

CONNECTICUT COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

CONNECTICUT COMMUNITY FOUNDATION, INC.

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Independent Auditors' Report

To the Board of Trustees
Connecticut Community Foundation, Inc.
Waterbury, Connecticut

We have audited the accompanying financial statements of Connecticut Community Foundation, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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 audits. We conducted our audits 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 Connecticut Community Foundation, Inc., as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, during the year ended December 31, 2018, Connecticut Community Foundation, Inc., 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.

Blum, Shapiro & Company, P.C.

Shelton, Connecticut
April 18, 2019

CONNECTICUT COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 3,338,394	\$ 3,090,325
Investments	99,204,278	105,829,000
Property and equipment, net	31,060	40,595
Other assets	<u>511,245</u>	<u>511,245</u>
Total Assets	<u>\$ 103,084,977</u>	<u>\$ 109,471,165</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 93,838	\$ 43,558
Grants payable	109,400	47,515
Liabilities under split-interest agreements	174,570	165,164
Funds held as agency endowments	<u>3,828,485</u>	<u>3,296,973</u>
Total liabilities	<u>4,206,293</u>	<u>3,553,210</u>
Net Assets		
Net assets without donor restrictions	98,642,752	105,670,697
Net assets with donor restrictions	<u>235,932</u>	<u>247,258</u>
Total net assets	<u>98,878,684</u>	<u>105,917,955</u>
Total Liabilities and Net Assets	<u>\$ 103,084,977</u>	<u>\$ 109,471,165</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Revenue, Support and Other Changes		
Contributions and gifts, net of agency		
endowment contributions and gifts	\$ 6,176,405	\$ 2,579,848
Investment income, gains and losses, net	(6,418,352)	14,905,278
Miscellaneous income	258,544	150,824
Royalty income	36,906	71,862
Change in value of split-interest agreements	(9,188)	(3,346)
Total revenue, support and other changes	<u>44,315</u>	<u>17,704,466</u>
Expenses		
Program services:		
Grants, net of agency endowment grants	4,885,568	5,039,239
Other program service expenses	1,266,581	1,157,510
Total program services	<u>6,152,149</u>	<u>6,196,749</u>
Supporting services:		
Management and general	657,184	605,743
Fundraising	262,927	161,874
Total supporting services	<u>920,111</u>	<u>767,617</u>
Total expenses	<u>7,072,260</u>	<u>6,964,366</u>
Change in net assets without donor restrictions	(7,027,945)	10,740,100
Change in Net Assets With Donor Restrictions		
Change in value of split-interest agreements	<u>(11,326)</u>	<u>10,388</u>
Change in Net Assets	(7,039,271)	10,750,488
Net Assets - Beginning of Year	<u>105,917,955</u>	<u>95,167,467</u>
Net Assets - End of Year	<u>\$ 98,878,684</u>	<u>\$ 105,917,955</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT COMMUNITY FOUNDATION, INC.

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

	Program Services	Management and General	Fundraising	Total
Grants, net of agency endowment grants	\$ 4,885,568	\$ -	\$ -	\$ 4,885,568
Salaries and wages	723,410	330,959	149,832	1,204,201
Employee benefits	58,075	35,033	14,542	107,650
Payroll taxes	60,300	26,522	11,847	98,669
Pension plan contributions	53,190	25,072	10,036	88,298
Consultants	77,168	35,310	15,922	128,400
Occupancy	68,007	31,118	14,031	113,156
Office expense	53,192	24,339	10,975	88,506
Conferences, conventions and meetings	49,554	22,674	10,224	82,452
Information technology	47,662	21,809	9,834	79,305
Other expenses	40,183	18,386	8,290	66,859
Marketing and communication expenses	35,840	16,399	7,394	59,633
Professional services	-	42,011	-	42,011
Insurance	-	15,974	-	15,974
Depreciation	-	11,578	-	11,578
	<u>\$ 6,152,149</u>	<u>\$ 657,184</u>	<u>\$ 262,927</u>	<u>\$ 7,072,260</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (7,039,271)	\$ 10,750,488
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	11,578	6,054
Net realized and unrealized (gains) losses on investments	9,197,734	(12,391,941)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	50,280	(5,218)
Grants payable	61,885	41,703
Liabilities under split-interest agreements	9,406	30,368
Funds held as agency endowments	531,512	439,593
Net cash provided by (used in) operating activities	<u>2,823,124</u>	<u>(1,128,953)</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	19,011,777	6,590,506
Purchases of investments	(21,584,789)	(3,462,794)
Purchases of property and equipment	(2,043)	(38,056)
Net cash provided by (used in) investing activities	<u>(2,575,055)</u>	<u>3,089,656</u>
Net Increase in Cash and Cash Equivalents	248,069	1,960,703
Cash and Cash Equivalents - Beginning of Year	<u>3,090,325</u>	<u>1,129,622</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,338,394</u>	<u>\$ 3,090,325</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Connecticut Community Foundation, Inc. (the Foundation), founded in 1923, is a Connecticut nonprofit, nonstock corporation for public giving that makes grants to charitable organizations and awards individual scholarships primarily in the Greater Waterbury and Litchfield Hills region. The Foundation receives contributions from individuals and businesses primarily in the Greater Waterbury and Litchfield Hills region.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, with the exception of a statement of functional expenses and disclosures on liquidity and availability of resources for the year ended December 31, 2017.

Basis of Accounting and Presentation

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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. These resources may be expended at the discretion of the Board of Trustees. The Board has designated net assets without donor restrictions to function as an 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. Net assets with donor restrictions also represent resources that have donor-imposed restrictions to be maintained in perpetuity.

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.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Foundation considers all cash, cash on hand and certificates of deposit with original maturities of 90 days or less to be cash equivalents. The Foundation maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Foundation's deposits are held by high-quality financial institutions and are not subject to significant credit risk.

Investments

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. See Note 3 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. Realized and unrealized gains include the Foundation's gains and losses on investments bought and sold as well as held during the year.

The Foundation maintains master investment accounts for its funds. Interest, dividends, realized and unrealized gains and losses from securities, and related expenses in the pooled investment accounts are calculated and allocated quarterly to all of the donor funds based on the relationship of the market value of each fund to the total market value of the pooled investment accounts, as adjusted for additions to or distributions from those accounts.

Property and Equipment

Office equipment is stated at cost or donated value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets: five to seven years for office equipment. Expenditures for major renewals and betterments greater than \$500 that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Other Assets

Other assets consist of contributed artwork and copyrights for artwork, which are valued at appraised value, which approximates fair value at year end.

Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of charitable gift annuities and pooled life income funds. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

A charitable gift annuity is a contract between a donor and the Foundation in which the donor contributes assets to the Foundation and in exchange receives a lifetime income stream from the fund. The present value of the actuarially determined payouts to these beneficiaries is presented as a liability in the Foundation's financial statements. The change in value of the charitable gift annuity is included in revenue, support and other changes without donor restrictions on the statements of activities.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

A pooled income fund invests, as a group, contributions from donors' life income gifts. Donors or designated beneficiaries are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the fund. The donor or designated beneficiary is paid the actual income earned on the donor or designated beneficiary's assigned units. Upon the death of a donor or designated beneficiary, the value of the units assigned to that donor or designated beneficiary reverts to the Foundation. The pooled income funds are discounted using an annual rate of return of 7.11% and 6.97% at December 31, 2018 and 2017, respectively, and are based upon the life expectancy of each donor or designated beneficiary, which is determined using actuarial tables. The rate of return used is the risk-free rate of return in existence on the date of the gift. The change in value of the pooled income fund is included in change in net assets with donor restrictions on the statements of activities.

Funds Held as Agency Endowment

The Foundation receives and distributes assets under agency endowment agreements that have been established by a nonprofit from its own resources for the sole purpose of supporting that specific nonprofit's operations. Amounts received under these relationships totaled \$1,142,535 and \$115,911 in 2018 and 2017, respectively. Amounts granted under these relationships totaled \$312,685 and \$102,297 in 2018 and 2017, respectively.

The amounts held as agency endowment funds totaled \$3,828,485 and \$3,296,973 at December 31, 2018 and 2017, respectively, and are included in the statements of financial position in investments at fair value with an offsetting liability.

Spending Policy

The Foundation has adopted a spending policy designated specifically to stabilize annual spending levels and give careful consideration of Connecticut's UPMIFA regulations (§45a-535c of the Conn. Gen Statutes) and include such factors as preservation of the fund, general economic conditions, inflation or deflation, the expected total return from income and the appreciation of investments. The policy applies to all endowment funds, unless the donor has expressed a different intent in writing. The Foundation's spending payout rate is 5.25% and 5.20% for 2018 and 2017, respectively. This percentage is reviewed and approved annually by the Board of Trustees. Distributions for grants are calculated on the average of the 12 trailing quarters ending one year prior to the beginning of each current year. The spending rate includes distributions for grants to the community, the Foundation's action grants, administrative fee and investment management fee.

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 support 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 statements 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.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The Foundation was notified that they were named as a beneficiary of several estates. As of December 31, 2018, the estates were still in the probate administration process. The amounts to be received cannot be reasonably estimated as of the date of this report, and as a result, the receivable and revenue related to these estates have not been recorded.

Grants

Grants are recorded when approved by the Board of Trustees. Payments are made when all conditions have been satisfied by the recipient. As of December 31, 2018 and 2017, the Foundation was unaware of any material conditions on grants that are unlikely to be satisfied during the approved grant period. Refunds occur when the recipient's needs are less than the appropriated amount or when the grantee does not meet the grant requirements. For the years ended December 31, 2018 and 2017, refunded grants totaled \$17,815 and \$35,351, respectively. They are reported as a reduction of grants in the period in which they are refunded. Grants authorized but unpaid at year end are reported as liabilities.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been reported on a functional basis in the statement of 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. The expenses are allocated based on time and effort and usage.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code); however, the Foundation is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through April 18, 2019, which represents the date the financial statements were available to be issued.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - 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 (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 in active markets that the Foundation has the ability to access.

Level 2

Inputs to the valuation methodology include:

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

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

Level 3

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

The asset'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.

The following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2018 and 2017:

Money Market and Mutual Funds

Money market and mutual funds are valued at the quoted price of shares held by the Foundation at year end.

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.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018 and 2017:

Description	2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 427,488	\$ -	\$ -	\$ 427,488
Mutual funds:				
Large blend	34,579,962	-	-	34,579,962
International large blend	22,223,652	-	-	22,223,652
World allocation	2,249,167	-	-	2,249,167
Long/short equity	2,999,088	-	-	2,999,088
Multi-alternative	1,530,084	-	-	1,530,084
Real estate	1,518,551	-	-	1,518,551
Tactical allocation	2,205,070	-	-	2,205,070
Large cap	47,866	-	-	47,866
Miscellaneous other	84,812	-	-	84,812
International developed	22,224	-	-	22,224
Commodities	1,387,472	-	-	1,387,472
Fixed income	29,928,842	-	-	29,928,842
Total Investments	\$ 99,204,278	\$ -	\$ -	\$ 99,204,278

Description	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 484,755	\$ -	\$ -	\$ 484,755
Mutual funds:				
Large blend	39,220,322	-	-	39,220,322
International large blend	25,959,288	-	-	25,959,288
World allocation	2,451,647	-	-	2,451,647
Long/short equity	3,235,963	-	-	3,235,963
Multi-alternative	2,878,106	-	-	2,878,106
Real estate	3,154,640	-	-	3,154,640
Tactical allocation	2,314,037	-	-	2,314,037
Large cap	40,933	-	-	40,933
Miscellaneous other	84,241	-	-	84,241
International developed	42,805	-	-	42,805
Commodities	1,560,065	-	-	1,560,065
Fixed income	24,402,198	-	-	24,402,198
Total Investments	\$ 105,829,000	\$ -	\$ -	\$ 105,829,000

There were no transfers between levels of investments during the years ended December 31, 2018 and 2017.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Office equipment	\$ 55,099	\$ 61,449
Less accumulated depreciation	<u>24,039</u>	<u>20,854</u>
Property and Equipment, Net	<u>\$ 31,060</u>	<u>\$ 40,595</u>

Depreciation expense was \$11,578 and \$6,054 for the years ended December 31, 2018 and 2017, respectively.

NOTE 5 - LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Cash and cash equivalents	\$ 3,338,394
Investments	<u>95,139,861</u>
Total Financial Assets Available to Management for General Expenditure Within One Year	<u>\$ 98,478,255</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. Under the Foundation's spending policy and in conjunction with the annual budget approval process, \$3,254,353 has been approved for appropriation from the endowment for general expenditures in the subsequent year. This amount is included within the investments balance of \$95,139,861 reported above.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - ENDOWMENT AND VARIANCE POWER

The Foundation's endowment consists of approximately 500 individual funds established for a variety of purposes. Its endowment includes donor-advised funds, donor-designated funds and funds designated by the Board of Trustees to function as endowments. The Board of Trustees of the Foundation has the 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 Code.

As required by accounting principles generally accepted in the United States of America, 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 Board of Trustees of the Foundation has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) and concluded that 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 and ability to modify any restriction on distribution of funds. The criteria and circumstances under which the Board of Trustees of the Foundation would exercise the powers are prescribed in the by-laws of the Foundation.

As a result of this responsibility under the by-laws, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions for financial statement purposes. Net assets with donor restrictions consist of pooled income funds, which are classified as split-interest agreements. Accordingly, the Foundation's financial statements classify substantially all net assets as without donor restrictions; however, all recordkeeping for internal management and external reporting retains the original donor intent and historical gift value for every charitable asset within the Foundation.

The spending policy and philosophy contained in the Foundation's Investment Committee Policies and Procedures, 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.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets without donor restrictions for the years ended December 31, 2018 and 2017, are as follows:

Endowment net assets - January 1, 2017	\$ <u>93,575,999</u>
Investment return:	
Investment income	2,543,919
Investment management fees	(30,582)
Unrealized gains	10,298,216
Realized losses	<u>2,090,379</u>
Total investment return	<u>14,901,932</u>
Contributions	<u>1,303,615</u>
Expenditure of discretionary endowment funds	<u>(5,513,239)</u>
Endowment net assets - December 31, 2017	<u>104,268,307</u>
Investment return:	
Investment income	2,813,847
Investment management fees	(34,465)
Unrealized losses	(10,427,129)
Realized gains	<u>1,220,207</u>
Total investment loss	<u>(6,427,540)</u>
Contributions	<u>4,981,303</u>
Expenditure of discretionary endowment funds	<u>(5,544,178)</u>
Endowment Net Assets - December 31, 2018	\$ <u><u>97,277,892</u></u>

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, net assets with donor restrictions consist of pooled income funds with time restrictions in the amount of \$235,932 and \$247,258, respectively.

NOTE 8 - FUNDRAISING

Fundraising expenses were \$262,927 and \$161,874 in 2018 and 2017, respectively. Direct fundraising expense totaled \$187,332 and \$118,401 for the years ended December 31, 2018 and 2017, respectively. Indirect fundraising expense totaled \$75,595 and \$43,473 for the years ended December 31, 2018 and 2017, respectively.

CONNECTICUT COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - OPERATING LEASE

The Foundation leases office space in Waterbury, Connecticut, under a lease that expires September 30, 2020, with monthly payments of \$4,984. Rental expense for 2018 and 2017 was \$56,508. At December 31, 2018, aggregate future minimum rental payments due under noncancelable operating leases consisted of the following:

<u>Year Ending December 31</u>	
2019	\$ 59,808
2020	<u>44,856</u>
Total Minimum Lease Payments	\$ <u>104,664</u>

During 2018 and 2017, the Foundation subleased a portion of its office space for \$300 per month under a sublease agreement with optional annual renewal. The lease was renewed for one year and expires on September 30, 2019. Under the renewed lease agreement, payments are \$300 per month. The lease may be renewed for successive one-year periods. Sublease income was \$3,600 for each of the years ended December 31, 2018 and 2017.

NOTE 10 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Foundation has a defined contribution retirement plan as defined under Section 403(b) of the Code. The plan provides for elective employee salary reduction contributions subject to Code limits and for discretionary employer match and nonelective contributions. Any eligible employee may participate in salary reduction contributions as of the date of employment. All eligible employees who have completed 1 year of service and have reached the age of 21 are eligible to participate in nonsalary reduction employer contributions. Employees are fully vested upon entry into the plan. Employer contributions to the plan totaled \$88,299 and \$80,337 in 2018 and 2017, respectively.