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**THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN  
AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, 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 combined 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. 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 combined 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 combined 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, 2017 and 2016, 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.

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

West Hartford, Connecticut  
February 23, 2018

**THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE  
COMBINED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,123,652	\$ 1,907,231
Investments at market value - component funds	376,781,960	338,191,021
Investments at market value - organization funds	183,895,585	160,603,988
Investments at market value - MRI investment funds	44,250,553	-
Investment in real estate	3,169,303	2,801,250
Total investments	<u>615,221,053</u>	<u>503,503,490</u>
Other MRI investments	2,669,125	2,474,000
Contributions receivable	287,157	1,577,940
Grants receivable	925,704	346,354
Split-interest agreements	603,227	624,531
Other assets	39,161	15,322
Furniture and equipment, net	<u>374,130</u>	<u>453,389</u>
<b>Total Assets</b>	<u>\$ 620,119,557</u>	<u>\$ 508,995,026</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 482,441	\$ 469,925
Organization funds	183,895,585	160,603,988
MRI investment funds	44,250,553	-
Liabilities under split-interest agreements	385,605	385,157
Grants payable	1,601,206	1,855,229
Total liabilities	<u>230,615,390</u>	<u>163,314,299</u>
<b>Net Assets</b>		
Unrestricted	388,202,897	344,465,200
Temporarily restricted	1,301,270	1,215,527
Total net assets	<u>389,504,167</u>	<u>345,680,727</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 620,119,557</u>	<u>\$ 508,995,026</u>

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, 2017 AND 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains and Other Support</b>						
Contributions	\$ 53,723,345	\$ 75,313	\$ 53,798,658	\$ 22,958,820	\$ 50,000	\$ 23,008,820
Less transfers to MRI investment funds	(41,411,739)	-	(41,411,739)	-	-	-
Less transfers to organization funds	(4,415,031)	-	(4,415,031)	(10,325,708)	-	(10,325,708)
Net contributions	<u>7,896,575</u>	<u>75,313</u>	<u>7,971,888</u>	<u>12,633,112</u>	<u>50,000</u>	<u>12,683,112</u>
Investment gain, net	57,895,883	-	57,895,883	13,519,328	-	13,519,328
Increase in value of MRI investment funds private equity	19,125	-	19,125	-	-	-
Split-interest agreements released from restrictions	203,734	(203,734)	-	20,165	(20,165)	-
Change in value of split-interest agreements, net	-	214,164	214,164	-	43,201	43,201
Total revenue, gains and other support	<u>66,015,317</u>	<u>85,743</u>	<u>66,101,060</u>	<u>26,172,605</u>	<u>73,036</u>	<u>26,245,641</u>
<b>Expense</b>						
Grants and distributions approved, net	25,946,701	-	25,946,701	29,211,759	-	29,211,759
Grants for program management and direct grant activities	2,566,568	-	2,566,568	2,484,611	-	2,484,611
Total grants expense	<u>28,513,269</u>	<u>-</u>	<u>28,513,269</u>	<u>31,696,370</u>	<u>-</u>	<u>31,696,370</u>
Less distributions from organization funds	(9,703,752)	-	(9,703,752)	(8,465,120)	-	(8,465,120)
Net grant expense	<u>18,809,517</u>	<u>-</u>	<u>18,809,517</u>	<u>23,231,250</u>	<u>-</u>	<u>23,231,250</u>
Financial, endowment, investment management and MRI management	1,316,778	-	1,316,778	1,273,261	-	1,273,261
Development, donor services and fund stewardship	935,837	-	935,837	904,910	-	904,910
Management, leadership and operations	1,215,488	-	1,215,488	1,175,319	-	1,175,319
Total administration expense	<u>3,468,103</u>	<u>-</u>	<u>3,468,103</u>	<u>3,353,490</u>	<u>-</u>	<u>3,353,490</u>
Total expense	<u>22,277,620</u>	<u>-</u>	<u>22,277,620</u>	<u>26,584,740</u>	<u>-</u>	<u>26,584,740</u>
<b>Increase (Decrease) in Net Assets</b>	43,737,697	85,743	43,823,440	(412,135)	73,036	(339,099)
<b>Net Assets - Beginning of Year</b>	<u>344,465,200</u>	<u>1,215,527</u>	<u>345,680,727</u>	<u>344,877,335</u>	<u>1,142,491</u>	<u>346,019,826</u>
<b>Net Assets - End of Year</b>	<u>\$ 388,202,897</u>	<u>\$ 1,301,270</u>	<u>\$ 389,504,167</u>	<u>\$ 344,465,200</u>	<u>\$ 1,215,527</u>	<u>\$ 345,680,727</u>

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, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 43,823,440	\$ (339,099)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	86,595	90,716
Realized and unrealized gain on investments, net	(56,129,845)	(10,850,369)
(Increase) decrease in operating assets:		
MRI investments	(195,125)	(2,103,000)
Contributions receivable	1,290,783	3,039,564
Grants receivable	(579,350)	527,209
Split-interest agreements	21,304	(66,897)
Other assets	(23,839)	29,965
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	12,516	149,544
MRI investments	44,250,553	-
Organization funds	23,291,597	7,742,285
Liabilities under split-interest agreements	448	(10,741)
Grants payable	(254,023)	(884,361)
Net cash provided by (used in) operating activities	55,595,054	(2,675,184)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	166,911,443	162,038,061
Purchases of investments	(217,282,740)	(162,107,160)
Purchases of furniture and equipment	(7,336)	(82,561)
Net cash used in investing activities	(50,378,633)	(151,660)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	5,216,421	(2,826,844)
<b>Cash and Cash Equivalents - Beginning of Year</b>	1,907,231	4,734,075
<b>Cash and Cash Equivalents - End of Year</b>	\$ 7,123,652	\$ 1,907,231

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

**THE COMMUNITY FOUNDATION FOR GREATER NEW HAVEN AND AFFILIATE  
NOTES TO 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, 2017, the R&D provides for the following Trustee Banks: Wells Fargo Bank, Bank of America, Key Bank and People's United Bank.

The accompanying combined financial statements include the accounts of The Foundation, The Community Foundation for Greater New Haven, Inc. (The Corporation), The Community Foundation Mission Investments Company, LLC (The Mission Investments Subsidiary), and The Valley Community Foundation, Inc. (The Affiliate) (together, The Foundation, The Corporation, The Mission Investments Subsidiary and The Affiliate, 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. As of January 1, 2014, The Affiliate, as a result of changes in federal tax law that became effective at the beginning of calendar year 2014, has determined through actions adopted by its Board of Directors that it shall obtain its federal exemption under Section 501(c)(3) as an independent organization for, among other things, fulfilling its public support test, rather than through the former Internal Revenue Code (IRC) provisions afforded under Section 509(a)(3) as a supporting organization to The Foundation. Notwithstanding this IRC election by The Affiliate, The Foundation and The Affiliate, through an existing affiliation agreement that was adopted in December 2013 by the respective Board of Directors, will continue to report the financial results of The Foundation and The Affiliate on a combined basis pursuant to the provisions of such affiliation agreement. Consistent with IRC requirements that have existed since this Affiliate's formation in 2004, The Foundation and The Affiliate will continue to issue separate informational tax filings through IRS Form 990.

In 2013, The Corporation voluntarily sought registration as a Connecticut registered investment adviser with the State of Connecticut's Department of Banking under the Connecticut Uniform Securities Act as part of its on-going efforts to provide local nonprofits with the comfort of knowing that their endowment-like assets are managed according to the industry standards and best practices. In March 2014, the Connecticut Department of Banking's Securities and Business Investments Division notified the Corporation that it was a registered investment adviser. The Corporation advises both its permanent assets, including its component funds which have come to the Corporation through irrevocable gifts, as well as other nonpermanent charitable assets that have come to the Corporation through revocable transfer by charitable institutions wishing to outsource the management of their investments (the Organization Funds). The primary investment advisory services that the Corporation provides to Organization Funds are the selection and monitoring of unaffiliated asset managers retained under a commingled fund and further described in the Corporation's Commingled Fund Information Memorandum ("Information Memorandum") operating under a long-term asset allocation model, which processes are set forth in an investment management agreement between the Organization Fund and the Corporation and the Information Memorandum. See Note 2c below for additional information on Organization Funds.



The Corporation, in 2017, created a wholly owned and controlled, charitable, tax-exempt special purpose limited liability company to carry-out the mission investment activities of The Community Foundation. The Corporation is the sole member of the Mission Investments Subsidiary, its board of managers is entirely appointed by the Foundation, and whose management is comprised exclusively of members of Foundation's leadership. The Mission Investments Subsidiary entered into a relationship with a local financial institution for a fully-collateralized and secured line of credit facility for up to twenty-five million dollars that would enable the Mission Investments Subsidiary to expeditiously and efficiently deploy mission investment capital into the Greater New Haven community in accordance with the donors' intentions and pursuant to the Foundation's charitable mission impact goals, as further described in footnote 2h, below. As of December 31, 2017, there was no outstanding debt on the line of credit.

The Foundation qualifies as a public charity under IRC Section 170(b)(1)(A)(vi) and is exempt from federal income and state taxes under Section 501(c)(3) of the IRC and Section 12-244 of the Connecticut General Statutes.

The Mission Investments Subsidiary is wholly owned by the Corporation and is treated as a disregarded entity pursuant to Treasury Regulation Section 301.7701-3 for federal income tax purposes. Generally, disregarded entities are not subject to entity-level federal or state income taxation and, as such, the Mission Investments Subsidiary is not required to provide for income taxes. All activity of the Mission Investments Subsidiary is included in the Corporation's Form 990.

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 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 combined 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 variance power 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**

As discussed above, The Community Foundation receives and distributes assets for certain Organization 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 \$4,415,031 and \$9,703,752, respectively, for the year ended December 31, 2017, and \$10,325,708 and \$8,465,120, respectively, for the year ended December 31, 2016.

The amounts received but not yet distributed totaled \$183,895,585 and \$160,603,988 at December 31, 2017 and 2016, respectively, and are separately identified 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 hedge strategies and real assets, which include asset classes such as private equity, real estate and natural resources. 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, including the limited partners' audited financial statements, that are reviewed and discussed by management and its investment committee, in consultation with its independent advisory firm.

#### 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. In addition, The Community Foundation adopted in fiscal year 2015, ASU Topic 820, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, as issued by the Financial Accounting Standards Board. In summary, ASU Topic 820 is a practical expedient to measure the fair value of certain investments that utilize a net asset value rather than categorized under the fair value hierarchy. For those investments that do not utilize a net asset value methodology (or its equivalent), The Community Foundation will continue to measure the fair value under the 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 derived from 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, 2017 is as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Valued at NAV (a)</u>
Short-term investments	\$ 10,552,404	\$ 10,552,404	\$ -	\$ -	\$ -
Fixed income	89,964,446	64,645,810	-	-	25,318,636
Equities:					
International	110,096,175	30,651,741	-	-	79,444,434
Domestic	238,661,827	48,606,652	-	-	190,055,175
Alternatives:					
Hedged equity	75,959,535	-	-	-	75,959,535
Absolute return	9,431,210	-	-	-	9,431,210
Real assets	42,938,599	-	-	-	42,938,599
Private equity	27,323,902	-	-	-	27,323,902
Investments at fair value as of December 31, 2017	604,928,098	154,456,607	-	-	450,471,491
Split-interest agreements	603,227	-	-	603,227	-
Total assets at fair value as of December 31, 2017	\$ <u>605,531,325</u>	\$ <u>154,456,607</u>	\$ <u>-</u>	\$ <u>603,227</u>	\$ <u>450,471,491</u>
Percent of Total	100%	25.5%	0.0%	0.1%	74.4%

The fair value of The Community Foundation's investments as of December 31, 2016 is as follows:

Description	Total	Level 1	Level 2	Level 3	Investments Valued at NAV (a)
Short-term investments	\$ 13,510,971	\$ 13,510,971	\$ -	\$ -	\$ -
Fixed income	113,872,189	89,619,279	-	-	24,252,910
Equities:					
International	64,026,334	-	-	-	64,026,334
Domestic	160,194,406	12,772,118	-	-	147,422,288
Alternatives:					
Hedged equity	74,044,257	-	-	-	74,044,257
Absolute return	8,952,414	-	-	-	8,952,414
Real assets	43,952,620	-	-	-	43,952,620
Private equity	20,241,818	-	-	-	20,241,818
Investments at fair value as of December 31, 2016	498,795,009	115,902,368	-	-	382,892,641
Split-interest agreements	624,531	-	-	624,531	-
Total assets at fair value as of December 31, 2016	<u>\$ 499,419,540</u>	<u>\$ 115,902,368</u>	<u>\$ -</u>	<u>\$ 624,531</u>	<u>\$ 382,892,641</u>
Percent of Total	100%	23.2%	0.0%	0.1%	76.7%

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

There were no transfers between levels of investments during the years ended December 31, 2017 and 2016.

The following table discloses certain additional information as of December 31, 2017 related to The Community Foundation's investments that report fair value based on net asset value per share and are not traded in an active market, although such net asset values may be based on underlying securities that are traded in an active market:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
<b>Investments valued at Net Asset Value:</b>				
Fixed income	\$ 25,318,636	\$ None	Daily to monthly	N/A
International equity	79,444,434	None	Monthly to 3-year lock-up period	5-90 days' notice
Domestic equity	190,055,175	None	Daily to quarterly	0-60 days' notice
Hedged equity (Class B)	66,623,509	None	Annually with a 1-year lock-up period	60 days written notice
Hedged equity (Class B2)	9,336,026	None	Annually with a 1-year lock-up period	95 days written notice
Absolute return	9,431,210	None	Annually with 1 or 3-year lock-up period	100 days written notice
Real assets	42,938,599	12,879,696	More than 3 years	N/A
Private equity	<u>27,323,902</u>	<u>16,061,928</u>	More than 3 years	N/A
Total net asset value	\$ <u>450,471,491</u>	\$ <u>28,941,624</u>		

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 thirty percent (30.1%) of the fair value of its investments on a monthly basis, and just over forty-eight percent (48.2%) 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 using significant (Level 3) inputs for December 31, 2017 and 2016:

	<u>Split-Interest Agreements</u>
Fair value as of December 31, 2015	\$ 557,634
Change in value of split-interest agreements	<u>66,897</u>
Fair value as of December 31, 2016	624,531
Change in value of split-interest agreements	<u>(21,307)</u>
Fair value as of December 31, 2017	\$ <u>603,227</u>

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 within the parameters provided to the underlying manager under a written agreement, but rather these instruments are used with the objectives of reducing overall portfolio risk.

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

**Short-Term Investments:** Investments consist of treasury securities with an average maturity of 120 days or less, checking accounts and money market instruments 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.

**Equities:** 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 are accessed through a limited partnership arrangement.

**Hedged Equity:** This strategy involves equity investments, either long or short, in marketable and publicly traded equities. Traditionally, hedge funds purchase stocks that they perceive to be undervalued and sell stocks that 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 positions, as employed by The Community Foundation.

**Absolute Return:** 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.

**Real Assets:** The Community Foundation's real assets investments consists of several fund-of-funds' 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.

**Private Equity:** 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.

**Split-Interest Agreements:** Fair value inputs used for split-interest agreements are based on the estimated present value of the future payments to The Community Foundation, which is considered to be the fair value of the assets held in trust.

The Community Foundation believes that the carrying amount of its investments is a reasonable fair value as of December 31, 2017 and 2016.

Investment gain for the years ended December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Realized and unrealized gains (losses)	\$ 56,129,845	\$ 10,850,369
Interest and dividends	5,659,072	5,579,190
	<u>61,788,917</u>	<u>16,429,559</u>
Less investment management fees	<u>(3,893,034)</u>	<u>(2,910,231)</u>
Investment gain, net	<u>\$ 57,895,883</u>	<u>\$ 13,519,328</u>

**g. Investment in Real Estate**

In June 1990, The Foundation and The 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 Foundation, floor three is owned by The Corporation and occupied by The Foundation, and floors one and two are owned by unrelated nonprofit organizations. Pursuant to the Board of Directors' 1991 resolution, given the unique uses, condominium covenants, occupancy restrictions and tax status, the Building was accounted for as a mission-related investment, no depreciation has been recognized. Pursuant to that 1991 resolution, and with the agreement of the Foundation's Trustee Banks, the Building would be periodically and independently assessed to determine its current fair carrying value, inclusive of such market restrictions. The Board of Directors requires a periodic valuation through an independent market appraisal not less frequently than every five years. The Building was independently appraised in 2016, and in accordance with the Board of Director's original resolution, the carrying value of the Building approximates the fair value including all improvements thereon, as of December 31, 2017 and 2016.



## **h. Mission-Related and Impact 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. 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 (together, MRIs). The Community Foundation has historically, and will continue with a more focused and direct intention, evaluate MRI opportunities to deploy the charitable financial assets for investment in local entities, through intermediaries and/or directly, whereby such investment generates both direct social benefits and programmatic 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 2017, the Corporation created a separate and wholly owned and controlled subsidiary to focus solely and exclusively on the evaluation and execution of MRIs in the greater New Haven area. The Mission Investments Subsidiary will perform the requisite due diligence and analyses to deploy the charitable financial assets for investments in local entities, organizations and businesses, through intermediaries and/or directly, such that an investment will be viewed both from a return and mission lens. In creating this new capacity, The Community Foundation will examine the potential mission investment by assessing it against a set of impact goals, which are:

- a) Supporting organizations and projects that have a potential to generate significant employment in our community, with particular emphasis on jobs for individuals with modest skills;
- b) Supporting organizations and projects with the potential to contribute and generate longer-term economic growth in our community, building on the strengths of our region and including the talent and entrepreneurial drive of our people;
- c) Supporting organizations and projects that contribute significantly to neighborhood revitalization, particularly in New Haven neighborhoods that have suffered from social decline and economic disinvestment;
- d) Supporting organizations and projects in ways that align with and further CFGNH's grantmaking, leadership initiatives and other programmatic strategies; and
- e) Building a culture of connection among people and organizations to attract employment and growth throughout the region;

In 2017, The Corporation received \$41 million dollars from an unrelated and independent private foundation, on a revocable basis, to serve as the collateral for the line of credit facility to the Mission Investments Subsidiary. The terms and conditions under which any revocation can occur at some future time are contingent upon the deployment resources from that line of credit into local MRIs. The agreement between the parties requires that the charitable capital provided to The Corporation shall remain with The Corporation at all times sufficient to fully collateralize any amounts due and owing under that line of credit.

## **i. Furniture and Equipment**

Furniture and equipment purchased in excess of \$2,500 are capitalized and are stated at historical cost. Depreciation is provided on a straight-line basis over the following useful lives:

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

Furniture and equipment at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 1,160,861	\$ 1,284,184
Accumulated depreciation	<u>(786,731)</u>	<u>(830,795)</u>
Furniture and equipment, net	<u>\$ 374,130</u>	<u>\$ 453,389</u>

**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 does not recognize conditional promises, and only recognizes unconditional contributions when they become estimable and quantifiable. Contributions receivable as of December 31, 2017 and 2016, in the amounts of \$287,157 and \$1,577,940, 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.

**I. 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 personnel and related expenses of programs, including projects and programs for which The Community Foundation acts as financial intermediary or fiduciary.

As of December 31, 2017, 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, 2017 and 2016, is summarized below:

	<u>2017</u>	<u>2016</u>
Grants payable, beginning of year	\$ 1,855,229	\$ 2,739,590
Grants approved	26,554,085	23,262,673
Grant payments distributed	(26,601,571)	(23,320,208)
Cancellations and adjustments	<u>(206,537)</u>	<u>(826,826)</u>
Grants payable, end of year	<u>\$ 1,601,206</u>	<u>\$ 1,855,229</u>

**m. Investment Management Fees**

Investment management fees are those expenses associated with the management of The Community Foundation's assets, including The Corporation's payment of expenses and costs, including sub-advisory fees and direct expenses to the underlying asset managers held within The Corporation's Commingled Fund. In addition, the investment management fees include all The Foundation's trustee, custodial, and investment management and advisory fees incurred. These investment management fees are allocated against realized and unrealized gains on investments on the combined statements of activities, and the value is disclosed thereon, as further set forth and quantified in footnote f, above.

**n. 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 combined financial statements. Actual results could differ from those estimates.

## **O. Subsequent Events**

In preparing these combined financial statements, management has evaluated subsequent events through February 23, 2018, which represents the date the combined financial statements were available to be issued.

### **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 are 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, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Designated	\$ 151,058,803	\$ 115,092,358
Donor advised	59,761,292	52,344,228
Preference	87,081,766	87,581,992
Unrestricted	<u>90,301,036</u>	<u>89,446,622</u>
	388,202,897	344,465,200
Temporarily restricted net assets	<u>1,301,270</u>	<u>1,215,527</u>
Total net assets	<u>\$ 389,504,167</u>	<u>\$ 345,680,727</u>

**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 The Corporation have employed a spending rule policy that calculates endowment spending based on a twenty-quarters trailing average market value at a specific spending rate, with a minimum ("Floor") of 4.25% and a maximum ("Cap") of 5.75%, which will be applied to the current June 30th 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 twenty-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 current spending rule policy in effect, \$28,163,750 and \$26,494,032 were provided for during the years ended December 31, 2017 and 2016, 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 \$329,838 and \$285,487 for the years ended December 31, 2017 and 2016, respectively.