THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE

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Independent Auditors' Report

To the Trustees' Committee and the Board of Directors
The Community Foundation for Greater New Haven
New Haven, Connecticut

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of The Community Foundation for Greater New Haven and Affiliate, which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation for Greater New Haven and Affiliate as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 26, 2013 on our consideration of The Community Foundation for Greater New Haven's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Community Foundation for Greater New Haven's internal control over financial reporting and compliance.

Blum, Shapiro + Company, P.C.

West Hartford, Connecticut
February 26, 2013

THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 6,789,917	$ 9,633,504
Investments at market value	365,286,462	312,856,440
Investment in real estate	2,470,000	2,470,000
Mission-related investments	350,000	350,000
Total investments	374,896,379	325,309,944
Notes receivable	120,000	330,000
Contributions receivable	591,949	12,871,746
Grants receivable	871,628	598,071
Split-interest agreements	1,867,473	1,831,731
Other assets	278,801	26,210
Furniture, equipment and fixtures, net of accumulated depreciation	410,612	441,384
Total Assets	$ 379,036,842	$ 341,409,086
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 703,967	$ 504,248
Organization funds	73,169,701	61,497,898
Liabilities under split-interest agreements	540,560	507,418
Grants payable	2,904,074	4,022,155
Total liabilities	77,318,302	66,531,719
Net Assets		
Unrestricted	299,472,678	272,746,957
Temporarily restricted	2,245,862	2,130,410
Total net assets	301,718,540	274,877,367
Total Liabilities and Net Assets	$ 379,036,842	$ 341,409,086

The accompanying notes are an integral part of the combined financial statements

THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE
COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains (Losses) and Other Support						
Contributions	$ 20,634,319	$ 85,498	$ 20,719,817	$ 42,717,173	$ 130,074	$ 42,847,247
Less contributions to organization funds	(7,005,762)	-	(7,005,762)	(7,955,730)	-	(7,955,730)
Net contributions	13,628,557	85,498	13,714,055	34,761,443	130,074	34,891,517
Investment income	9,442,502	-	9,442,502	6,079,826	-	6,079,826
Realized and unrealized gain on investments, net of fees of $1,809,528 for 2012 and $1,521,145 for 2011	24,888,375	-	24,888,375	4,404,843	-	4,404,843
Split-interest agreements released from restrictions	640,000	(640,000)	-	42,558	(42,558)	-
Change in value of split-interest agreements, net	-	669,954	669,954	-	(120,305)	(120,305)
Total revenue, gains (losses) and other support	48,599,434	115,452	48,714,886	45,288,670	(32,789)	45,255,881
Expense						
Grants approved, net	21,697,047	-	21,697,047	18,261,332	-	18,261,332
Grants for program management and direct grant activities	1,397,899	-	1,397,899	1,262,704	-	1,262,704
Total grants expense	23,094,946	-	23,094,946	19,524,036	-	19,524,036
Less grants from organization funds	(4,229,319)	-	(4,229,319)	(3,529,144)	-	(3,529,144)
Net grant expense	18,865,627	-	18,865,627	15,994,892	-	15,994,892
Development, donor services and fund stewardship	1,219,494	-	1,219,494	1,162,704	-	1,162,704
Financial, endowment and investment management	975,595	-	975,595	1,007,676	-	1,007,676
Management and general	812,997	-	812,997	542,595	-	542,595
Total administration expense	3,008,086	-	3,008,086	2,712,975	-	2,712,975
Total expense	21,873,713	-	21,873,713	18,707,867	-	18,707,867
Increase (Decrease) in Net Assets	26,725,721	115,452	26,841,173	26,580,803	(32,789)	26,548,014
Net Assets - Beginning of Year	272,746,957	2,130,410	274,877,367	246,166,154	2,163,199	248,329,353
Net Assets - End of Year	$ 299,472,678	$ 2,245,862	$ 301,718,540	$ 272,746,957	$ 2,130,410	$ 274,877,367

The accompanying notes are an integral part of the combined financial statements

THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Increase in net assets	$ 26,841,173	$ 26,548,014
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	75,812	80,771
Realized and unrealized gain on investments, net	(24,888,375)	(4,404,843)
(Increase) decrease in operating assets:		
Contributions receivable	12,279,797	(12,861,200)
Grants receivable	(273,557)	1,341,024
Split-interest agreements	(35,742)	20,608
Other assets	(252,591)	(21,485)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	199,719	(791,645)
Organization funds	11,671,803	3,273,823
Liabilities under split-interest agreements	33,142	32,679
Grants payable	(1,118,081)	340,061
Net cash provided by operating activities	24,743,100	13,557,807
Cash Flows from Investing Activities		
Proceeds from sales of investments	44,524,482	45,557,989
Purchases of investments	(72,066,129)	(54,206,321)
Purchases of furniture and equipment	(45,040)	(201,477)
Net cash used in investing activities	(27,586,687)	(8,849,809)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,843,587)	4,707,998
Cash and Cash Equivalents - Beginning of Year	9,633,504	4,925,506
Cash and Cash Equivalents - End of Year	$ 6,789,917	$ 9,633,504

The accompanying notes are an integral part of the combined financial statements

Note 1 - **Organization and Basis of Presentation:**

The Community Foundation for Greater New Haven (the Foundation), formerly The New Haven Foundation, was established in 1928 under a Resolution and Declaration of Trust as amended through April 2000 (the R&D). As of December 31, 2012, the R&D provides for the following Trustee Banks: Wells Fargo Bank, Bank of America, First Niagara and Peoples United Bank.

The accompanying combined financial statements include the accounts of the Foundation, The Community Foundation for Greater New Haven, Inc. (the Corporation), and the Valley Community Foundation, Inc. (the Affiliate) (the Foundation, the Corporation and the Affiliate, together, are referred to as The Community Foundation herein). All material intercompany balances and transactions have been eliminated from The Community Foundation's combined financial statements.

The Corporation is a separate charitable corporation, organized in 1982 to perform the function and to carry out the purposes of The Foundation. The Affiliate is a separate charitable corporation, organized in 2004 to carry out the purposes, mission, objectives, operations and activities of the Foundation in the towns of Ansonia, Derby, Shelton, Seymour and Oxford, Connecticut, and their environs. The Affiliate is required through an affiliation agreement to operate at all times in connection with the Foundation under the requirements set forth in Section 509(a)(3) of the Internal Revenue Code.

The Community Foundation qualifies as a public charity under Internal Revenue Code Section 170(b)(1)(A)(vi) and is exempt from federal income and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 12-244 of the Connecticut General Statutes. The Community Foundation's informational returns for the years ended December 31, 2009 through 2012 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Note 2 - **Summary of Significant Accounting Policies:**

a. Basis of Accounting

The Community Foundation prepares its combined financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

b. Financial Statement Presentation

The Community Foundation measures aggregate net assets based on the absence or existence of donor-imposed restrictions. The three categories of net assets for presentation of The Community Foundation's combined financial statements are as follows: unrestricted, temporarily restricted and permanently restricted.

ASC 958-205: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* sets forth the net asset classifications of donor-restricted endowment funds in accordance with the State of Connecticut's enacted version of the Uniform Prudent Management of Institutional Funds Act (CUPMIFA). This standard also requires other disclosures concerning an organization's charitable assets including whether or not the organization is subject to CUPMIFA. Although CUPMIFA is not germane, The Community Foundation has and will continue to provide additional disclosures as further described below for the complete fulfillment of donor intent. Further, The Community Foundation will continue its stewardship responsibilities by internally accounting for and reporting on all net assets in accordance with each donor's original intent as provided for in the underlying gift instrument that established the fund, as presented in note 3a. The impact of CUPMIFA's adoption was negligible on the presentation of The Community Foundation's financial statements given the governing documents' provision for 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 Community Foundation would exercise its responsibility are prescribed within the R&D.

The Community Foundation's combined financial statements classify substantially all net assets as unrestricted; however, as noted above, all recordkeeping for internal management and all external reporting retain the original donor intent and direction for every charitable fund held within The Community Foundation. All contributions not classified as temporarily restricted are classified as unrestricted net assets. Temporarily restricted net assets consist of irrevocable charitable trusts, lead trusts and pooled income funds, which are all classified as split-interest agreements, as defined in note 2k, below.

As the community's perpetual endowment organization, The Community Foundation's spending policies and philosophy since their creation in 1993 and as prescribed in the R&D, as well as the long-term investment management policies and procedures both of which are further described in note 3b, were designed to function as integrated processes and are administered to reflect the following facts and circumstances, as also described in CUPMIFA, 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;

7) The investment policies.

c. Organization Funds

The Community Foundation receives and distributes assets for certain endowment funds that have been established by a nonprofit from its own resources for the sole purpose of supporting that specific nonprofit's operations. Amounts received and distributed under these relationships totaled $7,005,762 and $4,229,319, respectively, for the year ended December 31, 2012, and $7,955,730 and $3,529,144, respectively, for the year ended December 31, 2011.

The amounts received but not yet distributed totaled $73,169,701 and $61,497,898 at December 31, 2012 and 2011, respectively, and are included on the combined statements of financial position and referred to as organization funds.

d. Cash and Cash Equivalents

Cash and cash equivalents include currency and interest-bearing short-term investments with an average maturity of three months or less.

The Community Foundation maintains deposits which may, at times, be in excess of the financial institution's insurance limits. The Community Foundation invests available cash and cash equivalents with high-credit quality institutions and believes that such deposits are not subject to significant credit risk.

e. Investments

Investments are carried at fair value, as discussed in note 2f below. Investments include alternative investments, which are principally absolute return strategies, private equity, hedged equity, and real estate. Because most alternative investments are not immediately marketable given the nature of the underlying strategies and the terms of the investment's governing agreement, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that may be received if a ready market for the investments had been in existence, and the difference could be material. Fair value of alternative investments in limited partnerships are determined by the general partner to be at fair value pursuant to GAAP's standard referred to as *Fair Value Measurements* after it considers certain pertinent factors which are reviewed and discussed by management and its investment committee, in consultation with its independent advisory firm.

Investments at December 31, 2012 and 2011, consisted of the following:

	2012		2011	
	Fair Value	Cost or Assigned Value	Fair Value	Cost or Assigned Value
Short-term investments	$ 18,253,982	$ 18,253,982	$ 18,920,935	$ 18,920,935
Equities (Domestic and Foreign)	186,183,914	151,189,640	164,864,281	140,715,439
Alternatives	90,108,997	76,320,795	66,810,052	58,537,875
Fixed income	70,739,569	59,518,762	62,261,172	60,577,539
	$ 365,286,462	$ 305,283,179	$ 312,856,440	$ 278,751,788

The Community Foundation believes that the carrying amounts of its investments are at a reasonable fair value as of December 31, 2012 and 2011.

f. Fair Value of Financial Instruments

The Community Foundation is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Observable inputs from quoted market prices for identical assets or liabilities to which The Community Foundation has independent access at the measurement date.

Level 2: Observable inputs based on direct quoted market prices or indices for the asset or liability, either directly or indirectly, or can be corroborated by observable inputs and market data, and The Community Foundation has the ability to redeem the asset in the near term (within 90 days) subsequent to the measurement date.

Level 3: Prices, which may be based on an underlying quoted market price, observable input and/or market data contained in Level 1 and Level 2, which also requires significant judgment on observable inputs by the investee as to the net asset value per share or unit of The Community Foundation's ownership interest in the partners' capital, and where redemption would be available in a period of more than 90 days from the measurement date. Valuation methodologies include, but are not limited to, discounted cash flow analysis, comparable asset analysis, third-party appraisals, third-party pricing services and other applicable indices.

Where:

Observable inputs reflect the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and from independent sources that are actively involved in the relevant markets, and include assumptions made in pricing and valuations of the asset or liability that are developed from sources independent of The Community Foundation; and

Unobservable inputs reflect The Community Foundation's own assumptions about the fair value assumptions made by investees' use in pricing the asset or liability developed based on the best information available.

The Community Foundation does not use unobservable inputs for determining fair value of its investments.

The fair value of The Community Foundation's investments as of December 31, 2012 is as follows:

Description	Total	Level 1	Level 2	Level 3
Short-term investments	$ 18,253,982	$ 18,253,982	$ -	$ -
Fixed income	70,739,569	58,821,342	11,918,227	-
Equities:				
International	35,179,331	-	23,258,261	11,921,070
Domestic	151,004,583	94,521,046	56,483,537	-
Alternatives:				
Hedged equity	29,517,242	-	-	29,517,242
Absolute return	23,173,658	-	-	23,173,658
Real assets	31,668,395	-	-	31,668,395
Private equity	5,749,702	-	-	5,749,702
December 31, 2012	$ 365,286,462	$ 171,596,370	$ 91,660,025	$ 102,030,067
Percent of Total	100%	47.0%	25.1%	27.9%

The fair value of The Community Foundation's investments as of December 31, 2011 is as follows:

Description	Total	Level 1	Level 2	Level 3
Short-term investments	$ 18,920,935	$ 18,920,935	$ -	$ -
Fixed income	62,261,172	52,693,073	9,568,099	-
Equities:				
International	24,560,170	-	17,366,690	7,193,480
Domestic	140,304,111	90,779,223	49,524,888	-
Alternatives:				
Hedged equity	17,761,365	-	-	17,761,365
Absolute return	21,299,855	-	-	21,299,855
Real assets	22,977,232	-	-	22,977,232
Private equity	4,771,600	-	-	4,771,600
December 31, 2011	$ 312,856,440	$ 162,393,231	$ 76,459,677	$ 74,003,532
Percent of Total	100%	51.9%	24.4%	23.7%

There were no transfers between levels of investments during the years ended December 31, 2012 and 2011.

The following table discloses certain additional information as of December 31, 2012 related to The Community Foundation's investments in alternatives that use net asset value per share and are not traded in an active market:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedged equity (Class B)	$ 16,156,443	None	Annually with a one-year lock-up period	60 days written notice
Hedged equity (Class B2)	13,360,799	None	Annually beginning 2013 with a one- year lock-up period	95 days written notice
International equity	11,921,070	None	Three-year lock-up period	90 days notice
Absolute return	23,173,658	None	Annually with one or three-year lock-up period	100 days written notice
Real assets	31,668,395	$ 5,780,481	Illiquid	N/A
Private equity	5,749,702	2,670,000	Illiquid	N/A
Total	$ 102,030,067	$ 8,450,481		

The Community Foundation assesses and reports on the liquidity of all investments on a quarterly basis to ensure that it has access to sufficient resources necessary for its current and future operational activities. Overall, The Community Foundation has access to approximately fifty percent (50%) of the fair value of its investments on a monthly basis, and two-thirds of the fair value of its investments on a quarterly basis.

Assets Measured at Fair Value on a Recurring Basis Using Significant (Level 3) Inputs:
The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant (Level 3) inputs for December 31, 2012 and 2011:

	Hedged Equity	Absolute Return	Real Assets	International Equity	Private Equity	Total
Fair value as of December 31, 2010	$ 19,446,418	$ 21,318,609	$ 18,554,736	$ -	$ 2,178,504	$ 61,498,267
Net realized/unrealized gains (losses)	(3,685,053)	(18,754)	2,522,056	193,480	(210,402)	(1,198,673)
Sales of investments	-	-	(379,692)	-	(57,002)	(436,694)
Purchases of investments	2,000,000	-	2,280,132	7,000,000	2,860,500	14,140,632
Fair value as of December 31, 2011	17,761,365	21,299,855	22,977,232	7,193,480	4,771,600	74,003,532
Net realized/ unrealized gains	11,755,877	1,873,803	5,053,753	3,727,590	589,620	23,000,643
Sales of investments	-	-	(4,225,594)	-	(2,230,901)	(6,456,495)
Purchases of investments	-	-	7,863,004	1,000,000	2,619,383	11,482,387
Fair value as of December 31, 2012	$ 29,517,242	$ 23,173,658	$ 31,668,395	$ 11,921,070	$ 5,749,702	$ 102,030,067

The Community Foundation's carrying amounts of cash and cash equivalents, accounts and grants payable and accrued expenses, approximate fair value under Level 1. Investments are carried at fair value as presented above. Split-interest agreements are reported at fair value based on the life expectancy of the beneficiary and the net present value of the expected cash flows using a discount rate. Organization funds are carried at fair value based on the underlying investments. Derivatives instruments are measured at fair value based on observable inputs. Certain alternative investments use stock indices, swaps, options, convertible securities and foreign currency exchange contracts, which are classified as derivatives. The Community Foundation does not use derivatives for speculative purposes or for leveraging returns, but rather these instruments are used with the objectives of reducing overall portfolio risk.

The Community Foundation's investments consist of the following types:

Cash and Cash Equivalents: Investments consist of treasury securities with an average maturity of 120 days or less, checking accounts, and money market holdings with daily liquidity.

Fixed Income: Fixed income investments consist of both domestic and foreign issuances of debt instruments, and include both government and corporate holdings. Domestically, The Community Foundation concentrates primarily on U.S. treasuries, including a separate account approach of Treasury Inflation Protected Securities (TIPS). Internationally, the fixed income strategy includes sovereign-issued, local-currency denominated debt holdings, and a global fixed income approach that seeks a long-term, value oriented approach in local-currency debt instruments.

<u>Equities:</u> Domestic and international equities, including international emerging market equities, are listed securities traded on public exchanges, at various market capitalizations, and are priced daily by the underlying managers. The Community Foundation accesses both domestic and international equities through institutional-class mutual funds, limited partnerships and separate accounts. Publicly traded domestic and international equities accessed through a limited partnership arrangement, while priced daily by the manager using Level 1 observable inputs, are contained in Level 2 and Level 3 investments due to their liquidity features.

<u>Hedged Equity:</u> This strategy involves equity investments, either long or short, in marketable and publicly traded equities. Traditionally, hedge funds purchase stocks which they perceive to be undervalued and sell stocks which they perceive to be overvalued. The research-intensive and quantitative efforts in identifying promising stocks to hold long in a portfolio may also provide short-sale opportunities, and for this reason many directional hedged equity funds often maintain both long and short portfolios in a fund-of-funds strategy, as employed by The Community Foundation.

<u>Absolute Return:</u> This investment strategy has an objective to generate in most market environments an annualized return equal to or greater than the 91-day U.S. Treasury Bill plus 5%, net of all costs. Absolute return strategies consist of capital structure arbitrage, hedged equity, special situations, distressed debt, and event arbitrage, and employ derivatives, as described above.

<u>Special Situations - Debt:</u> This strategy, within The Community Foundation's real assets investments, employs an opportunistic search for undervalued investments in inefficient public and private debt markets, where event-driven debt securities can be purchased inexpensively relative to current and expected value based on substantial fundamental analysis and within a significant risk-controlled environment.

<u>Real Estate:</u> This strategy, within The Community Foundation's real assets investments, consists of investments in several fund-of-fund commercial, industrial and residential limited partnerships where diversity of property type, region, manager and strategy is a fundamental premise. These investments may also include the purchase, restructure or origination of loans secured by real property or secured by interests in such property.

<u>Private Equity:</u> This strategy consists of making equity capital available through a fund-of-funds structure whereby the underlying investments in the specific companies are not quoted on a public exchange. Private equity consists of qualified investors and institutional funds that make investments directly into private companies or conduct buyouts of public companies. Private equity investments are made with a long-term perspective, or generally about ten years in duration.

The Community Foundation believes that the carrying amount of its investments is a reasonable fair value as of December 31, 2012 and 2011.

g. Investment in Real Estate

In June 1990, the Foundation and Corporation relocated their offices to The New Haven Foundation Building (the Building), a five-story, 26,976 square-foot office complex (excluding common and limited common space) on 0.16 acres of land, which was purchased for one dollar per square foot ($6,986) by the developer from the City of New Haven. The Building is classified and recognized by the Internal Revenue Service as a nonprofit condominium.

Floors four and five are owned and occupied by The Community Foundation, floor three is owned by the Corporation and occupied by The Community Foundation, and floors one and two are owned by unrelated nonprofit organizations. Since the Building was accounted for as a mission or program-related investment, no depreciation has been recognized. Pursuant to the policy adopted by the Board of Directors for this investment, the Building would be periodically and independently assessed to determine its current fair value. Due to the unique nature and restrictions of the Building, the Board of Directors requires periodic valuation through an independent market appraisal not less frequently than every five years. The Building was independently appraised in 2010, and in accordance with the Board of Director's original resolution, the carrying value of the Building approximates the fair value as of December 31, 2012 and 2011.

h. Mission-Related Investments

The Community Foundation, like most foundations nationally, is increasingly seeking additional ways in which to invest its charitable capital entrusted to it through mechanisms and structures other than direct grants or similar distributions to nonprofit organizations. Achieving positive social outcomes and impact through the intentional use of financial assets to simultaneously achieve social and financial returns are commonly referred to as mission-related or impact investing (MRI). The Community Foundation has historically, and will continue to from time-to-time, to evaluate MRI opportunities to deploy the charitable financial assets for investment in local nonprofit organizations, through intermediaries or directly, whereby such investment generates both direct social benefit to an issue of importance such as housing and neighborhood revitalization among many other social objectives, and a financial rate of return. MRIs may take the form of equity, debt, loan guarantees, or other familiar market products or instruments. In 2011, The Community Foundation entered into an MRI, in partnership and collaboration with Start Community Bank and the Local Initiatives Support Corporation of Connecticut. The Community Foundation's MRI, in the form of a $350,000 loan for five (5) years at an interest rate of 5.375%, was part of a total loan package in the amount of $950,000 to Coral New Haven Associates II, LLC, for the benefit of the Greater Dwight Development Corporation, a 501(c)(3) nonprofit organization engaged in local community and economic development in the Dwight neighborhood in New Haven.

i. Furniture, Equipment and Fixtures

Furniture, equipment and fixtures purchased in excess of $100 are capitalized and are stated at historical cost. Depreciation is provided on a straight-line basis over the following useful lives:

Furniture, equipment and fixtures	5-20 years
Computer equipment	3-5 years

Furniture, equipment and fixtures at December 31, 2012 and 2011, are as follows:

		2012		2011
Furniture, equipment and fixtures	$	1,035,999	$	1,454,102
Accumulated depreciation		(625,387)		(1,012,718)
Furniture, equipment and fixtures, net	$	410,612	$	441,384

j. Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Contributions receivable that are expected to be collected in more than one year are discounted to their present value. The Community 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 combined statements of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. The Community Foundation recognizes unconditional contributions when they become estimable and quantifiable. Contributions receivable as of December 31, 2012 and 2011, in the amount of $591,949 and $12,781,746, respectively, represent unconditional promises to give that are expected to be collected within one fiscal year.

Certain governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred.

k. Split-Interest Agreements

Split-interest agreements consist of charitable assets irrevocably transferred for the benefit of The Community 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 Community Foundation is notified of the existence of the agreement. The accounting treatment varies depending upon the type of the agreement created and whether The Community Foundation or a third party is the trustee.

The Community Foundation is a party to the following types of split-interest agreements:

Charitable Remainder Trusts and Pooled Income Funds: The Community Foundation is the beneficiary of various charitable remainder trusts and pooled income funds managed by unrelated entities. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiary(ies) over the trust's term. At the end of the trust's term, the remaining assets are available for The Community Foundation's use. The trust is carried at the fair value of the underlying investments. The portion of the trust attributable to the present value of the future benefits to be received by The Community Foundation is recognized in the combined statements of activities as a temporarily restricted contribution in the period the trust is established. On an annual basis, The Community Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The liability is calculated using a discount rate of 4.5% and applicable mortality tables.

Charitable Gift Annuity: The Community Foundation is the beneficiary of a charitable gift annuity whereby assets were transferred to The Community Foundation in exchange for The Community Foundation agreeing to pay a stated dollar amount annually to the designated beneficiary. Upon the death of the beneficiary, the remaining assets are available for The Community Foundation's use. The portion of the assets transferred that is attributable to the present value of the future benefits to be received by The Community Foundation is recognized in the combined statements of activities as a temporarily restricted contribution in the period it is established. On an annual basis, The Community Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The liability is calculated using a discount rate of 4.5% and applicable mortality tables.

l. Grants and Contracts Payable

Grants are recorded when approved by the Board of Directors, and when the recipient has satisfied all material conditions of the terms of the grant agreement. Certain of these approved grant commitments are to provide staffing and related expenses of programs, including projects and programs for which The Community Foundation acts as financial intermediary or fiduciary.

As of December 31, 2012, The Community Foundation is unaware of any material conditions on grants that are unlikely to be satisfied during the approved grant period. In the normal course of business, refunds and cancellations occur as a result of the recipient's needs being less than the appropriated amount and are deducted from the grant appropriations reported in the period as canceled or refunded.

Grant activity for the years ended December 31, 2012 and 2011, is summarized below:

	2012	2011
Grants payable, beginning of year	$ 4,022,155	$ 3,682,094
Grants approved	25,222,218	21,096,543
Grant payments distributed	(26,000,233)	(20,725,843)
Cancellations and adjustments	(340,066)	(30,639)
Grants payable, end of year	$ 2,904,074	$ 4,022,155

m. Investment Management Fees

Investment management fees are those direct expenses associated with the management of The Community Foundation's assets, which include all trustee, custodial and investment management fees. These are allocated against realized and unrealized gains on investments on the combined statements of activities, and the value is disclosed thereon.

n. Notes Receivable

Loans made by The Community Foundation to nonprofit organizations, which are not treated as grants, are recorded at their principal amount as a note receivable at the time of issuance. Payments of principal are a reduction of the note receivable, and interest payments are recorded as investment income. At certain times, the Board of Directors has converted note receivables to grants to meet The Community Foundation's charitable purposes.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. Significant estimates include those used in determining the valuation of investments and the liability under split-interest agreements.

p. Subsequent Events

In preparing these combined financial statements, management has evaluated subsequent events through February 26, 2013, which represents the date the combined financial statements were available to be issued.

q. Reclassification

Certain amounts in the 2011 combined financial statements have been reclassified to conform to the current year's presentation.

Note 3 - **Net Asset Management:**

a. Net Asset Classifications and Values

As discussed in Note 2b, The Community Foundation internally accounts for all net assets in accordance with the donor's original intent as provided for in the gift instrument, under the provisions of the R&D, in the following unrestricted net asset classifications:

Designated: Represent funds for which the spending is distributed to one or more charitable beneficiaries in accordance with the donor's designation and the R&D.

Donor-Advised: Represent funds for which the donor has reserved the right to make nonbinding distribution recommendations to The Community Foundation for distribution to the community in accordance with the policies and procedures governing donor advised funds as adopted by The Community Foundation's governing boards, the R&D, and the Articles of Incorporation and By-Laws.

Preference: Represent funds for which the spending is distributed to a specific field of interest or geographic location in accordance with the donor's stated interest, under the direction of The Community Foundation's governing boards, the R&D, and the Articles of Incorporation and By-Laws.

Unrestricted: Represent funds that are discretionary and the spending from which is under the direction of The Community Foundation's governing boards, the R&D, and the Articles of Incorporation and By-Laws.

Net assets as of December 31, 2012 and 2011, consisted of the following:

	2012	2011
Unrestricted net assets:		
Designated	$ 102,115,500	$ 91,706,900
Donor advised	34,292,902	33,386,069
Preference	80,988,197	73,628,587
Unrestricted	82,076,079	74,025,401
	299,472,678	272,746,957
Temporarily restricted net assets	2,245,862	2,130,410
Total net assets	$ 301,718,540	$ 274,877,367

b. Endowment Spending

The Community Foundation employs a spending rule policy to maximize the flexibility, efficiency and impact of the endowment management process. This fund utilization policy does not distinguish between investment yield and appreciation, but rather on the total return of the assets.

Since 1997, the Foundation and Corporation have employed a spending rule policy that calculates endowment spending based on a 20-quarters trailing average market value at a specific spending rate, with a minimum (a "Floor") of 4.25% and a maximum (a "Cap") of 5.75%, which will be applied to a quarter-ending market valuation. The total value of endowment spending during any fiscal year shall be equal to the greater of the amounts calculated by applying the spending rate to the previous 20-quarters' average market value, or to that amount calculated by using the Floor. However, under no circumstances shall the amount of endowment spending during any fiscal year be greater than the amount determined by using the Cap.

Based upon the spending rule policy, $16,256,168 and $15,022,296 were provided for during the years ended December 31, 2012 and 2011, respectively.

Note 4 - **Retirement Plan:**

Eligible employees are covered under a fully-funded, noncontributory 403(b) retirement plan that requires that The Community Foundation make contributions thereto based on employees' earnings. Total retirement plan contributions were $216,187 and $200,261 for the years ended December 31, 2012 and 2011, respectively.