upon a specified percentage of salaries. Retirement plan expense was \$385,196 and \$393,300 in 2004 and 2003,

notes continued

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 for the new lease are approximately \$879,000 in 2005, \$1.2 million in 2006 through 2009, and a total of \$14.3 million thereafter through 2020.

Rent expense for the years ended December 31, 2004 and 2003, net of sublease income of \$92,000 in 2004 and \$88,000 in 2003, amounted to \$1,010,500 and \$976,000, respectively.

(6) September 11th Fund

The Trust and United Way of New York City (United Way) established the September 11th Fund (the Fund) to help respond to the events of September 11, 2001. To assure that monies from the Fund were spent effectively, without undue delays, and in a manner that ensured accountability, they appointed a governing committee (the September 11th Fund Board) and retained a chief executive. The Trust and United Way authorized the Fund to establish grant guidelines and determine distributions from the Fund.

Both The Trust and United Way accepted contributions and processed grants for the Fund. The accompanying consolidated financial statements only show the amounts received and grants processed by The Trust. As of January 1, 2004, The Trust became the Fund's disbursing agent, and remaining balances at United Way were transferred. The

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) as of December 31, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organizations' 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 Organizations' internal control over financial reporting. Accordingly, we express no such opinion. 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 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, 2004 and 2003, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 29, 2005