

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

FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.

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Independent Auditors' Report

To the Board of Trustees
The Community Foundation of
Southeastern Connecticut, Inc.

We have audited the accompanying statement of financial position of The Community Foundation of Southeastern Connecticut, Inc., as of December 31, 2009 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 2008 financial statements and, in our report dated June 1, 2009, 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 financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Southeastern Connecticut, Inc., as of December 31, 2009 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.

May 5, 2010

Blum, Shapiro & Company, P.C.

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THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

(With Summarized Financial Information as of December 31, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 1,494,536	\$ 2,160,136
Investments	25,581,222	20,784,805
Contributions receivable, net	113,397	67,553
Split-interest agreements:		
Beneficial interest in perpetual trust	3,354,877	2,838,122
Charitable trusts	1,526,503	1,146,746
Charitable gift annuities	44,915	42,918
Property and equipment, net	321,612	328,477
Prepaid expenses	9,359	3,179
Total Assets	\$ <u>32,446,421</u>	\$ <u>27,371,936</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable, net	\$ 497,403	\$ 112,727
Accounts payable	41,035	37,469
Liability under charitable gift annuity	32,718	32,041
Total liabilities	<u>571,156</u>	<u>182,237</u>
Net Assets		
Unrestricted:		
Board designated, capital	90,394	51,551
Board designated, administrative endowment	1,375,281	1,158,048
Undesignated	25,414,813	21,929,391
Total unrestricted	<u>26,880,488</u>	<u>23,138,990</u>
Temporarily restricted	1,639,900	1,212,587
Permanently restricted	3,354,877	2,838,122
Total net assets	<u>31,875,265</u>	<u>27,189,699</u>
Total Liabilities and Net Assets	\$ <u>32,446,421</u>	\$ <u>27,371,936</u>

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)

	2009			Total	2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, Gains and Other Support					
Contributions	\$ 2,901,610	\$ 75,214	\$ -	\$ 2,976,824	\$ 7,011,411
Change in value of split-interest agreements	1,321	379,757	-	381,078	(692,961)
Change in value of perpetual trust	-	-	516,755	516,755	(1,410,448)
Net realized and unrealized gains (losses) on investments	4,359,894	-	-	4,359,894	(9,916,901)
Investment income	87,633	-	-	87,633	323,988
Special events, net	-	-	-	-	9,890
Rental income	22,475	-	-	22,475	30,000
	<u>7,372,933</u>	<u>454,971</u>	<u>516,755</u>	<u>8,344,659</u>	<u>(4,645,021)</u>
Less investment fees	132,638	-	-	132,638	129,257
Total support	<u>7,240,295</u>	<u>454,971</u>	<u>516,755</u>	<u>8,212,021</u>	<u>(4,774,278)</u>
Net assets released from purpose restrictions	<u>27,658</u>	<u>(27,658)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>7,267,953</u>	<u>427,313</u>	<u>516,755</u>	<u>8,212,021</u>	<u>(4,774,278)</u>
Expenses					
Program services:					
Grants	2,585,380	-	-	2,585,380	1,400,339
Scholarships	276,549	-	-	276,549	261,350
Other program expenses	237,530	-	-	237,530	256,149
Total program services	<u>3,099,459</u>	<u>-</u>	<u>-</u>	<u>3,099,459</u>	<u>1,917,838</u>
Supporting services:					
General and administrative expenses	<u>426,996</u>	<u>-</u>	<u>-</u>	<u>426,996</u>	<u>474,886</u>
Total expenses	<u>3,526,455</u>	<u>-</u>	<u>-</u>	<u>3,526,455</u>	<u>2,392,724</u>
Increase (Decrease) in Net Assets	3,741,498	427,313	516,755	4,685,566	(7,167,002)
Net Assets - Beginning of Year	<u>23,138,990</u>	<u>1,212,587</u>	<u>2,838,122</u>	<u>27,189,699</u>	<u>34,356,701</u>
Net Assets - End of Year	<u>\$ 26,880,488</u>	<u>\$ 1,639,900</u>	<u>\$ 3,354,877</u>	<u>\$ 31,875,265</u>	<u>\$ 27,189,699</u>

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

(With Summarized Financial Information for the Year Ended December 31, 2008)

	2009	2008
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 4,685,566	\$ (7,167,002)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	19,586	23,065
Net realized and unrealized (gains) losses on investments	(4,359,894)	9,916,901
(Increase) decrease in operating assets:		
Contributions receivable	(45,844)	45,579
Charitable trusts	(379,757)	620,088
Pooled income fund	-	154,762
Charitable gift annuities	(1,997)	(25,761)
Beneficial interest in perpetual trust	(516,756)	1,410,448
Prepaid expenses	(6,179)	(3,179)
Increase (decrease) in operating liabilities:		
Accounts payable	3,566	(2,108)
Grants payable	384,676	7,150
Deferred revenue	-	(1,000,000)
Liability under other split-interest agreements	-	(24,360)
Liability under charitable gift annuity	677	23,016
Net cash provided by (used in) operating activities	(216,356)	3,978,599
Cash Flows from Investing Activities		
Proceeds from the sale of investments	3,134,003	1,561,715
Purchases of investments	(3,570,526)	(4,431,956)
Purchase of property and equipment	(12,721)	(4,119)
Net cash used in investing activities	(449,244)	(2,874,360)
Net Increase (Decrease) in Cash and Cash Equivalents	(665,600)	1,104,239
Cash and Cash Equivalents - Beginning of Year	2,160,136	1,055,897
Cash and Cash Equivalents - End of Year	\$ 1,494,536	\$ 2,160,136

The accompanying notes are an integral part of the financial statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity - The Community Foundation of Southeastern Connecticut, Inc. (the Foundation) is a nonprofit corporation located in New London, Connecticut, which promotes local philanthropy among the residents of eleven towns by building a permanent endowment to support programs offered by local nonprofit organizations. The Foundation solicits contributions from individuals and businesses, invests them for the long term and distributes grants and scholarships from the earnings of those invested funds. It supports the arts and education, health and human services, and 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, 2008, 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 Trustees 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.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions which 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 which 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 trusts the Foundation is an income beneficiary.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value, as further discussed in Note 2. 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.

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.

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 assets donations are recognized as contributions at their fair values at the date of donation.

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.

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.

Functional Allocation of Expenses - The costs of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through May 5, 2010, which represents the date the financial statements were available to be issued. These events are disclosed in Note 11.

NOTE 2 - FAIR VALUE MEASUREMENTS

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, 2009:

Description	Fair Value Measurements Using			
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 23,285,741	\$ 23,285,741	\$ -	\$ -
Mutual funds:				
U.S. equity funds	580,137	580,137	-	-
Fixed income	319,583	319,583	-	-
International equity funds	141,479	141,479	-	-
Alternative investments:				
Common trust funds				
real estate	1,254,282	-	1,254,282	-
Total investments	25,581,222	24,326,940	1,254,282	-
Beneficial interest in				
perpetual trusts	3,354,877	-	-	3,354,877
Split-interest agreements	1,571,418	1,571,418	-	-
Total	\$ 30,507,517	\$ 25,898,358	\$ 1,254,282	\$ 3,354,877

In September 2009, upon the recommendation of the Investment Committee, the Foundation's Trustees approved a change in investment managers, replacing Russell Investments with Brown Brothers Harriman, effective January 1, 2010. In order to facilitate a timely transition, the Foundation's investment portfolio with the exception of its real estate component was liquidated on December 31, 2009, and the cash proceeds sent to Brown Brothers Harriman on January 4, 2010.

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

NOTE 2 - FAIR VALUE MEASUREMENTS (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, 2009:

		Beneficial Interest in Perpetual Trust
	\$	<u> </u>
Balance - beginning of year	2,838,122	
Total gains (realized and unrealized) included in the change in net assets		<u>516,755</u>
Balance - End of Year	\$	<u><u>3,354,877</u></u>

The amount of total gains for the period included in the change in net assets attributable to the change in unrealized gains relating to assets still held at year end is \$516,755.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

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

Contributions receivable as of December 31, 2009 and 2008, are expected to be collected as follows:

		2009		2008
	\$	<u> </u>	\$	<u> </u>
Receivable in less than one year	59,614		42,893	
Receivable in one to five years		<u>60,000</u>		<u>26,900</u>
Total contributions receivable		119,614		69,793
Less discounts to net present value		<u>6,217</u>		<u>2,240</u>
Net Contributions Receivable	\$	<u><u>113,397</u></u>	\$	<u><u>67,553</u></u>

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

THE COMMUNITY FOUNDATION OF SOUTHEASTERN 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. The beneficial interest is carried at the present value of estimated future receipts from the trust, which is measured by the fair market value of the assets in the trust. 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 years ended December 31, 2009 and 2008, were \$156,528 and \$158,187, respectively.

Charitable Remainder Trusts - The Foundation is a named beneficiary in a charitable remainder trust established by Lawrence P. and Marjory B. Smith, and a charitable lead trust established by Helen C. Vergason. 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. Contributions for the years ended December 31, 2009 and 2008, were \$-0- and \$34,890, respectively.

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

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land, building and improvements	\$ 407,360	\$ 397,039
Furniture, fixtures and equipment	72,520	70,120
	<u>479,880</u>	<u>467,159</u>
Less accumulated depreciation	158,268	138,682
	<u>158,268</u>	<u>138,682</u>
Net Property and Equipment	<u>\$ 321,612</u>	<u>\$ 328,477</u>

NOTE 6 - GRANTS

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
To be paid in less than one year	\$ 453,376	\$ 65,200
To be paid in one to five years	48,000	51,500
	<u>501,376</u>	<u>116,700</u>
Gross unconditional grants payable	501,376	116,700
Less discounts to net present value	3,973	3,973
	<u>3,973</u>	<u>3,973</u>
Net Unconditional Grants Payable	<u>\$ 497,403</u>	<u>\$ 112,727</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, 2009 and 2008, temporarily restricted net assets are comprised of the following:

	<u>2009</u>	<u>2008</u>
Vergason Trust	\$ 28,659	\$ -
Lawrence P. and Marjory B. Smith Charitable Remainder Trust, net	1,487,639	1,135,885
Pledges receivable - initiatives	113,397	65,841
Clement Trust	10,205	10,861
	<u>10,205</u>	<u>10,861</u>
	<u>\$ 1,639,900</u>	<u>\$ 1,212,587</u>

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

NOTE 8 - ENDOWMENT AND VARIANCE POWER

The Community Foundation of Southeastern Connecticut, Inc.'s endowment consists of approximately 220 individual funds established for a variety of purposes. Its endowment includes donor-advised funds, donor-designated funds and funds designated by the Board of Directors to function as endowments. 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 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 SOUTHEASTERN 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 Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while 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 2009 and 2008 are as follows:

	2009	2008
Endowed funds	5.25%	5.25%
Agency funds	5.00	5.00

THE COMMUNITY FOUNDATION OF SOUTHEASTERN 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, 2011. Income derived from these leases was \$22,475 and \$30,000 for the years ended December 31, 2009 and 2008, respectively.

Minimum future rental income to be received under these operating leases as of December 31, 2009 is \$15,600 for each of the years ending December 31, 2010 and 2011.

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 the communities of East Lyme, Groton, Ledyard, Lyme, Montville, Stonington, North Stonington, Old Lyme, New London, Salem and Waterford. 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 East Lyme, Groton, Ledyard, Lyme, Montville, Stonington, North Stonington, Old Lyme, New London, Salem and Waterford.

Supporting Services:

General and Administrative - These functions are necessary to develop new donors and cultivate existing donors, to maintain and ensure an adequate working environment, to provide coordination and articulation of the Foundation's program strategy, and to ensure proper administrative functioning of the Board of Directors and management of the financial and budgetary responsibilities of the Foundation.

NOTE 11 - SUBSEQUENT EVENT

On December 17, 2009, the Board of Trustees of the Foundation voted to approve a plan of merger with the Community Foundation of the Tri-County Area. The merger would result with the Community Foundation of Southeastern Connecticut, Inc., as the surviving corporation. Community Foundation of the Tri-County Area ceased operations effective December 31, 2009, and all assets were transferred to the Foundation as of January 1, 2010. As a result of this event, the service area of the Foundation was expanded to include all of New London County, Windham County and six towns within Tolland County. There were no operational changes, and the Foundation will preserve the donor intent of all pre-merger funds.

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Independent Auditors' Report on Supplementary Information

To the Board of Trustees
The Community Foundation of
Southeastern Connecticut, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of general and administrative expenses for the year ended December 31, 2009 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The prior year summarized financial information for the year ended December 31, 2008 was derived from the Foundation's 2008 financial statements, and, in our report dated June 1, 2009, we also noted that such information had been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, was fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blum, Shapiro & Company, P.C.

May 5, 2010

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

(With Summarized Financial Information for the Year Ended December 31, 2008)

	<u>2009</u>	<u>2008</u>
Salaries	\$ 250,578	\$ 247,787
Payroll taxes	20,554	19,938
Employee benefits	39,410	45,562
Professional fees	23,680	27,138
Donor development	2,756	2,123
Computer and software	11,087	9,747
Publications	5,079	15,535
Office and administrative	19,507	20,979
Marketing and advertising	2,532	-
Occupancy	12,651	10,626
Other	<u>19,576</u>	<u>13,241</u>
 General and administrative expense before depreciation and 25th Anniversary	 <u>407,410</u>	 <u>412,676</u>
 Depreciation	 19,586	 23,065
25th Anniversary	 -	 39,145
	<u>19,586</u>	<u>62,210</u>
 Total General and Administrative Expenses (Note 10)	 \$ <u>426,996</u>	 \$ <u>474,886</u>