

**COMMUNITY FOUNDATION OF
THE TRI-COUNTY AREA, INC.**

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
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**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Community Foundation of the Tri-County Area, Inc.
Willimantic, Connecticut

We have audited the accompanying statement of financial position of the Community Foundation of the Tri-County Area, Inc. (the Foundation) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized financial information has been derived from the Foundation's 2008 financial statements and, in our report dated November 13, 2009 we expressed an unqualified opinion on those financial 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 overall 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 the Tri-County Area, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, the Foundation merged with the Community Foundation of Southeastern Connecticut, Inc. effective December 31, 2009, with the latter organization designated as the surviving corporation.

Gothie, Hoyt & Filippetti, LLC

Groton, Connecticut
May 3, 2010

FINANCIAL STATEMENTS

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009
(With Summarized Financial Information for 2008)

ASSETS

	2009	2008
CURRENT ASSETS		
Cash	\$ 36,727	\$ 39,822
Pledges receivable	3,750	3,750
Total current assets	40,477	43,572
 PROPERTY AND EQUIPMENT, at cost		
Office equipment	5,167	5,167
Less: accumulated depreciation	5,167	5,167
	-	-
 OTHER ASSETS		
Deposits	-	100
Pledges receivable, less current portion	5,000	6,250
Investments at market value	1,418,714	1,203,257
Total other assets	1,423,714	1,209,607
Total assets	\$ 1,464,191	\$ 1,253,179

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 8,853	\$ -
Accrued payroll and related taxes	-	281
Liability under charitable gift annuity	-	1,378
Total current liabilities	8,853	1,659
 OTHER LIABILITIES		
Liability under charitable gift annuity, less current portion	-	216
 NET ASSETS		
Unrestricted, undesignated	338,053	197,852
Temporarily restricted	298,538	242,584
Permanently restricted	818,747	810,868
Total net assets	1,455,338	1,251,304
Total liabilities and net assets	\$ 1,464,191	\$ 1,253,179

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
(With Summarized Financial Information for 2008)

	2009			Total	2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUE					
Donations	\$ 32,705	\$ 62,883	\$ 7,879	\$ 103,467	\$ 206,371
Fundraising and special events	-	-	-	-	6,680
Net investment income	152,386	79,999	-	232,385	(367,414)
Net assets released from restrictions					
Satisfaction of purpose restrictions	86,928	(86,928)	-	-	-
Total support and revenue	<u>272,019</u>	<u>55,954</u>	<u>7,879</u>	<u>335,852</u>	<u>(154,363)</u>
EXPENSES					
Program expenses	87,712	-	-	87,712	226,631
Fundraising and special events	3,250	-	-	3,250	18,732
Management and general	40,856	-	-	40,856	45,618
Total expenses	<u>131,818</u>	<u>-</u>	<u>-</u>	<u>131,818</u>	<u>290,981</u>
Change in net assets	140,201	55,954	7,879	204,034	(445,344)
NET ASSETS, beginning of year	<u>197,852</u>	<u>242,584</u>	<u>810,868</u>	<u>1,251,304</u>	<u>1,696,648</u>
NET ASSETS, end of year	<u>\$ 338,053</u>	<u>\$ 298,538</u>	<u>\$ 818,747</u>	<u>\$ 1,455,338</u>	<u>\$ 1,251,304</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(With Summarized Financial Information for 2008)

CASH FLOWS FROM OPERATING ACTIVITIES	2009	2008
Change in net assets	\$ 204,034	\$ (445,344)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Unrealized (gain) loss on investments	(212,045)	385,516
Realized (gain) loss on investments	(334)	13,556
Decrease in pledges receivable	1,250	3,750
Decrease in deposit	100	-
Increase in accounts payable	8,853	-
Decrease in liability under charitable gift annuity	(1,594)	(1,378)
Decrease in accrued payroll and related taxes	(281)	(3,267)
Net cash used in operating activities	(17)	(47,167)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	50,000	313,226
Purchase of investments	(53,078)	(259,810)
Net cash (used in) provided by investing activities	(3,078)	53,416
 NET (DECREASE) INCREASE IN CASH	(3,095)	6,249
 CASH, beginning of year	39,822	33,573
 CASH, end of year	\$ 36,727	\$ 39,822

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE OF ORGANIZATION

Community Foundation of the Tri-County Area, Inc. (the Foundation), a non-stock Connecticut corporation, exists to improve the quality of life for the residents of the thirty-one towns which comprise eastern and northeastern Connecticut. This is accomplished by awarding grants to not-for-profit organizations which serve these areas. The Foundation was formed in 2006 from the merger of two smaller foundations: The Community Foundation of Northeast Connecticut, Inc. and the Eastern Connecticut Community Foundation, Inc.

The Foundation's primary sources of revenue are derived from donations, fundraisers, and investment earnings.

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. Accordingly, such information should be read in conjunction with the Foundation's audited financial statements as of and for the year ended December 31, 2008, from which the summarized information was derived. Certain reclassifications have been made to the 2008 amounts in order to conform to the 2009 presentation.

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 the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NET ASSET CATEGORIES

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in the following net asset categories:

Unrestricted

Unrestricted net assets represent resources other than donor restricted contributions. Included in unrestricted net assets are grants and contracts which may be earmarked for specific purposes. Generally accepted accounting principles provide 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.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. This classification includes income and appreciation subject to purpose restrictions.

Permanently Restricted

Permanently restricted net assets represent contributions which have donor-imposed restrictions for which the principal be invested in perpetuity, and that only their earnings thereon be used for support of the Foundation's operations.

VARIANCE POWER

Accounting principles generally accepted in the United States of America provide that if the governing body has the unilateral power to redirect the use of a donor's contribution to another beneficiary (Variance Power), such contributions must be classified as unrestricted. The Board of Directors has adopted a policy describing the criteria and limited circumstances under which the Foundation would exercise this power. Accordingly, these otherwise restricted contributions are classified as unrestricted. However, the Foundation segregates these donations internally for management and recordkeeping purposes.

RECOGNITION OF SUPPORT AND REVENUE

Contributions

Contributions are defined as voluntary, nonreciprocal transfers.

Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restricted 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. The Foundation's policy is to present temporarily restricted net assets received during the year whose restrictions are also met during the current year with unrestricted net assets. Contributions received that are contingent on the occurrence of a future event are presented as deferred support until such conditions are substantially met, at which time they are recognized as support.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the years in which the promises are received. Amortization of the discount is included in contribution support. Conditional promises to give are not recognized as support until the conditions are substantially met. No discount has been recorded by the

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS *(Continued)*
DECEMBER 31, 2009

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

RECOGNITION OF SUPPORT AND REVENUE *(Continued)*

Contributions *(Continued)*

Foundation for the year ended December 31, 2009 since the amount was not deemed significant.

Donated Services

The Foundation recognizes donated services at their estimated fair market value if they create or enhance non-financial assets or require specialized skills and would typically be purchased if not provided by donation. No donated services have been recognized in the accompanying financial statements.

Donated Assets

Donated assets (including the usage of assets such as rent) are recognized at their estimated fair market value.

GRANT EXPENDITURES

Grant expenditures are program expenses and are recognized in the period the grant is approved, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2009, there were no outstanding grants payable.

CASH EQUIVALENTS

For purposes of the statement of cash flows, the Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. The Foundation had no cash equivalents as of December 31, 2009.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS *(Continued)*
DECEMBER 31, 2009

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

PROPERTY AND EQUIPMENT

Property and equipment acquisitions and improvements thereon are capitalized at cost, if purchased, or at market or assessed value on the date of gift or bequest. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the related asset. As of December 31, 2009, all property and equipment was fully depreciated.

Maintenance and repairs are charged to expense as incurred.

INCOME TAXES

The Internal Revenue Service has determined that the Foundation is exempt from federal income taxes on exempt function income as a public charity under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes has been made in the accompanying financial statements.

EXPENSES BY FUNCTION

The costs of providing various programs and activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SUBSEQUENT EVENTS

The Foundation has performed an evaluation of subsequent events through May 3, 2010, which is the date the financial statements were issued. With the exception of the merger discussed in Note 9, there were no subsequent events identified that require disclosure.

NOTE 2 - CONCENTRATIONS

CONCENTRATIONS OF CREDIT RISK

The Foundation's financial instruments that are exposed to concentrations of credit risk consists primarily of cash, pledges receivable and investments. The Foundation places its cash deposits with high credit quality institutions and such deposits are fully insured by Federal Depository Insurance.

Pledges receivable are from private donors. Management believes these are fully collectible and therefore no provision for doubtful pledges has been recorded.

Investments are considered by management to be sufficiently diversified to minimize individual investment and industry concentration risks. However, investments are subject to risks of the securities markets as a whole.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2009

NOTE 3 - INVESTMENTS

The fair values of investments are determined using quoted prices in active markets for identical assets (Level 1, as defined in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*).

The following is a summary of the source of fair value measurements for investments that are measured at fair value on a recurring basis as of December 31, 2009.

	Total	Assets (Level 1)
Cash investment funds	\$ 220,363	\$ 220,363
US Treasury bonds and notes	184,260	184,260
Corporate bonds and notes	120,661	120,661
Stock and bond mutual funds	893,430	893,430
	\$ 1,418,714	\$ 1,418,714

In accordance with FAS No. 157, the Foundation's carrying amounts for all other financial instruments approximate fair value under Level 1.

The Foundation's endowment consists of approximately 50 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, 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.

The Board of Directors of the Foundation has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CT-UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by CT-UPMIFA. In accordance with CT-UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2009

NOTE 3 - INVESTMENTS (Continued)

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to outperform applicable or selected market indices or benchmarks (e.g. S&P 500, Lehman Brothers Government Bond, Russell 2000) that are proportioned equitable to match the asset allocation of the portfolio or segments thereof over a measured period of time. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation has a policy of appropriating for distribution each year five percent (5%) of the three-year rolling average of its endowed funds. The Foundation intends to increase its distributions by at least the amount of inflation each year, but may hold spending levels flat during extended periods of poor market performance. Recognizing the need to balance immediate needs against those of future generations, the Foundation will maintain a distribution corridor between 4% and 6% of the three year rolling average, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment Net Assets composition by type of fund as of December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ (25,538)	\$ 298,538	\$ 818,747	\$ 1,091,747
Board-designated Endowment Funds	326,967	-	-	326,967
Total funds	<u>\$ 301,429</u>	<u>\$ 298,538</u>	<u>\$ 818,747</u>	<u>\$ 1,418,714</u>

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2009

NOTE 3 - INVESTMENTS (Continued)

Changes in Endowment Net Assets for the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 149,805	\$ 242,584	\$ 810,868	\$ 1,203,257
Investment return:				
Investment income	4,887	15,119	-	20,006
Net appreciation (realized and unrealized)	147,499	64,880	-	212,379
Total investment return	<u>152,386</u>	<u>79,999</u>	<u>-</u>	<u>232,385</u>
Contributions	28,148	62,883	7,879	98,910
Appropriation of assets for expenditures	<u>(28,910)</u>	<u>(86,928)</u>	<u>-</u>	<u>(115,838)</u>
Endowment net assets, end of year	<u>\$ 301,429</u>	<u>\$ 298,538</u>	<u>\$ 818,747</u>	<u>\$ 1,418,714</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CT-UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. The Foundation had deficiencies totaling \$25,538 as of December 31, 2009.

NOTE 4 - PLEDGES RECEIVABLE

During the fiscal year ended December 31, 2007, the Foundation established a donor program named the "Cornerstone Society" wherein donors could pledge a total of \$5,000 to be paid in four annual installments of \$1,250 each.

Pledges receivable are due as follows:

	<u>Within One Year</u>	<u>From 1-5 Years</u>	<u>Total</u>
Pledges receivable	\$ 3,750	\$ 5,000	\$ 8,750
Less: allowance for doubtful pledges	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,750</u>	<u>\$ 5,000</u>	<u>\$ 8,750</u>

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2009

NOTE 5 - DONATED SPACE

The use of office space in Willimantic and Norwich has been donated on a monthly basis to the Foundation. The estimated fair value of these spaces totals \$350 per month and has been recorded in the accompanying statements of activities as an in-kind contribution with a corresponding amount recognized as rent expense. Total in-kind rent recognized for the year ended December 31, 2009 is \$4,200.

NOTE 6 - RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions, gifts and income from investments that are restricted based on time or purposes specified by the donor. At December 31, 2009, temporarily restricted net assets are compromised as follows:

Purpose-restricted:	
Willimantic funds	\$ 207,786
Norwich area community funds	90,752
	<u>\$ 298,538</u>

Temporarily restricted net assets were released from donor restrictions during the year ended December 31, 2009 by satisfying the following restrictions:

Purpose-restricted:	
Willimantic funds	\$ 57,654
Norwich area community funds	29,274
	<u>\$ 86,928</u>

Permanently restricted net assets consist of the following as of December 31, 2009:

Willimantic funds	\$ 556,463
Norwich area community funds	262,284
	<u>\$ 818,747</u>

NOTE 7 - NET INVESTMENT INCOME

Net investment income is comprised of the following for the year ended December 31, 2009:

Interest income	\$ 15,900
Dividend income	13,630
Net realized gains	334
Net unrealized gain	212,045
Investment advisory fees	(9,524)
Net investment income	<u>\$ 232,385</u>

COMMUNITY FOUNDATION OF THE TRI-COUNTY AREA, INC.
NOTES TO FINANCIAL STATEMENTS *(Continued)*
DECEMBER 31, 2009

**NOTE 8 - MERGER WITH THE COMMUNITY FOUNDATION OF
SOUTHEASTERN CONNECTICUT, INC.**

On December 21, 2009 the Foundation filed a Certificate of Merger with the Connecticut Secretary of the State's office. Under the terms of the certificate, the Foundation merged with the Community Foundation of Southeastern Connecticut, Inc. subsequent to the close of business on December 31, 2009 with the latter organization designated as the surviving corporation. These financial statements present the Foundation's financial position as of December 31, 2009 prior to the merger.