

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

DECEMBER 31, 2003

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.

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Report of Independent Accountants

To 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, 2003 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 has been derived from the Foundation's 2002 financial statements and, in our report dated March 7, 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2003 and the change 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.

March 26, 2004

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2003

(With Summarized Financial Information as of December 31, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash and cash equivalents	\$ 25,661	\$ 314,847
Investments	17,254,684	14,322,215
Contributions receivable	427,464	78,252
Split-interest agreements:		
Assets of pooled income fund	183,277	202,586
Beneficial interest in perpetual trust	3,480,602	3,120,359
Contribution receivable from remainder trusts	1,074,935	684,867
Charitable gift annuity	16,883	15,033
Property and equipment, net	<u>313,623</u>	<u>325,173</u>
Total Assets	\$ <u>22,777,129</u>	\$ <u>19,063,332</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Grants payable	\$ 47,754	\$ 58,238
Accounts payable	33,269	4,469
Deferred revenue	42,229	-
Total current liabilities	<u>123,252</u>	<u>62,707</u>
Liability Under Gift Annuity	<u>8,321</u>	<u>9,201</u>
Net Assets		
Unrestricted:		
Board designated, administrative endowment	18,078	-
Undesignated	17,873,801	14,904,620
Temporarily restricted	248,113	308,003
Permanently restricted	4,505,564	3,778,801
Total net assets	<u>22,645,556</u>	<u>18,991,424</u>
Total Liabilities and Net Assets	\$ <u>22,777,129</u>	\$ <u>19,063,332</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, 2003

(With Summarized Financial Information for the Year Ended December 31, 2002)

	2003			2002	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Gains and Other Support					
Contributions	\$ 1,588,214	\$ -	\$ -	\$ 1,588,214	\$ 1,288,945
Change in value of split-interest agreements	1,626	(1,963)	366,520	366,183	(262,938)
Change in value of perpetual trust	-	-	360,243	360,243	(622,386)
Realized gains on investments	381,937	-	-	381,937	(628,439)
Unrealized gains on investments	1,703,469	-	-	1,703,469	(1,536,263)
Investment income	845,172	-	-	845,172	470,525
Special events	45,558	-	-	45,558	43,651
Rental income	7,240	-	-	7,240	6,000
	4,573,216	(1,963)	726,763	5,298,016	(1,240,905)
Less investment fees	92,284	-	-	92,284	82,627
Total support	4,480,932	(1,963)	726,763	5,205,732	(1,323,532)
Net assets released from restrictions	57,927	(57,927)	-	-	-
Total revenues, gains and other support	4,538,859	(59,890)	726,763	5,205,732	(1,323,532)
Expenses					
Program services:					
Grants	910,572	-	-	910,572	893,774
Scholarships	141,094	-	-	141,094	213,400
YouthNet Grant	11,682	-	-	11,682	11,875
Total program services	1,063,348	-	-	1,063,348	1,119,049
Supporting services:					
General and administrative expenses	467,512	-	-	467,512	434,244
Special events expenses	20,740	-	-	20,740	26,646
Total support services	488,252	-	-	488,252	460,890
Total expenses	1,551,600	-	-	1,551,600	1,579,939
Increase (Decrease) in Net Assets	2,987,259	(59,890)	726,763	3,654,132	(2,903,471)
Net Assets - Beginning of Year	14,904,620	308,003	3,778,801	18,991,424	21,894,895
Net Assets - End of Year	\$ 17,891,879	\$ 248,113	\$ 4,505,564	\$ 22,645,556	\$ 18,991,424

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2003

(With Summarized Financial Information for the Year Ended December 31, 2002)

	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 3,654,132	\$ (2,903,471)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	15,127	14,659
Realized (gains) losses on investments	(381,937)	628,439
Unrealized (gains) losses on investments	(1,703,469)	1,536,263
(Increase) decrease in operating assets:		
Contributions receivable	(370,372)	36,442
Assets in trust - charitable remainder trust	(390,068)	296,151
Assets in trust - pooled income fund	19,309	10,421
Assets in trust - charitable gift annuity	(1,850)	(15,033)
Beneficial interest	(360,243)	622,386
Prepaid expenses	-	535
Increase (decrease) in operating liabilities:		
Accounts payable	28,800	(17,741)
Grants payable	(10,484)	3,238
Liability under charitable gift annuity	(880)	9,201
Deferred revenue	42,229	-
Net cash provided by operating activities	<u>540,294</u>	<u>221,490</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	28,834,849	7,974,224
Purchases of investments	(29,681,913)	(8,354,496)
Purchase of equipment	(3,576)	(17,526)
Net cash used in investing activities	<u>(850,640)</u>	<u>(397,798)</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for Women and Girls Fund	<u>21,160</u>	<u>57,223</u>
Net cash provided by financing activities	<u>21,160</u>	<u>57,223</u>
Net Decrease in Cash and Cash Equivalents	(289,186)	(119,085)
Cash and Cash Equivalents - Beginning of Year	<u>314,847</u>	<u>433,932</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>25,661</u></u>	\$ <u><u>314,847</u></u>

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. It promotes local philanthropy among the residents of eleven towns by building a permanent endowment to support programs offered by local nonprofit organizations. It 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, civic and environmental causes.

Basis of Accounting and Presentation - The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (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. GAAP provides that if the governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary, such contributions must be classified as unrestricted net assets. The Board of Directors of the Foundation has that ability known as variance power. 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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents - For purposes of the statements 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. 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.

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 5 to 40 years. Donated property and equipment are carried at the fair value at the date of donation.

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

Investments - Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value in the statements of financial position. Realized and unrealized gains and losses on these investments are reported in the statements 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.

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).

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 the agreement created and whether the Foundation or a third party is the trustee. See Note 4 for a further discussion of split-interest agreements.

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.

Spending Policy - Investment funds consist of numerous component named funds, both unrestricted and restricted, which are gifts to the Foundation to be invested as permanent funds of the Foundation. The Foundation's endowment is managed for perpetuity and the maintenance of purchasing power. The spending rule currently used by the Investment Committee sets gross Foundation spending at 5% of market value; however, the Board has the discretion to spend between 4% and 6%. Funds spent may be income, principal or a combination of both.

All permanent endowment funds are managed on the "total value" concept. Earnings are used to defray the fund's share of operating expenses with the balance used for grant distribution and/or reinvestment, so that the fund principal keeps pace with inflation.

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

Reclassifications - Certain amounts in the 2002 financial statements have been reclassified to conform with the current year's presentation.

Note 2 - **Investments:**

Investments consist of the following as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Cash equivalents	\$ 315,914	\$ 338,693
Common stocks	11,295,505	7,966,509
Fixed income	5,143,265	5,743,976
Other	<u>500,000</u>	<u>273,037</u>
Total Investments	<u>\$ 17,254,684</u>	<u>\$ 14,322,215</u>

Note 3 - **Contributions Receivable:**

Contributions receivable consists primarily of pledges receivable from numerous individuals for the "Women & Girls Fund." Contributions receivable as of December 31, 2003 and 2002, are expected to be collected as follows:

	<u>2003</u>	<u>2002</u>
Receivable in less than one year	\$ 412,807	\$ 33,093
Receivable in one to five years	15,010	49,509
Receivable more than five years	<u>1,400</u>	<u>-</u>
Total contributions receivable	429,217	82,602
Less discounts to net present value	<u>1,753</u>	<u>4,350</u>
Net Contributions Receivable	<u>\$ 427,464</u>	<u>\$ 78,252</u>

Note 4 - **Split-Interest Agreements:**

Beneficial Interest in Perpetual Trusts - The Foundation retains a beneficial interest in a trust established by Dorothy L. Morgan, held by an unrelated trustee. Under this arrangement, the Foundation receives investment income 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. The income received from the trust and included in investment return in the statements of activities for the years ended December 31, 2003 and 2002, was \$184,518 and \$180,204, respectively.

Assets in Trust - Charitable Remainder Trust - A Charitable Remainder Trust is an arrangement in which a donor establishes and funds a trust and 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.

Assets in Trust - Pooled Income Fund - The Foundation established a pooled income fund which is held in trust by a third party. Contributions to the fund are an irrevocable agreement in which the remainder interest in such contributions reverts to the Foundation. The donor retains a life interest in the income earned on such assets for one or more named beneficiaries. Contributions from multiple donors are commingled for investment purposes. The respective funds are unitized based upon the relationship of the fair value of the contributions to the fair value of the pool as a whole at the time the donor enters the pool. Upon termination of the life interest, the units attributable to that life tenant revert to the Foundation.

Charitable Gift Annuities - 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.

In 2002, the Foundation recorded contributions to the charitable gift annuity program of \$15,033 and a related liability for future annuity payments of \$9,201 related to the assets transferred into the program. There were no contributions to the program during 2003.

Note 5 - **Property and Equipment:**

The following is a summary of property and equipment as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Land and building	\$ 307,532	\$ 304,382
Furniture, fixtures and equipment	60,643	65,171
	<u>368,175</u>	<u>369,553</u>
Less accumulated depreciation	54,552	44,380
Net Property and Equipment	<u>\$ 313,623</u>	<u>\$ 325,173</u>

Note 6 - **Temporarily Restricted Net Assets:**

Temporarily restricted net assets represent contributions, gifts and income from investments that can be used for the purposes specified by the donor. At December 31, 2003 and 2002, temporarily restricted net assets are comprised as follows:

	<u>2003</u>	<u>2002</u>
Verguson Trust	\$ 11,773	\$ 26,425
Pooled Income Funds, net	141,048	203,326
Women & Girls Funds	57,092	78,252
Clement Trust	38,200	-
	<u>\$ 248,113</u>	<u>\$ 308,003</u>

Note 7 - **Permanently Restricted Net Assets:**

At December 31, 2003 and 2002, permanently restricted net assets consisted of the following:

	<u>2003</u>	<u>2002</u>
Dorothy L. Morgan Perpetual Trust	\$ 3,480,602	\$ 3,120,359
Lawrence P. and Marjory B. Smith Charitable Remainder Trust	<u>1,024,962</u>	<u>658,442</u>
	<u>\$ 4,505,564</u>	<u>\$ 3,778,801</u>

Note 8 - **Commitments:**

As of December 31, 2003 and 2002, the Foundation has conditional commitments to pay grants and scholarships of approximately \$40,000 and \$43,000, respectively.

Note 9 - **Description of Supporting 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.

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.

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



Report of Independent Accountants on Supplementary Information

To the Community Foundation of
Southeastern Connecticut, Inc.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of general and administrative expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blum, Shapiro & Company, P.C.

March 26, 2004

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(With Summarized Financial Information for the Year Ended December 31, 2002)

	<u>2003</u>	<u>2002</u>
Salaries	\$ 275,574	\$ 264,534
Employee benefits	27,726	23,160
Payroll taxes	22,769	21,766
Consulting	6,848	6,510
Professional fees	18,070	11,955
Annual report	13,369	12,782
Other operating expenses	19,576	-
Publications	8,165	7,970
Utilities	7,231	5,399
Software support	6,669	5,938
Repairs and maintenance	6,174	6,120
Travel and meetings	4,702	5,611
Insurance	4,617	4,163
Real estate taxes	4,238	1,193
Telephone	2,824	3,290
Training and educational expenses	2,860	2,521
Postage	2,791	3,564
Office supplies	2,603	2,100
In-kind services	2,500	-
Mailings	2,196	6,053
Donor development	2,055	1,155
Parking	2,046	1,990
Marketing	1,729	12,858
Payroll processing fees	1,465	1,277
Dues and subscriptions	1,310	2,268
Trustee meetings	1,296	2,584
Bank fees	860	2,479
Printing and copying	122	345
General and administrative expenses before depreciation	<u>452,385</u>	<u>419,585</u>
Depreciation	<u>15,127</u>	<u>14,659</u>
Total General and Administrative Expenses	<u>\$ 467,512</u>	<u>\$ 434,244</u>