

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2018**

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

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Independent Auditors' Report

To the Board of Trustees
The Community Foundation of Eastern Connecticut, Inc.
New London, Connecticut

We have audited the accompanying financial statements of The Community Foundation of Eastern Connecticut, Inc. (the Foundation), which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, during the year ended December 31, 2018, the Foundation adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated April 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
May 28, 2019

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

(With Summarized Financial Information as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 4,499,244	\$ 5,092,087
Investments	75,393,008	73,049,353
Contributions receivable, net	17,000	21,702
Prepaid expenses and other assets	27,867	24,123
Split-interest agreements:		
Beneficial interest in perpetual trust	3,525,419	4,096,875
Charitable trusts	330,214	360,150
Charitable gift annuities	256,891	217,322
Property and equipment, net	<u>471,215</u>	<u>453,240</u>
Total Assets	\$ <u>84,520,858</u>	\$ <u>83,314,852</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 166,605	\$ 171,693
Grants payable, net	1,532,899	962,961
Liabilities under charitable gift annuities	141,757	123,864
Capital lease obligation	18,155	-
Total liabilities	<u>1,859,416</u>	<u>1,258,518</u>
Net Assets		
Net assets without donor restrictions		
Board designated, administrative endowment	2,532,698	2,666,917
Undesignated	<u>76,256,111</u>	<u>74,910,690</u>
Total net assets without donor restrictions	78,788,809	77,577,607
Net assets with donor restrictions	<u>3,872,633</u>	<u>4,478,727</u>
Total net assets	<u>82,661,442</u>	<u>82,056,334</u>
Total Liabilities and Net Assets	\$ <u>84,520,858</u>	\$ <u>83,314,852</u>

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, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues, Gains and Other Support				
Contributions	\$ 10,127,385	\$ 6,535	\$ 10,133,920	\$ 10,582,582
Change in value of split-interest agreements	(5,104)	(29,936)	(35,040)	58,273
Change in value of perpetual trust	-	(571,456)	(571,456)	463,619
Net realized and unrealized gain (loss) on investments	(2,181,641)	-	(2,181,641)	9,019,820
Investment income, net	1,249,642	-	1,249,642	624,575
Total support	9,190,282	(594,857)	8,595,425	20,748,869
Net assets released from restrictions	11,237	(11,237)	-	-
Total revenues, gains and other support	9,201,519	(606,094)	8,595,425	20,748,869
Expenses				
Program services:				
Grants	5,999,657	-	5,999,657	6,027,717
Scholarships	736,097	-	736,097	668,251
Other program expenses	552,577	-	552,577	511,052
Total program services	7,288,331	-	7,288,331	7,207,020
Supporting services:				
General and administrative expenses	355,782	-	355,782	401,138
Fundraising	346,204	-	346,204	319,664
Total supporting services	701,986	-	701,986	720,802
Total expenses	7,990,317	-	7,990,317	7,927,822
Increase (Decrease) in Net Assets Before Other Losses	1,211,202	(606,094)	605,108	12,821,047
Loss on Disposition of Property and Equipment	-	-	-	12,119
Increase (Decrease) in Net Assets	1,211,202	(606,094)	605,108	12,808,928
Net Assets - Beginning of Year	77,577,607	4,478,727	82,056,334	69,247,406
Net Assets - End of Year	\$ 78,788,809	\$ 3,872,633	\$ 82,661,442	\$ 82,056,334

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Supporting Services		
	Grants and Scholarships	Other Program	Total Program Services	General and Administrative	Fundraising	Total
Grants	\$ 5,999,657	\$ -	\$ 5,999,657	\$ -	\$ -	\$ 5,999,657
Scholarships	736,097	-	736,097	-	-	736,097
Salaries and wages	-	354,637	354,637	213,045	220,401	788,083
Employee benefits	-	57,879	57,879	27,495	22,656	108,030
Payroll taxes	-	26,294	26,294	15,776	16,361	58,431
Contract services	-	1,263	1,263	41,929	677	43,869
Computer and software	-	14,733	14,733	8,840	12,887	36,460
Program support	-	32,620	32,620	-	-	32,620
Depreciation and amortization	-	10,592	10,592	10,020	8,016	28,628
Travel and meetings	-	12,052	12,052	4,946	6,353	23,351
Annual report	-	13,882	13,882	992	4,958	19,832
Donor development	-	-	-	-	16,299	16,299
Marketing and advertising	-	-	-	-	17,025	17,025
Utilities	-	5,293	5,293	5,006	4,005	14,304
Dues and subscriptions	-	6,334	6,334	3,801	3,941	14,076
Supplies	-	5,596	5,596	3,358	3,482	12,436
Education and training	-	-	-	11,098	-	11,098
Repairs and maintenance	-	3,806	3,806	3,600	2,880	10,286
Insurance	-	2,024	2,024	1,915	1,532	5,471
Postage and shipping	-	1,742	1,742	1,045	1,084	3,871
Development support	-	-	-	-	3,005	3,005
Equipment rental and maintenance	-	1,032	1,032	619	642	2,293
Interest expense	-	-	-	1,196	-	1,196
Miscellaneous	-	2,798	2,798	1,101	-	3,899
Total Expenses	\$ 6,735,754	\$ 552,577	\$ 7,288,331	\$ 355,782	\$ 346,204	\$ 7,990,317

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services			Supporting Services		
	Grants and Scholarships	Other Program	Total Program Services	General and Administrative	Fundraising	Total
Direct expenses:						
Grants	\$ 6,027,717	\$ -	\$ 6,027,717	\$ -	\$ -	\$ 6,027,717
Scholarships	668,251	-	668,251	-	-	668,251
Salaries and wages	-	345,405	345,405	207,401	214,759	767,565
Employee benefits	-	62,030	62,030	29,721	24,897	116,648
Payroll taxes	-	26,107	26,107	15,665	16,244	58,016
Contract services	-	939	939	65,561	584	67,084
Computer and software	-	10,383	10,383	6,230	16,840	33,453
Program support	-	29,783	29,783	-	-	29,783
Marketing and advertising	-	-	-	-	11,661	11,661
Travel and meetings	-	8,845	8,845	3,454	4,575	16,874
Annual report	-	13,066	13,066	933	4,666	18,665
Donor development	-	-	-	-	16,962	16,962
Utilities	-	-	-	12,518	-	12,518
Supplies	-	3,960	3,960	2,376	2,464	8,800
Education and training	-	-	-	11,098	-	11,098
Repairs and maintenance	-	-	-	7,245	-	7,245
Dues and subscriptions	-	5,389	5,389	3,234	3,353	11,976
Insurance	-	-	-	5,609	-	5,609
Postage and shipping	-	1,569	1,569	941	976	3,486
Equipment rental and maintenance	-	2,705	2,705	2,112	1,683	6,500
Miscellaneous	-	871	871	948	-	1,819
Total direct expenses	6,695,968	511,052	7,207,020	375,046	319,664	7,901,730
Depreciation and amortization	-	-	-	26,092	-	26,092
Total Expenses	\$ 6,695,968	\$ 511,052	\$ 7,207,020	\$ 401,138	\$ 319,664	\$ 7,927,822

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, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 605,108	\$ 12,808,928
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	28,628	26,092
Net realized and unrealized (gain) loss on investments	2,181,641	(9,019,820)
Change in value of beneficial interest in perpetual trust	571,456	(463,619)
Loss on disposition of property and equipment	-	12,119
(Increase) decrease in operating assets:		
Contributions receivable	4,702	11,152
Prepaid expenses and other assets	(3,744)	(15,523)
Charitable trusts	29,936	(60,099)
Charitable gift annuities	(39,569)	(59,222)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(5,088)	51,589
Grants payable	569,938	357,070
Liabilities under charitable gift annuities	17,893	14,278
Net cash provided by operating activities	<u>3,960,901</u>	<u>3,662,945</u>
Cash Flows from Investing Activities		
Proceeds from the sale of investments	6,596,069	2,153,019
Purchases of investments	(11,121,365)	(5,552,687)
Purchase of property and equipment	(25,844)	(11,797)
Net cash used in investing activities	<u>(4,551,140)</u>	<u>(3,411,465)</u>
Cash Flows from Financing Activities		
Payment on capital lease	(2,604)	-
Net cash used in financing activities	<u>(2,604)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(592,843)	251,480
Cash and Cash Equivalents - Beginning of Year	<u>5,092,087</u>	<u>4,840,607</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,499,244</u>	<u>\$ 5,092,087</u>
Cash Paid During the Year for Interest	<u>\$ 1,196</u>	<u>\$ -</u>
Noncash Investing Activities		
Property and equipment purchased with financing	<u>\$ 20,759</u>	<u>\$ -</u>

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, animal welfare 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, 2017, from which the summarized information was derived.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment changes the previous reporting model for nonprofit organizations and enhances the disclosure requirements. The major changes include: (a) requiring the presentation of only two classes of net assets rather than three, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investments expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This ASU is effective for annual periods beginning after December 15, 2017. Management has adopted ASU 2016-14 for the year ended December 31, 2018. The amendments have been retrospectively applied.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

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:

Net Assets Without Donor Restrictions

Net assets without donor restrictions 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 net assets without donor restrictions. Accordingly, the Foundation's financial statements classify substantially all funds, including the corpus of endowment funds, as net assets without donor restrictions. The Board has designated a portion of the net assets without donor restrictions for the purposes of administrative endowment.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent contributions that are restricted by the donor as to purpose or time of expenditure and also includes income and appreciation subject to purpose restrictions and split-interest agreements, as discussed below. Net assets with donor restrictions also 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 include the Foundation's proportionate share of the principal amount of irrevocable trusts with outside directors, for which the Foundation is an income beneficiary.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments without donor restrictions and 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.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is 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. The Investment Committee of the Foundation determines the Foundation's valuation policies and procedures utilizing information provided by investment advisers. The Foundation's Investment Committee reports to the Board of Trustees on a quarterly basis. See Note 2 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$2,000 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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions. 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 reported on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Salaries and wages, employee benefits, payroll taxes, contract services, computer and software, travel and meetings, annual report, supplies, dues and subscriptions, postage and shipping and equipment rental and maintenance are allocated based on time and effort. Utilities, repairs and maintenance, insurance and depreciation are allocated based upon square footage.

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 COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through May 28, 2019, which represents the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). 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.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

The following is a description of the valuation methodologies used for financial instruments measured at fair value:

Common Stocks

Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

Mutual Funds

Mutual funds are valued at the quoted price of shares held by the Foundation at year end.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

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. Alternative investments also include public real estate, which comprises an investment in real estate investment trusts. This investment class focuses on a yield-advantaged return with the majority of total return coming from dividends and reinvested dividends over a market cycle. The managers’ underlying investments in hedged assets and public real estate 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 private debt fund, also classified as private equity, is an investment in private debt with a three-year investment period followed by a five-year harvest subject to two one-year extensions. 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.

Hedge Fund

Interests in hedge funds are valued using net asset values as determined by the investment manager of the fund. The net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class seeks long-term equity like returns with minimal correlation to the major market average.

Public Real Estate

Interests in public real estate are valued using net asset values as determined by the investment manager of the fund. The net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class seeks a ten-year correlation to the major market average focusing on a yield-advantaged return.

Private Equity Fund

Interests in private equity and debt are valued using net asset values as determined by the investment manager of the fund. This investment class makes commitments to private investment opportunities with the goal of outperforming market indices over the long term.

Real Estate Income Fund

The real estate income fund class includes several real estate funds that invest in primarily U.S. commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the Foundation’s ownership interest in partners’ capital.

Beneficial Interest in Perpetual Trust

Beneficial interest in perpetual trust is measured at the present value of expected future cash flows.

Split-Interest Agreements

Fair value inputs used for split-interest agreements are based on the estimated present value of the future payments to the Foundation, which is considered to be the fair value of the assets held in trust.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

There have been no changes in the methodologies used at December 31, 2018 and 2017.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018:

	December 31, 2018	Fair Value Measurements Using			Investments Measured at Net Asset Value (a)
		Level 1	Level 2	Level 3	
Cash equivalents	\$ 3,377,706	\$ 3,377,706	\$ -	\$ -	\$ -
Common stock:					
Domestic equities	31,099,509	22,817,160	8,282,349	-	-
Foreign equities	652,747	652,747	-	-	-
Mutual funds:					
U.S. equity funds	5,135,978	3,590,962	1,545,016	-	-
Fixed income	16,719,671	16,719,671	-	-	-
International equity funds	8,689,937	2,577,134	6,112,803	-	-
Emerging market	2,580,318	2,580,318	-	-	-
Alternative investments:					
Hedge funds	2,242,587	-	-	-	2,242,587
Private equity fund	2,226,368	-	-	-	2,226,368
Private debt fund	2,367,717	-	-	-	2,367,717
Real estate income fund	300,470	-	-	-	300,470
Total investments	75,393,008	52,315,698	15,940,168	-	7,137,142
Beneficial interest in perpetual trusts	3,525,419	-	-	3,525,419	-
Split-interest agreements	587,105	-	587,105	-	-
Total Assets at Fair Value	\$ 79,505,532	\$ 52,315,698	\$ 16,527,273	\$ 3,525,419	\$ 7,137,142

- a. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

There were no transfers between levels of investments during the year ended December 31, 2018.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Additional information regarding investments that report fair value based on net asset value per share or unit as of December 31, 2018 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedge funds	\$ 2,242,587	\$ -	Quarterly	75 days notice
Private equity fund	2,226,368	3,025,012	Restricted	Restricted
Private debt fund	2,367,717	4,679,485	Restricted	Restricted
Real estate income fund	300,470	2,109,975	Restricted	Restricted
Total	<u>\$ 7,137,142</u>	<u>\$ 9,814,472</u>		

The investment strategies of these investments are as follows:

- a. To diversify investments within asset classes to reduce the impact of losses in a single investment and to provide returns that over the long term provide sufficient income and appreciation to fund the Foundation's spending policy;
- b. To preserve capital and to generate consistent long-term appreciation.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended December 31, 2018:

	Beneficial Interest in Perpetual Trust
Balance - beginning of year	\$ 4,096,875
Realized gains	238,744
Unrealized losses	(435,491)
Purchases	2,040,114
Redemptions	<u>(2,414,823)</u>
Balance - End of Year	<u>\$ 3,525,419</u>

Gains and losses (realized and unrealized) included in changes in net assets for the year ended December 31, 2018 are reported in net realized and unrealized gains on investments on the statement of activities.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of pledges receivable from various individuals for the Women and Girls Fund initiative.

Contributions receivable as of December 31, 2018 are expected to be collected as follows:

Receivable in less than one year	\$ 13,132
Receivable in one to five years	4,000
Total contributions receivable	<u>17,132</u>
Less discounts to net present value	<u>132</u>
Net Contributions Receivable	<u>\$ 17,000</u>

Contributions receivable in more than one year are discounted at 2%.

NOTE 4 - SPLIT-INTEREST AGREEMENTS

Beneficial Interest in Perpetual Trust

The Foundation retains a beneficial interest in a trust 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 net assets with donor restrictions. Distributions received from the trust and included in investment income in the statement of activities for the year ended December 31, 2018 was \$195,163.

Charitable Remainder Trusts

The Foundation is a named beneficiary in charitable remainder trusts and charitable lead trusts. These trusts represent an arrangement in which a donor establishes and funds a trust that is held by a third party with the grantor or other designated beneficiaries 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 donor-restricted contribution in the period the trust was established. On an annual basis, the Foundation revalues the liability to account for distributions to the designated beneficiaries and to adjust for the change in market value 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.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Charitable Gift Annuity

The Foundation is the beneficiary of charitable gift annuities through their charitable gift annuity program. 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 account for distributions to the designated beneficiaries and to adjust for the change in market value based on actuarial assumptions.

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2018:

Land, building and improvements	\$	520,935
Furniture, fixtures and equipment		81,191
		<u>602,126</u>
Less accumulated depreciation		<u>130,911</u>
Net Property and Equipment	\$	<u><u>471,215</u></u>

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 2018, the amount of such pass-through grants was \$4,247,758, 63% 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 3%. The following is a summary of grants authorized and payable at December 31, 2018:

To be paid in less than one year	\$	837,281
To be paid in one to five years		716,425
Gross unconditional grants payable		<u>1,553,706</u>
Less discounts to net present value		<u>20,807</u>
Net Unconditional Grants Payable	\$	<u><u>1,532,899</u></u>

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available for general expenditures within one year of the statement of financial position date are as follows:

Cash and cash equivalents	\$ 4,499,244
Investments	<u>70,498,453</u>
Total financial assets available within one year	74,997,697
Less amounts unavailable without Board's approval:	
Board-designated administrative endowment	<u>(2,532,698)</u>
 Total Financial Assets Available to Management for General Expenditure Within One Year	 \$ <u><u>72,464,999</u></u>

Liquidity Management

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Foundation invests cash in excess of weekly requirements in short-term investments. Under the Foundation's Spending Rule Policy and in conjunction with the annual budget approval process, \$1,435,915 has been approved for appropriation from the endowment for general expenditures in the subsequent year. This amount is included within the investments balance of \$70,498,453 reported above. As disclosed in Note 1, the Board has designated \$2,532,698 of net assets without donor restrictions for the purposes of administrative endowment. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

NOTE 8 - NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restrictions represent contributions, gifts and income from investments that are restricted based on time or purposes specified by the donor. At December 31, 2018, net assets with donor restrictions are available for the following purpose and time restrictions:

Restricted in perpetuity:	
Income use unrestricted	\$ <u>3,525,419</u>
Other assets with donor restrictions:	
Use restricted:	
Scholarships	245,934
Sustainability	2,050
Time restricted:	
Split-interest agreements	82,230
Women and Girls Fund contributions receivable, net	<u>17,000</u>
Total other assets with donor restrictions	<u>347,214</u>
 Net Assets with Donor Restrictions	 \$ <u><u>3,872,633</u></u>

Net assets with donor restrictions in the amount of \$11,237 were released from restrictions by incurring expenses for the use of the Women and Girls Fund.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Endowment

The Foundation's endowment consists of 493 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 Trustees to function as an administrative endowment. The Board of Trustees 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 Trustees 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 Trustees 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). 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 Trustees 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 net assets with donor restrictions are classified as net assets without donor restrictions for financial statement purposes. Net assets with donor restrictions 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 without donor restriction; 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

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 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 has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations

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 2018 are as follows:

Endowed funds	4.00%
Administrative funds	5.25
Agency funds	4.00
Not-for-profits	4.25

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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.

NOTE 10 - CAPITAL LEASES

The Foundation entered into a capital lease agreement dated March 23, 2018 for the lease of a copier. The lease calls for annual payments equal to \$5,066, including interest at 8.13% per annum maturing in March 2023.

Property held under the capital lease obligation is as follows:

Copier	\$	20,759
Less accumulated amortization		<u>3,114</u>
Net Equipment Under Capital Leases	\$	<u><u>17,645</u></u>

Amortization expense relative to the above equipment is included in depreciation and amortization expense as disclosed in the statements of functional expenses.

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

The following is a schedule by years of future minimum payments under capital leases, together with the present value of minimum lease payments as of December 31, 2018:

Year Ending December 31

2019	\$	5,066
2020		5,066
2021		5,066
2022		5,066
2023		<u>1,268</u>
Total net minimum lease payments		21,532
Less amount representing interest		<u>3,377</u>
Net Capital Lease Obligations	\$	<u><u>18,155</u></u>