

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

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

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## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of The Community Foundation of Eastern Connecticut, Inc., as of December 31, 2010 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 2009 financial statements and, in our report dated May 5, 2010, 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 2010 financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Eastern Connecticut, Inc., as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

June 24, 2011

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2010**

(With Summarized Financial Information as of December 31, 2009)

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,010,222	\$ 1,494,536
Investments	33,967,195	25,581,222
Contributions receivable, net	80,489	113,397
Other assets	10,567	9,359
Split-interest agreements:		
Beneficial interest in perpetual trust	3,707,965	3,354,877
Charitable trusts	1,634,120	1,526,503
Charitable gift annuities	40,090	44,915
Property and equipment, net	325,035	321,612
<b>Total Assets</b>	<b>\$ 40,775,683</b>	<b>\$ 32,446,421</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 32,588	\$ 41,035
Grants payable, net	458,333	497,403
Liability under charitable gift annuity	31,709	32,718
Total liabilities	522,630	571,156
<b>Net Assets</b>		
Unrestricted:		
Board designated, capital	116,327	90,394
Board designated, administrative endowment	1,418,486	1,375,281
Undesignated	33,295,666	25,414,813
Total unrestricted	34,830,479	26,880,488
Temporarily restricted	1,714,609	1,639,900
Permanently restricted	3,707,965	3,354,877
Total net assets	40,253,053	31,875,265
<b>Total Liabilities and Net Assets</b>	<b>\$ 40,775,683</b>	<b>\$ 32,446,421</b>

The accompanying notes are an integral part of the financial statements

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
(With Summarized Financial Information for the Year Ended December 31, 2009)

	<b>2010</b>			<b>Total</b>	<b>2009 Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
<b>Revenues, Gains and Other Support</b>					
Contributions	\$ 6,264,302	\$ 8,180	\$ -	\$ 6,272,482	\$ 2,976,824
Transfer in of Tri-County assets	1,459,499	-	-	1,459,499	-
Change in value of split-interest agreements	(3,816)	107,617	-	103,801	381,078
Change in value of perpetual trust	-	-	353,088	353,088	516,755
Net realized and unrealized gains on investments	2,574,919	-	-	2,574,919	4,359,894
Investment income	533,122	-	-	533,122	87,633
Rental income	22,450	-	-	22,450	22,475
	<u>10,850,476</u>	<u>115,797</u>	<u>353,088</u>	<u>11,319,361</u>	<u>8,344,659</u>
Less investment fees	131,301	-	-	131,301	132,638
Total support	<u>10,719,175</u>	<u>115,797</u>	<u>353,088</u>	<u>11,188,060</u>	<u>8,212,021</u>
Net assets released from purpose restrictions	41,088	(41,088)	-	-	-
Total revenues, gains and other support	<u>10,760,263</u>	<u>74,709</u>	<u>353,088</u>	<u>11,188,060</u>	<u>8,212,021</u>
<b>Expenses</b>					
Program services:					
Grants	1,775,676	-	-	1,775,676	2,585,380
Scholarships	279,650	-	-	279,650	276,549
Other program expenses	253,912	-	-	253,912	237,530
Total program services	<u>2,309,238</u>	<u>-</u>	<u>-</u>	<u>2,309,238</u>	<u>3,099,459</u>
Supporting services:					
General and administrative expenses	501,034	-	-	501,034	426,996
Total expenses	<u>2,810,272</u>	<u>-</u>	<u>-</u>	<u>2,810,272</u>	<u>3,526,455</u>
<b>Increase in Net Assets</b>	7,949,991	74,709	353,088	8,377,788	4,685,566
<b>Net Assets - Beginning of Year</b>	<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>
<b>Net Assets - End of Year</b>	<u>\$ 34,830,479</u>	<u>\$ 1,714,609</u>	<u>\$ 3,707,965</u>	<u>\$ 40,253,053</u>	<u>\$ 31,875,265</u>

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, 2010**  
(With Summarized Financial Information for the Year Ended December 31, 2009)

	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 8,377,788	\$ 4,685,566
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	22,940	19,586
Net realized and unrealized gains on investments	(2,574,919)	(4,359,894)
(Increase) decrease in operating assets:		
Contributions receivable	32,908	(45,844)
Other assets	(1,208)	(6,179)
Charitable trusts	(107,617)	(379,757)
Charitable gift annuities	4,825	(1,997)
Beneficial interest in perpetual trust	(353,088)	(516,756)
Increase (decrease) in operating liabilities:		
Accounts payable	(8,447)	3,566
Grants payable	(39,070)	384,676
Liability under charitable gift annuity	(1,009)	677
Net cash provided by (used in) operating activities	5,353,103	(216,356)
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale of investments	20,526,321	3,134,003
Purchases of investments	(26,337,375)	(3,570,526)
Purchase of property and equipment	(26,363)	(12,721)
Net cash used in investing activities	(5,837,417)	(449,244)
<b>Net Decrease in Cash and Cash Equivalents</b>	(484,314)	(665,600)
<b>Cash and Cash Equivalents - Beginning of Year</b>	1,494,536	2,160,136
<b>Cash and Cash Equivalents - End of Year</b>	\$ 1,010,222	\$ 1,494,536

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, Inc., is a nonprofit corporation located in New London, Connecticut, that promotes local philanthropy among the residents of 42 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.

Effective January 1, 2010, The Community Foundation of Southeastern Connecticut merged with The Community Foundation of the Tri-County Area. The by-laws were amended to include the expanded footprint, representing an expansion of the Foundation's service area from 11 to 42 towns, which now includes all of New London and Windham Counties, as well as the towns of Columbia, Coventry, Mansfield, Stafford, Union and Willington in Tolland County. Financial assets and historic records of the two organizations were combined and all existing fund agreements remained unchanged as to geography, donor intent or purpose.

On September 14, 2010, the Foundation's trustees unanimously voted to amend its Certificate of Incorporation to change the name of the merged organization to "The Community Foundation of Eastern Connecticut," more accurately reflecting its expanded geography. This change is not intended as a change in the Foundation's charitable tax-exempt mission or purposes.

**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, 2009, from which the summarized information was derived.

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

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

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

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

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

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

**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 and the discount of pledges receivable and grants payable.

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

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

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

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

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

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

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

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

**Functional Allocation of Expenses** - The costs of providing various programs and other activities 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.

In 2010, the operating expenses of the Foundation increased due to the addition of a new staff position for its newly expanded service area. The merger also resulted in approximately \$2,538,000 in new gifts and the transfer of \$1,459,000 in assets formerly held by The Community Foundation of the Tri-County Area.

**Income Tax Status** - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A). The Foundation's informational returns for the years ended December 31, 2007 through 2009 are subject to examination by the Internal Revenue Service and the State of Connecticut.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through June 24, 2011, which represents the date the financial statements were available to be issued.

**NOTE 2 - INVESTMENTS**

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

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

**NOTE 2 - INVESTMENTS (CONTINUED)**

liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

**Level 1** - Quoted market prices for identical assets or liabilities on an active market to which an entity has access at the measurement date.

**Level 2** - Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and the Foundation has the ability to redeem the asset or liability in the near term subsequent to the measurement date. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

**Level 3** - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available, and the Foundation does not have the ability to redeem the asset or liability in the near term. 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.

**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, 2010:

<u>Description</u>	<u>December 31, 2010</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 2,192,346	\$ 2,192,346	\$ -	\$ -
Common stock	15,688,908	15,688,908	-	-
Mutual funds:				
U.S. equity funds	1,221,745	1,221,745	-	-
Fixed income	7,219,174	7,219,174	-	-
International equity funds	4,475,222	4,475,222	-	-
Alternative investments:				
Long/short equity fund	2,054,600	-	2,054,600	-
Asian Opportunity fund	1,115,200	-	1,115,200	-
Total investments	<u>33,967,195</u>	<u>30,797,395</u>	<u>3,169,800</u>	<u>-</u>
Beneficial interest in				
perpetual trusts	3,707,965	-	-	3,707,965
Split-interest agreements	<u>1,674,210</u>	<u>-</u>	<u>1,674,210</u>	<u>-</u>
Total	<u>\$ 39,349,370</u>	<u>\$ 30,797,395</u>	<u>\$ 4,844,010</u>	<u>\$ 3,707,965</u>

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

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

**NOTE 2 - INVESTMENTS (CONTINUED)**

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

The following table discloses certain additional information as of December 31, 2010 related to the Foundation’s investments in the hedged equities as described above that use net asset value per share and are not traded in an active market:

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Long/short equity fund	\$ 2,054,600	\$ -	30 days	60 days
Asian Opportunity fund	<u>1,115,200</u>	<u>-</u>	30 days	90 days
<b>Total</b>	<u>\$ 3,169,800</u>	<u>\$ -</u>		

**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, 2010:

	<u>Beneficial Interest in Perpetual Trust</u>
Balance - beginning of year	\$ 3,354,877
Total gains (realized and unrealized) included in the change in net assets	<u>353,088</u>
Balance - End of Year	<u>\$ 3,707,965</u>

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

**NOTE 2 - INVESTMENTS (CONTINUED)**

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 \$353,088.

The investment strategy is capital appreciation oriented with an emphasis on capital appreciation while earning some current income.

**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, 2010 are expected to be collected as follows:

Receivable in less than one year	\$ 42,369
Receivable in one to five years	41,875
Total contributions receivable	<u>84,244</u>
Less discounts to net present value	<u>3,755</u>
Net Contributions Receivable	\$ <u><u>80,489</u></u>

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

**NOTE 4 - SPLIT-INTEREST AGREEMENTS**

**Beneficial Interest in Perpetual Trust** - The Foundation retains a beneficial interest in a trust established by Dorothy L. Morgan and held by an unrelated trustee. Under this arrangement, the Foundation receives distributions from the trust but does not have access to the principal. Changes in the carrying amount of the beneficial interest are recognized as increases or decreases in permanently restricted net assets. Distributions received from the trust and included in investment income in the statement of activities for the year ended December 31, 2010 was \$149,656.

**Charitable Remainder Trusts** - The Foundation is a named beneficiary in a charitable remainder trust established by Lawrence P. and Marjory B. Smith, and two charitable lead trusts established by Helen C. Vergason and Adele Clement. These trusts represent an arrangement in which a donor establishes and funds a trust that is held by a third party with the grantor as the named life beneficiary. The trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust’s term, usually the designated beneficiary’s lifetime. At the end of the trust’s term, the remaining assets are available for the Foundation’s use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recognized in the statement of activities as a temporarily restricted contribution in the period the

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

**NOTE 4 - SPLIT-INTEREST AGREEMENTS (CONTINUED)**

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. There were no contributions for the year ended December 31, 2010.

**NOTE 5 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment as of December 31, 2010:

Land, building and improvements	\$ 410,957
Furniture, fixtures and equipment	<u>95,286</u>
	506,243
Less accumulated depreciation	<u>181,208</u>
Net Property and Equipment	<u><u>\$ 325,035</u></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, 2010:

To be paid in less than one year	\$ 395,556
To be paid in one to five years	<u>66,750</u>
Gross unconditional grants payable	462,306
Less discounts to net present value	<u>3,973</u>
Net Unconditional Grants Payable	<u><u>\$ 458,333</u></u>

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

**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, 2010, temporarily restricted net assets are comprised of the following:

Pledges receivable - initiatives	\$ 80,489
Lawrence P. and Marjory B. Smith Charitable Remainder Trust, net	1,583,176
Vergason Trust	44,142
Clement Trust	<u>6,802</u>
	<u>\$ 1,714,609</u>

**NOTE 8 - ENDOWMENT AND VARIANCE POWER**

The Community Foundation of Eastern Connecticut, Inc.'s endowment consists of over 300 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

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

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

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.

**Return Objectives and Risk Parameters** - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that 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 COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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

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 2010 are as follows:

Endowed funds	5.25%
Administrative funds	5.0
Agency funds	5.0

**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 \$22,450 for the year ended December 31, 2010.

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

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## Independent Auditors' Report on Supplementary Information

To the Board of Directors  
The Community Foundation of Eastern 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, 2010 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, 2009 was derived from the Foundation's 2009 financial statements, and, in our report dated May 5, 2010, 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.*

June 24, 2011

**THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

(With Summarized Financial Information for the Year Ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Salaries	\$ 293,776	\$ 250,578
Employee benefits	40,275	39,410
Professional fees	36,771	23,680
Office and administrative	26,413	19,507
Payroll taxes	23,519	20,554
Other	17,196	19,576
Occupancy	12,518	12,651
Publications	8,240	5,079
Marketing and advertising	7,344	2,532
Computer and software	7,320	11,087
Donor development	<u>4,722</u>	<u>2,756</u>
General and administrative expense before depreciation	478,094	407,410
Depreciation	<u>22,940</u>	<u>19,586</u>
<b>Total General and Administrative Expenses (Note 10)</b>	<b><u>\$ 501,034</u></b>	<b><u>\$ 426,996</u></b>