

**THE COMMUNITY FOUNDATION OF  
EASTERN CONNECTICUT, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 AND 2010**

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**

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## Independent Auditors' Report

To the Board of Directors  
The Community Foundation of Eastern Connecticut, Inc.

We have audited the accompanying statement of financial position of The Community Foundation of Eastern Connecticut, Inc., as of December 31, 2011 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 was derived from the Foundation's 2010 financial statements and, in our report dated June 24, 2011, we expressed an unqualified opinion on those 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 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 Foundation'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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Eastern Connecticut, Inc., as of December 31, 2011 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.

*Blum, Shapiro & Company, P.C.*

June 5, 2012

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2011**

(With Summarized Financial Information as of December 31, 2010)

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 897,779	\$ 1,010,222
Investments	34,201,077	33,967,195
Contributions receivable, net	52,890	80,489
Other assets	91,367	10,567
Split-interest agreements:		
Beneficial interest in perpetual trust	3,427,883	3,707,965
Charitable trusts	1,466,445	1,634,120
Charitable gift annuities	105,856	40,090
Property and equipment, net	348,706	325,035
<b>Total Assets</b>	<b>\$ 40,592,003</b>	<b>\$ 40,775,683</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 33,149	\$ 32,588
Grants payable, net	657,193	458,333
Liability under charitable gift annuity	73,810	31,709
Total liabilities	764,152	522,630
<b>Net Assets</b>		
Unrestricted:		
Board designated, administrative endowment	2,171,155	2,418,486
Board designated, capital	116,327	116,327
Undesignated	32,593,151	32,295,666
Total unrestricted	34,880,633	34,830,479
Temporarily restricted	1,519,335	1,714,609
Permanently restricted	3,427,883	3,707,965
Total net assets	39,827,851	40,253,053
<b>Total Liabilities and Net Assets</b>	<b>\$ 40,592,003</b>	<b>\$ 40,775,683</b>

The accompanying notes are an integral part of the financial statements

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
(With Summarized Financial Information for the Year Ended December 31, 2010)

	2011			Total	2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenues, Gains and Other Support</b>					
Contributions	\$ 3,559,377	\$ 3,600	\$ -	\$ 3,562,977	\$ 6,272,482
Transfer in of Tri-County assets	-	-	-	-	1,459,499
Change in value of split-interest agreements	23,665	(167,675)	-	(144,010)	103,801
Change in value of perpetual trust	-	-	(280,082)	(280,082)	353,088
Net realized and unrealized gains (losses) on investments	(227,063)	-	-	(227,063)	2,574,919
Investment income	541,295	-	-	541,295	533,122
Rental income	19,450	-	-	19,450	22,450
	<u>3,916,724</u>	<u>(164,075)</u>	<u>(280,082)</u>	<u>3,472,567</u>	<u>11,319,361</u>
Less investment fees	102,325	-	-	102,325	131,301
Total support	<u>3,814,399</u>	<u>(164,075)</u>	<u>(280,082)</u>	<u>3,370,242</u>	<u>11,188,060</u>
Net assets released from purpose restrictions	31,199	(31,199)	-	-	-
Total revenues, gains and other support	<u>3,845,598</u>	<u>(195,274)</u>	<u>(280,082)</u>	<u>3,370,242</u>	<u>11,188,060</u>
<b>Expenses</b>					
Program services:					
Grants	2,685,275	-	-	2,685,275	1,775,676
Scholarships	288,271	-	-	288,271	279,650
Other program expenses	264,910	-	-	264,910	253,912
Total program services	<u>3,238,456</u>	<u>-</u>	<u>-</u>	<u>3,238,456</u>	<u>2,309,238</u>
Supporting services:					
General and administrative expenses	342,240	-	-	342,240	301,577
Fundraising	214,748	-	-	214,748	199,457
Total supporting services	<u>556,988</u>	<u>-</u>	<u>-</u>	<u>556,988</u>	<u>501,034</u>
Total expenses	<u>3,795,444</u>	<u>-</u>	<u>-</u>	<u>3,795,444</u>	<u>2,810,272</u>
<b>Increase (Decrease) in Net Assets</b>	50,154	(195,274)	(280,082)	(425,202)	8,377,788
<b>Net Assets - Beginning of Year</b>	<u>34,830,479</u>	<u>1,714,609</u>	<u>3,707,965</u>	<u>40,253,053</u>	<u>31,875,265</u>
<b>Net Assets - End of Year</b>	<u>\$ 34,880,633</u>	<u>\$ 1,519,335</u>	<u>\$ 3,427,883</u>	<u>\$ 39,827,851</u>	<u>\$ 40,253,053</u>

The accompanying notes are an integral part of the financial statements

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
(With Summarized Financial Information for the Year Ended December 31, 2010)

	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ (425,202)	\$ 8,377,788
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	26,296	22,940
Net realized and unrealized (gains) losses on investments	227,063	(2,574,919)
(Increase) decrease in operating assets:		
Contributions receivable	27,599	32,908
Other assets	(80,800)	(1,208)
Charitable trusts	167,675	(107,617)
Charitable gift annuities	(65,766)	4,825
Beneficial interest in perpetual trust	280,082	(353,088)
Increase (decrease) in operating liabilities:		
Accounts payable	561	(8,447)
Grants payable	198,860	(39,070)
Liability under charitable gift annuity	42,101	(1,009)
Net cash provided by operating activities	398,469	5,353,103
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale of investments	16,951,670	20,526,321
Purchases of investments	(17,412,615)	(26,337,375)
Purchase of property and equipment	(49,967)	(26,363)
Net cash used in investing activities	(510,912)	(5,837,417)
<b>Net Decrease in Cash and Cash Equivalents</b>	(112,443)	(484,314)
<b>Cash and Cash Equivalents - Beginning of Year</b>	1,010,222	1,494,536
<b>Cash and Cash Equivalents - End of Year</b>	\$ 897,779	\$ 1,010,222

The accompanying notes are an integral part of the financial statements

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activity** - The Community Foundation of Eastern Connecticut, Inc. (the Foundation), formerly the Community Foundation of Southeastern Connecticut, is a nonprofit corporation headquartered in New London, Connecticut, serving 42 towns of eastern Connecticut. It promotes local philanthropy by building a permanent endowment and making grants to support the programs offered by local nonprofit organizations. It also awards college scholarships to local students. The foundation solicits and receives contributions from individuals and businesses and trusts, invests them for the long term, and distributes grants and scholarships from the earnings of those invested funds. It also serves many individual donors in accomplishing their immediate charitable interests by making pass-through grants to eligible nonprofit organizations. The Foundation supports arts and education, health and human services, youth, civic and environmental causes.

**Prior Year Summarized Financial Information** - The financial statements include certain prior year summarized financial 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 (GAAP). Accordingly, such information should be read in conjunction with the Foundation's audited financial statements as of and for the year ended December 31, 2010, from which the summarized information was derived.

**Basis of Accounting and Presentation** - The Foundation prepares its financial statements in accordance with GAAP. Accordingly, the accounts of the Foundation are reported in the following categories:

**Unrestricted Net Assets** - Unrestricted net assets represent available resources other than donor-restricted contributions. The Board of Directors of the Foundation has variance power, the unilateral power to redirect the use of a donor's contribution to another beneficiary. Such contributions must be classified as unrestricted net assets. Accordingly, the Foundation's financial statements classify substantially all funds, including the corpus of endowment funds, as unrestricted net assets. The Board has designated a portion of the unrestricted net assets for the purposes of capital and administrative endowment.

**Temporarily Restricted Net Assets** - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure. This classification includes income and appreciation subject to purpose restrictions and split-interest agreements, as discussed below.

**Permanently Restricted Net Assets** - Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Foundation to expend the income earned thereon. These permanently restricted net assets include the Foundation's proportionate share of the principal amount of irrevocable trusts with outside trustees, for which the Foundation is an income beneficiary.

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include those used in determining the present value of split-interest agreements, the discount of pledges receivable and grants payable, and the valuation of alternative investments.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents, exclusive of cash equivalents held by investment managers, which are considered to be investments. The Foundation's deposits in financial institutions may, at times, exceed federal depository insurance limits. However, management believes the Foundation is not subject to significant credit risk on its deposits.

**Investments** - Investments in marketable debt securities, equity securities, money market funds and mutual funds with readily determinable fair values are stated at fair value in the statement of financial position. Investments include alternative investments, which are principally hedged funds. These investments are reported using the net asset value per share as determined by investment managers under the "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Realized and unrealized gains and losses on these investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period in which the income and gains are recognized.

**Split-Interest Agreements** - Split-interest agreements consist of assets placed in trust for the benefit of the Foundation and other beneficiaries. Revocable split-interest agreements are not recorded as contributions unless enforceable by law. Irrevocable split-interest agreements are recorded as contributions at fair value when the assets are received or when the Foundation is notified of the existence of the agreement. The accounting treatment varies depending upon the type of agreement created and whether the Foundation or a third party is the trustee. See Note 4 for a further discussion of split-interest agreements.

**Property and Equipment** - Property and equipment acquisitions and improvements thereon that exceed \$500 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives ranging from 3 to 40 years. Donated property and equipment are recognized at fair value at the date of donation.



**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions** - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Foundation reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Donated Assets** - Donated marketable securities and other asset donations are recognized as contributions at their fair values at the date of donation.

**Functional Allocation of Expenses** - 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.

**Income Tax Status** - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A). The Foundation's informational returns for the years ended December 31, 2008 through 2010 are subject to examination by the Internal Revenue Service and the State of Connecticut.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through June 5, 2012, which represents the date the financial statements were available to be issued.

**NOTE 2 - FAIR VALUE MEASUREMENTS**

Accounting standards generally accepted in the United States of America require disclosure of fair value inputs for financial instruments carried at fair value. These standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

**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.

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

**Level 2** - Inputs and information to the valuation methodology other than quoted market indices included in Level 1 that are observable for the asset, either directly or indirectly, and the Foundation has the ability to redeem the asset in the near term subsequent to the measurement date.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available, and the Foundation does not have the ability to redeem the asset in the near term. Fair value inputs used for alternative investments have been estimated using the estimated net asset value per share of the investments. Fair value inputs used for beneficial interests in perpetual trusts consist of the quoted market prices of the underlying assets in the trusts.

**Assets Measured at Fair Value on a Recurring Basis** - The following is a summary of the source of fair value measurements for assets that are measured at fair value on a recurring basis as of December 31, 2011:

<u>Description</u>	<u>December 31, 2011</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 1,225,267	\$ 1,225,267	\$ -	\$ -
Common stock	8,687,442	8,687,442	-	-
Mutual funds:				
U.S. equity funds	7,825,035	7,825,035	-	-
Fixed income	4,503,721	4,503,721	-	-
International equity funds	1,630,435	1,630,435	-	-
Strategic reserve funds	4,305,644	4,305,644	-	-
Alternative investments:				
Long/short equity fund	1,978,600	-	1,978,600	-
Taconic capital partners fund	959,270	-	959,270	-
Private equity fund	105,000	-	105,000	-
Real estate income fund	306,707	-	306,707	-
York investment fund	1,804,270	-	-	1,804,270
Asian Opportunity fund	869,686	-	-	869,686
Total investments	<u>34,201,077</u>	<u>28,177,544</u>	<u>3,349,577</u>	<u>2,673,956</u>
Beneficial interest in perpetual trusts	3,427,883	-	-	3,427,883
Split-interest agreements	<u>1,572,301</u>	<u>-</u>	<u>1,572,301</u>	<u>-</u>
Total	<u>\$ 39,201,261</u>	<u>\$ 28,177,544</u>	<u>\$ 4,921,878</u>	<u>\$ 6,101,839</u>

**Common Stock and Mutual Funds** - Common stock and mutual funds include domestic and foreign investments that are traded on public exchanges and are priced daily. This investment may also hold commodities via a mutual fund structure. The Foundation accesses both domestic and international equities through separate accounts and mutual funds.

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - INVESTMENTS (CONTINUED)**

**Alternative Investments** - Alternative investments include both multi-strategy and long/short equity approaches. Multi-strategy funds typically involve event-driven, stressed and distressed credit, and spread-based arbitrage investments. These strategies tend to be both flexible and opportunistic and incorporate differentiated drivers of return compared to traditional investment strategies. As a result, they are expected to produce returns that exhibit relatively low correlation to broad market indices over longer time horizons. Long/short equity managers typically make both long and short investments in publicly traded equity securities and produce returns that can be expected to correlate more closely with the performance of the equity markets than is expected from multi-strategy managers, though with lower volatility than traditional “long only” equity managers. Investments in hedged assets are generally subject to an initial lock-up of three months with advance notice. The managers’ underlying investments may themselves be less liquid, but the investment cycle is substantially shorter than for private equity. The private equity fund is an investment in a partnership with a ten-year holding period. The real estate income fund invests in direct commercial property assets that offer the investor potential for attractive returns through the implementation of a core and enhanced core real estate strategy. Over time, alternative assets are expected to generate equity-like returns with lower volatility than equity markets.

The following table discloses certain additional information as of December 31, 2011 related to the Foundation’s investments in the hedged equities as described above that use net asset value per share and are not traded in an active market:

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Long/short equity fund	\$ 1,978,600	\$ -	30 days	60 days
York investment fund	1,804,270	-	1 year	1 year
Taconic capital partners fund	959,270	-	30 days	90 days
Asian Opportunity fund	<u>869,686</u>	<u>-</u>	Restricted	Restricted
<b>Total</b>	<u>\$ 5,611,826</u>	<u>\$ -</u>		

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - INVESTMENTS (CONTINUED)**

**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)** - The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2011:

	<u>Total December 31, 2011</u>	<u>Beneficial Interest in Perpetual Trust</u>	<u>York Investment Fund</u>	<u>Asian Opportunity Fund</u>
Balance - beginning of year	\$ 4,823,165	\$ 3,707,965	\$ -	\$ 1,115,200
Purchases	2,000,000	-	2,000,000	-
Total losses (realized and unrealized) included in the change in net assets	<u>(721,326)</u>	<u>(280,082)</u>	<u>(195,730)</u>	<u>(245,514)</u>
Balance - End of Year	<u>\$ 6,101,839</u>	<u>\$ 3,427,883</u>	<u>\$ 1,804,270</u>	<u>\$ 869,686</u>

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable consists of pledges receivable from various individuals for the “Women and Girls Fund” and the “Love our Libraries” initiatives.

Contributions receivable as of December 31, 2011 are expected to be collected as follows:

Receivable in less than one year	\$ 37,099
Receivable in one to five years	<u>17,350</u>
Total contributions receivable	54,449
Less discounts to net present value	<u>1,559</u>
Net Contributions Receivable	<u>\$ 52,890</u>

Contributions receivable in more than one year are discounted at 4%.

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - SPLIT-INTEREST AGREEMENTS**

**Beneficial Interest in Perpetual Trust** - The Foundation retains a beneficial interest in a trust established by Dorothy L. Morgan and held by an unrelated trustee. Under this arrangement, the Foundation receives distributions from the trust but does not have access to the principal. Changes in the carrying amount of the beneficial interest are recognized as increases or decreases in permanently restricted net assets. Distributions received from the trust and included in investment income in the statement of activities for the year ended December 31, 2011 was \$143,972.

**Charitable Remainder Trusts** - The Foundation is a named beneficiary in the charitable remainder trusts established by Lawrence P. and Marjory B. Smith and Nancy Comita and two charitable lead trusts established by Helen C. Vergason and Adele Clement. These trusts represent an arrangement in which a donor establishes and funds a trust that is held by a third party with the grantor as the named life beneficiary. The trust provides for the payment of distributions to the grantor or other 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. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recognized in the statement of activities as a temporarily restricted contribution in the period the trust was established. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The liability is calculated using the federal applicable rate for a remainder interest under Internal Revenue Code Section 7520 and applicable mortality tables.

**Charitable Gift Annuity** - The Foundation established a charitable gift annuity program in 2002. Under the terms of the program, contributions are received from donors in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to a donor or individuals designated by the donor. Annuity contracts may be established for either one or two lives and provide that fixed payments be made to the annuitants for the remainder of their lives. Upon termination of the annuity contract, any remaining assets revert to the Foundation for purposes as specified in the charitable gift annuity contract. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The Foundation recognized one contribution to this program for the year ended December 31, 2011.

**NOTE 5 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment as of December 31, 2011:

Land, building and improvements	\$ 453,706
Furniture, fixtures and equipment	102,504
	<hr/>
	556,210
Less accumulated depreciation	207,504
	<hr/>
Net Property and Equipment	<u>\$ 348,706</u>

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - GRANTS PAYABLE**

The Foundation distributes grants and scholarships throughout the year, based on proposals submitted by local agencies/students and vetted by volunteer committees. Award amounts from endowed funds are determined by the spending policy, as described in Note 8 and recommended by the Investment Committee, with Board approval. Further, the Foundation authorizes grants and scholarships recommended by donors from current contributions. For 2011, the amount of such pass-through grants was \$1,537,567, 52% of the total grants/scholarships awarded. Grants authorized but unpaid as of year end are reported as liabilities. Grants to be paid in more than one year are discounted using a rate of 4%. The following is a summary of grants authorized and payable at December 31, 2011:

To be paid in less than one year	\$ 566,999
To be paid in one to five years	92,300
To be paid in more than five years	<u>4,000</u>
Gross unconditional grants payable	663,299
Less discounts to net present value	<u>6,106</u>
Net Unconditional Grants Payable	<u><u>\$ 657,193</u></u>

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets represent contributions, gifts and income from investments that are restricted based on time or purposes specified by the donor. At December 31, 2011, temporarily restricted net assets are comprised of the following:

Pledges receivable - initiatives	\$ 52,890
Lawrence P. and Marjory B. Smith Charitable Remainder Trust, net	1,417,284
Comita Trust, net	26,730
Vergason Trust, net	20,389
Clement Trust, net	<u>2,042</u>
	<u><u>\$ 1,519,335</u></u>

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - ENDOWMENT AND VARIANCE POWER**

The Foundation's endowment consists of 346 individual funds established for a variety of purposes. Its endowment includes undesignated, field of interest, scholarship, donor-advised funds, donor-designated funds, as well as funds designated by the Board of Directors to function as an administrative endowment. The Board of Directors of the Foundation has the unilateral power to redirect the use of a donor's contribution to another beneficiary. Such endowment funds are subject to variance power pursuant to Sections 1.170A-9(e)(11)(v)(B), (C) and (D) of the Internal Revenue Code. The Board of Directors has adopted a policy describing the criteria and limited circumstances under which the Foundation would exercise this power. For internal management and recordkeeping, the Foundation segregates the portion that is managed as an endowment from the funds that are currently available for grant distribution.

As required by GAAP, 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.

**Interpretation of Relevant Law** - The State of Connecticut adopted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA), which became effective October 1, 2007. The impact of such adoption was negligible on the presentation of the Foundation's financial statements, given the existing governing documents' inclusion of variance power, the unilateral power to redirect the use of a contribution for another charitable purpose. The criteria and circumstances under which the Board of Directors of the Foundation would exercise the variance power responsibility are prescribed under the by-laws of the organization.

Under the provisions of the by-laws, the Foundation, in its sole discretion, shall determine to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund. As a result of this responsibility under the by-laws, all contributions not classified as temporarily restricted are classified as unrestricted net assets for financial statement purposes. Temporarily restricted net assets consist of irrevocable charitable trusts and lead trusts, which are classified as split-interest agreements, as defined in Note 4. Accordingly, the Foundation's financial statements classify substantially all net assets as unrestricted; however, all recordkeeping for internal management and external reporting retains the original donor intent for every charitable asset within the Foundation.

The spending policy and philosophy contained in the investment policy, including the long-term investment management policies and procedures constructed based on the by-laws, were designed to function as integrated processes and are administered to reflect the following factors, as described in CTPMIFA, for prudent stewards of charitable assets, including:

- 1) the duration and preservation of a fund;
- 2) the purpose of the organization and the donor designations thereto;
- 3) general economic conditions;
- 4) the possible effects of inflation and deflation;
- 5) the expected total return of the charitable assets;
- 6) other resources of the organization; and
- 7) the investment policies.

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - ENDOWMENT AND VARIANCE POWER (Continued)**

**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 endowment assets. Endowment assets include 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 results that are comparable to a blended benchmark. This benchmark is intended to reflect the diverse asset allocation. The goal is to maximize returns while reducing volatility and assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an annual average rate of return of at least the rate of inflation plus yearly spending. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The distribution includes allocations ranging from 1% to 1.25% for costs associated with administering the funds. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Related to Spending Policy** - The Foundation has a policy of appropriating for distribution each year 4-6% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at least at the annual rate of inflation plus yearly spending. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held for a specified term as well as to provide additional real growth through new gifts and investment return.

The Foundation's goal is to increase its distributions by at least the rate of inflation annually, but it may hold spending flat during extended periods of poor market performance, recognizing the need to balance immediate needs against those of future generations. In years of sustained market growth, the Foundation may consider creating a future reserve or declare a "community dividend" for that period only. The actual spending rates for 2011 are as follows:

Endowed funds	4.0%
Administrative funds	5.0
Agency funds	4.0



**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - LEASES**

The Foundation leases the finished basement, second and fourth floors of their building to three independent tenants with fixed monthly rental payments. The terms of these leases currently expire through December 31, 2012. Income derived from these leases was \$19,450 for the year ended December 31, 2011.

Minimum future rental income to be received under these operating leases as of December 31, 2011 is \$14,400 for the year ending December 31, 2012.

**NOTE 10 - DESCRIPTION OF FUNCTIONAL EXPENSE CATEGORIES**

**Program Services:**

**Grants** - The Foundation distributes grants from discretionary, donor-advised and designated funds to organizations and projects that benefit New London, Windham and Tolland counties. The Foundation's grant-making strategy is intended to strengthen the capacity of local nonprofit organizations and the community as a whole. Grants are awarded across a broad range of fields. Other program expenses represent direct costs associated with the grant-making process.

**Scholarships** - The Foundation distributes scholarship awards from managed scholarship funds according to the criteria established by the donor. The Foundation also distributes scholarship awards from its own discretionary funds by committee. Recipients are primarily students graduating from high school who are planning to further their education, typically from New London, Windham and Tolland counties.

**Supporting Services:**

**General and Administrative** - These managerial functions are necessary to maintain and ensure an adequate working environment, to provide coordination and articulation of the Foundation's program strategy, to ensure prudent investment policies, and to ensure proper administrative functioning and management of the financial and budgetary responsibilities of the Foundation.

**Fundraising** - Careful stewardship of donated funds is essential to increasing the grant-making capacity of the Foundation. Development of new donors and cultivation of existing donors serves to enable the Foundation to meet increasing demand for grants and scholarships, offset market fluctuations and build a solid base of philanthropy for the entire service area.

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## Independent Auditors' Report on Supplementary Information

To the Board of Directors  
The Community Foundation of Eastern Connecticut, Inc.

We have audited the financial statements of The Community Foundation of Eastern Connecticut, Inc., as of and for the year ended December 31, 2011, and our report thereon dated June 5, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of general and administrative expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 additional 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 as a whole.

The prior year summarized financial information for the year ended December 31, 2010 was derived from the Foundation's 2010 financial statements, and, in our report dated June 24, 2011, we also noted that such information had been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, was fairly stated in all material respects in relation to the financial statements as a whole.

*Blum, Shapiro & Company, P.C.*

June 5, 2012

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

(With Summarized Financial Information for the Year Ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
Salaries	\$ 193,010	\$ 157,711
Employee benefits	27,912	21,965
Payroll taxes	14,856	13,026
Professional fees	26,015	36,367
Other	19,128	17,196
Office and administrative	14,550	13,650
Computer and software	7,050	4,831
Occupancy	12,138	12,518
Publications	1,285	1,373
General and administrative expense before depreciation	<u>315,944</u>	<u>278,637</u>
Depreciation	<u>26,296</u>	<u>22,940</u>
<b>Total General and Administrative Expenses (Note 10)</b>	<b><u><u>\$ 342,240</u></u></b>	<b><u><u>\$ 301,577</u></u></b>