



**THE RHODE ISLAND COMMUNITY FOUNDATION,  
THE RHODE ISLAND CHARITIES TRUST, INC.,  
THE HAFFENREFFER FAMILY FUND,  
THE DOWNCITY PARTNERSHIP, INC., AND  
THE FOUNDATION FOR TRINITY REPERTORY COMPANY  
(COLLECTIVELY, THE FOUNDATION)**

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

**THE FOUNDATION**  
Consolidated Financial Statements  
December 31, 2009 and 2008

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**KPMG LLP**  
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Providence, RI 02903

## **Independent Auditors' Report**

The Board of Directors  
The Rhode Island Community Foundation,  
The Rhode Island Charities Trust, Inc.,  
The Haffenreffer Family Fund,  
The Downcity Partnership, Inc., and  
The Foundation for Trinity Repertory Company:

We have audited the accompanying consolidated statements of financial position of The Rhode Island Community Foundation, The Rhode Island Charities Trust, Inc., The Haffenreffer Family Fund, The Downcity Partnership, Inc., and The Foundation for Trinity Repertory Company (collectively, the Foundation) as of December 31, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

July 22, 2010

## THE FOUNDATION

### Consolidated Statements of Financial Position

December 31, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash	\$ 805,265	613,745
Accrued investment income receivable	731,830	785,530
Investments (note 2)	476,649,536	409,010,443
Other assets (notes 4 and 6)	12,787,118	11,362,392
Other receivables, net (note 3)	18,818,604	17,636,562
Fixed assets, net (note 7)	5,084,996	5,336,599
Promissory notes receivable (less allowance for doubtful accounts of \$650,000) (note 5)	8,660,113	10,719,542
Total assets	<u>\$ 523,537,462</u>	<u>455,464,813</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses (note 10)	\$ 838,494	1,002,119
Grants payable (note 9)	3,144,411	2,574,674
Charitable trusts (note 6)	6,065,555	5,533,617
Liability for funds held as agency endowments (note 10)	21,826,653	17,842,074
Total liabilities	<u>31,875,113</u>	<u>26,952,484</u>
Commitments and contingencies (note 11)		
Net assets:		
Unrestricted:		
Primarily designated for long-term investment (note 15)	466,582,947	405,639,370
Temporarily restricted (note 16)	25,079,402	22,872,959
Total net assets	<u>491,662,349</u>	<u>428,512,329</u>
Total liabilities and net assets	<u>\$ 523,537,462</u>	<u>455,464,813</u>

See accompanying notes to consolidated financial statements.

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### Consolidated Statements of Activities

Years ended December 31, 2009 and 2008

	2009	2008
Unrestricted:		
Operating:		
Spending rate distributions (note 2)	\$ 28,528,691	27,630,017
Grant income distributions (note 2)	3,223,633	4,426,675
Royalties and other income (notes 4 and 13)	2,367,191	2,327,901
Net assets released from restrictions	36,229	36,991
Contributions for current use	2,278,833	2,805,214
Less amounts designated by donors for specific organizations (note 10)	(1,804,641)	(1,435,947)
Total contributions for current use	474,192	1,369,267
Total operating revenues	34,629,936	35,790,851
Net grants appropriated (notes 9 and 14)	26,297,518	24,602,582
Expenses related to administration, depreciation and other (note 14)	6,695,201	6,432,837
Total operating grants and expenses (note 14)	32,992,719	31,035,419
Increase in unrestricted net assets from operations	1,637,217	4,755,432
Nonoperating:		
Contributions for long-term investment	7,832,426	38,875,630
Net assets released from restrictions	196,069	144,797
Less contributions to funds designated as agency endowments (note 10)	(1,954,333)	(2,820,468)
Total contributions for long-term investment	6,074,162	36,199,959
Reinvested (redeemed) investment income and losses (note 2)	53,232,198	(180,628,138)
Change in unrestricted net assets	60,943,577	(139,672,747)
Temporarily restricted:		
Pledges net of write-offs (note 3)	26,272	62,178
Change in value of investments held in trust	1,718,514	(8,101,423)
Net investment income and losses	526,515	(1,092,693)
Contributions for long term investment	167,440	2,429,555
Net assets released from restrictions	(232,298)	(181,788)
Change in temporarily restricted net assets	2,206,443	(6,884,171)
Change in net assets	63,150,020	(146,556,918)
Net assets, beginning of year	428,512,329	575,069,247
Net assets, end of year	\$ 491,662,349	428,512,329

See accompanying notes to consolidated financial statements.

## THE FOUNDATION

### Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Change in net assets	\$ 63,150,020	(146,556,918)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	362,386	312,827
Realized losses and (gains) on investments	7,247,020	(345,800)
Realized (gains) and losses from agency funds	(314,885)	68,033
Net unrealized (gains) and losses on investments	(89,484,570)	164,305,977
Net unrealized losses and (gains) on agency funds	3,414,333	(6,473,546)
Change in accrued investment income receivable	53,700	(131,070)
Change in other assets	(1,424,726)	3,621,773
Change in other receivables	(1,182,042)	3,088,334
Change in accounts payable and accrued expenses	(163,625)	(132,133)
Change in grants payable	569,737	(2,968,640)
Change in liability as trustee for charitable trusts	531,938	57,175
Change in liability for funds held as agency endowments	3,984,579	(4,847,582)
Net cash (used in) provided by operating activities	(13,256,135)	9,998,430
Cash flows from investing activities:		
Purchases of investments	(177,212,690)	(402,029,667)
Proceeds from sales and maturities of investments	188,711,699	392,484,755
Additions to fixed assets	(110,783)	(384,835)
Payments on promissory notes receivable	2,059,429	23,382
Net cash provided by (used in) investing activities	13,447,655	(9,906,365)
Net change in cash	191,520	92,065
Cash, beginning of year	613,745	521,680
Cash, end of year	\$ 805,265	613,745

See accompanying notes to consolidated financial statements.

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (1) Summary of Significant Accounting Policies

##### (a) *Nature of the Business*

The Rhode Island Foundation (the Foundation) is a community foundation formed in 1916 by a group of prominent local leaders in conjunction with Rhode Island Hospital Trust National Bank. The goal of the Foundation is to use the income of the fund to advance progressive programs for the benefit of inhabitants within the State of Rhode Island.

The Rhode Island Community Foundation (the Community Foundation) was formed in 1984 as a nonprofit corporation with the same board of directors and management as The Rhode Island Foundation. The Community Foundation has similar charitable purposes as The Rhode Island Foundation, but the Community Foundation has funds that benefit charities both within and outside of Rhode Island.

On April 1, 2000, The Rhode Island Foundation dissolved the trust relationship with BankBoston. The assets of The Rhode Island Foundation were merged with The Rhode Island Community Foundation. The surviving entity is a nonprofit corporation, The Rhode Island Community Foundation, doing business as The Rhode Island Foundation.

The Haffenreffer Family Fund and The Foundation for Trinity Repertory Company became supporting organizations of The Rhode Island Community Foundation in 1987 and 2001, respectively. Certain of the members of the board of directors of the Foundation serve as a majority of the members of the governing bodies of each organization. Both supporting organizations have charitable purposes similar to The Rhode Island Foundation.

In 1991, The Rhode Island Charities Trust, Inc., a not-for-profit corporation, became a supporting organization of The Rhode Island Foundation. The board of directors is the same as the membership of the Board for The Rhode Island Foundation. The income of The Rhode Island Charities Trust is designated for the United Way of Rhode Island.

In 2001, the Foundation set aside \$9,000,000 to invest in the future of Providence's downcity neighborhood through a separate nonprofit, The Downcity Partnership, Inc., which is consolidated in the Foundation's consolidated financial statements as a supporting organization. The mission of The Downcity Partnership, Inc. is focused on the revitalization of downtown Providence (the City), acting as a catalyst for development and new initiatives to benefit Downcity. The Downcity Partnership, Inc. will coordinate with the City and other public, private, and nonprofit organizations, acting as the primary impetus for revitalization efforts.

The accompanying consolidated financial statements as of December 31, 2009 and 2008 include the accounts of The Rhode Island Community Foundation, The Rhode Island Charities Trust Inc., The Haffenreffer Family Fund, The Downcity Partnership, Inc., and The Foundation for Trinity Repertory Company (collectively referred to herein as the Foundation). All material inter-entity activity has been eliminated in the consolidated financial statements.

In June 2009, the FASB issued ASU 2009-1 (Codification). The Codification does not change U.S. generally accepted accounting principles, but combines all authoritative standards issued by

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

organizations that are in levels A through D of the generally accepted accounting principles hierarchy, such as the FASB, American Institute of Certified Public Accountants, and Emerging Issues Task Force, into a comprehensive, topically organized online database. No accounting impact is expected since this is an accumulation of existing guidance. The Codification became effective for reporting periods that end on or after September 15, 2009.

**(b) Net Asset Classification**

Temporarily restricted net assets consist of charitable gift annuities, pooled income funds, irrevocable charitable trusts and pledges.

**(c) Investments Held in Trust by Others**

Investments held in trust by others are recorded at the present value of expected net proceeds ultimately payable to the Foundation. These assets are adjusted annually to fair value, and any gain or loss is reflected in the consolidated statements of activities as investment income or losses.

**(d) Fixed Assets**

Fixed assets include land, building, computer equipment, furniture and fixtures, and leasehold improvements. The fixed assets are stated at cost. The fixed assets are being depreciated on a straight-line basis and the useful lives of the assets are as follows:

<u>Classification</u>	<u>Useful lives</u>
Website Redesign	3 years
Computer and Automotive equipment	4 years
Furniture, fixtures, and other equipment	7 years
Building and building improvements	40 years

**(e) Grants**

Grants are accrued when approved and ratified by the board of directors.

**(f) Investment Management and Custody Fees**

Investment management and custody fees represent fees paid to the investment managers for investment management, custody, and fund accounting, where applicable.

**(g) Use of Estimates**

The management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

**(h) Fair Value Measurements**

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the Foundation reports the fair value as the market

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### Notes to Consolidated Financial Statements

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price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. Hedge strategies involve funds whose managers have the authority to invest in multiple asset classes at their discretion, including the ability to invest long and short in the markets. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and are priced accordingly. Private equity and real asset funds generally hold assets which require the estimation of fair values in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, the estimated fair values may differ significantly from the value that would have been used had a ready market for the investment existed and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

During 2008, the Foundation adopted FASB ASC Subtopic 820-10 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- **Level 1** – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- **Level 2** – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- **Level 3** – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because the Foundation uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the Foundation's ability to timely redeem its interest rather than on inputs used. See note 1 (i) and note 2 for further discussion.

The Foundation has applied the accounting guidance in Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are

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### Notes to Consolidated Financial Statements

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not necessarily observable. It is therefore possible that if the Foundation were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

(i) ***Fair Value of Financial Instruments***

The carrying amounts of cash, receivables, investments, promissory notes receivable, other assets, accounts payable, grants payable, charitable trusts, and liability for funds held as agency endowments, approximate the estimated fair values of those financial instruments at December 31, 2009. The fair value of a financial instrument is the amount 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.

The fair values of the financial instruments as of December 31, 2009, represents management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash, receivables, note receivables, other assets (nonderivatives), trade accounts payable, grants payable, charitable trusts and liability for funds held as agency endowments, the carrying amounts are at cost plus accrued interest, which approximate fair value because of the short maturity of these instruments.
- Investments: See note 1(h).

(j) ***Agency Endowment Funds***

The Foundation follows generally accepted accounting principles (GAAP) regarding the treatment of transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor.

GAAP requires that if a Not-for-Profit Organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments. The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with GAAP, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (2) Investments

##### (a) *Investments and Spending Policy*

The Foundation's portfolio is managed by outside investment managers who invest according to the investment guidelines established by the Investment Committee of the Board. The investment portfolio is allocated approximately 60% equity investments, 25% alternative investments, and 15% fixed income investments. The equity investments are further diversified into domestic, international and emerging markets. The alternative investments are further diversified into private equity, real assets and hedge/absolute return strategies. Additionally, the entire portfolio is diversified across economic sectors, geographic locations, industries, and size of investees.

##### (b) *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Investment Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power and risk tolerances. This policy is reviewed on an ongoing basis by the Investment Committee. There is no limitation on the types of investments in which the endowment fund may be invested, and it is intended that the Board of Directors and the Investment Committee have the broadest flexibility as to the selection of investments for the endowment fund.

Realized and unrealized investment gains or losses are determined by comparison of the asset cost basis to net proceeds received at the time of disposition on a first in first out basis and comparison of the difference between market values and the cost basis, respectively. Dividend and interest income is recognized when earned.

##### (c) *Return Objectives and Risk Parameters*

The primary investment objective of management is to maintain and grow the fund's real value by generating average annual real returns that meet or exceed the spending rate, after inflation, management fees and administrative costs. Consistent with this goal, the Board of Directors and the Investment Committee intend that the investments be managed with an intention to: maximize total returns consistent with prudent levels of risk; reduce portfolio risk through asset allocation and diversification. The Foundation manages its investment income spending policy by the "total return" method, which utilizes a Board-approved prudent spending rate percentage applied against a sixteen-quarter average investment portfolio market value. This method allows for the investments to be invested over the long term in order to achieve its primary investment objective. Grant income distributions consist of additional redemptions used for grantmaking and grants approved by supporting organizations. The Foundation's spending rate percentage ranges from 5.36% to 6.53% in 2009 and 2008.

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### Notes to Consolidated Financial Statements

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The following tables set forth information about the level within the fair value hierarchy at which the Foundation's investments are measured at December 31, 2009 and 2008.

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>	<u>Redemption or Liquidation</u>	<u>Days Notice</u>
Short Term Investments:						
Cash and cash equivalents	\$ 21,133,650			21,133,650	Daily	None
Mutual Funds - Fixed Income:						
Bond Fund Lending		30,304,062		30,304,062	Daily: 4% per mth limit	2
Bond Fund Non-Lending	34,508	10,624,646		10,659,154	Daily	2
Mutual Funds - Equities:						
Traditional Index Funds:						
Securities Lending		68,975,927		68,975,927	Daily: 4% per mth limit	2
Traditional Index Funds:						
Non-Lending		39,569,858		39,569,858	Daily	2
Equity Mutual Funds	16,439,034			16,439,034	Daily	None
Common Stocks, preferred stock, and convertible bonds						
Mid-Cap Funds	39,833,670			39,833,670	Daily	None
International Funds - equities and fixed income:						
Developed Markets:Equity		34,473,524		34,473,524	Daily	None
Developed Markets:Equity		41,666,018		41,666,018	Monthly	6
Emerging Markets:Equity		19,506,096		19,506,096	Monthly	30
Developed Markets:Fixed		21,007,856		21,007,856	Monthly (1)	10
Alternative Investments						
Hedge funds:						
Multiple Strategies		23,726,090		23,726,090	Quarterly	None
Multiple Strategies		7,228,224		7,228,224	Quarterly	60
Multiple Strategies		7,673,292		7,673,292	Quarterly	45
Absolute Return			17,660,894	17,660,894	Annually	100
Multiple Strategies			10,329,046	10,329,046	Annually	45
Multiple Strategies			5,679,274	5,679,274	Illiquid	
Private Equity:						
Private Equity and Venture Capital Funds			26,663,179	26,663,179	Illiquid (3)	
Real Assets						
Commodities, TIPS, Real Estate and Natural Resources		6,339,624		6,339,624	Monthly (2)	None
Commodities		4,470,372		4,470,372	Monthly	None
Treasury Inflation Protected Securities			10,627,560	10,627,560	Annually	80
Commodities, TIPS, Real Estate and Natural Resources			12,683,132	12,683,132	Illiquid	
Total December 31, 2009	\$ 77,440,862	315,565,589	83,643,085	476,649,536		

(1) Partial: 100% paid on 3rd business day, Full: 100% paid on 9th business day.

(2) Partial 100% on 1st business day, Full: 95% paid on 1st business day and 5% on 3rd business day.

(3) Depending on the age of the fund, these funds are expected liquidate in 1 to 12 years.

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	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>	<u>Redemption or Liquidation</u>	<u>Days Notices</u>
Short-Term Investments:						
Cash and cash equivalents	\$ 34,090,057			34,090,057	Daily	None
Mutual Funds – Fixed Income:						
Bond Fund Lending		44,824,411		44,824,411	Daily	2
Bond Fund Non Lending	34,894			34,894	Daily	2
Mutual Funds – Equities:						
Traditional Index Funds:						
Securities Lending		88,553,992		88,553,992	Daily	2
Equity Mutual Funds	14,555,170			14,555,170	Daily	None
Common Stocks, preferred stock, and convertible bonds:						
Mid Cap Funds	28,809,730			28,809,730	Daily	None
International funds – equities and income:						
Developed Markets: Equity		28,178,572		28,178,572	Daily	None
Developed Markets: Equity		32,118,935		32,118,935	Monthly	6
Emerging Markets: Equity		10,855,677		10,855,677	Monthly	30
Developed Markets: Fixed		23,107,405		23,107,405	Monthly (1)	10
Alternative investments:						
Hedge funds:						
Multiple Strategies		16,904,511		16,904,511	Quarterly	None
Multiple Strategies		8,892,886		8,892,886	Quarterly	60
Multiple Strategies		5,534,778		5,534,778	Quarterly	45
Absolute Return			14,324,748	14,324,748	Annually	100
Multiple Strategies			7,909,746	7,909,746	Annually	45
Multiple Strategies			4,760,079	4,760,079	Illiquid	
Private Equity:						
Private Equity and Venture Capital Funds			24,055,178	24,055,178	Illiquid (3)	
Real Assets:						
Commodities, TIPS, Real Estate & Natural Resources		4,493,697		4,493,697	Monthly (2)	None
Treasury Inflation Protected Securities			6,303,761	6,303,761	Annually	60
Commodities, TIPS, Real Estate & Natural Resources			10,702,216	10,702,216	Illiquid	
Total December 31, 2008	\$ 77,489,851	263,464,864	68,055,728	409,010,443		

(1) Partial: 100% paid on 3<sup>rd</sup> business day, Full: 100% paid on 9<sup>th</sup> business day.

(2) Partial: 100% on 1<sup>st</sup> business day, Full: 95% paid on 1<sup>st</sup> business day and 5% on 3<sup>rd</sup> business day.

(3) Depending on the age of the fund, these funds are expected liquidate in 1 to 12 years.

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Notes to Consolidated Financial Statements

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The following is a reconciliation of investments for which significant unobservable inputs (Level 3) were used in determining value:

	<u>Hedge strategies</u>	<u>Private equity</u>	<u>Real assets</u>	<u>Total</u>
Balance as of December 31, 2008	\$ 26,994,573	24,055,178	17,005,975	68,055,726
Interest and dividends	—	34,652	13,249	47,901
Realized gains	—	870,220	200,982	1,071,202
Unrealized gains and (losses)	6,674,641	751,032	1,130,385	8,556,058
Investment management and custody fees	—	(104,464)	(166,815)	(271,279)
Net purchases/(sales)	—	1,056,561	5,126,916	6,183,477
Balance as of December 31, 2009	<u>\$ 33,669,214</u>	<u>26,663,179</u>	<u>23,310,692</u>	<u>83,643,085</u>

	<u>Hedge strategies</u>	<u>Private equity</u>	<u>Real assets</u>	<u>Total</u>
Balance as of December 31, 2007	\$ 36,948,138	31,123,499	19,611,597	87,683,234
Interest and dividends	—	145,075	94,810	239,885
Realized (losses) and gains	(539,601)	2,590,852	973,235	3,024,486
Unrealized losses	(10,051,177)	(9,843,377)	(3,801,054)	(23,695,608)
Investment management and custody fees	—	(10,082)	(33,818)	(43,900)
Net purchases/(sales)	637,213	49,211	161,207	847,631
Balance as of December 31, 2008	<u>\$ 26,994,573</u>	<u>24,055,178</u>	<u>17,005,977</u>	<u>68,055,728</u>

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Notes to Consolidated Financial Statements

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The return on investments consisted of the following for the years ended December 31:

	<b>2009</b>	<b>2008</b>
Interest and dividends	\$ 7,591,747	10,882,809
Unrealized and realized gains and (losses)	82,237,550	(163,960,177)
Investment management and custody fees	(1,443,665)	(1,707,322)
Change in investment income receivable	(53,700)	131,068
Less investment (losses) gains from agency funds	(3,347,410)	6,082,176
Net investment gains (losses)	84,984,522	(148,571,446)
Less spending rate and grant income distributions (net of spending rate from agency funds)	(31,752,324)	(32,056,692)
Redeemed investment gains (losses)	\$ 53,232,198	(180,628,138)

The change in investments consisted of the following for the years ended December 31:

	<b>2009</b>	<b>2008</b>
Investments, beginning of year	\$ 409,010,443	557,020,195
Interest and dividends	7,591,747	10,882,809
Unrealized and realized gains and (losses)	82,237,550	(163,960,177)
Investment management and custody fees	(1,443,665)	(1,707,322)
Net transfers	(20,746,539)	6,774,938
Change in investments	67,639,093	(148,009,752)
Investments, end of year	\$ 476,649,536	409,010,443

The investment composition by fund type for the years ended December 31 are:

	<b>2009</b>	<b>2008</b>
Board designated	\$ 195,734,895	166,402,997
Donor designated	184,027,346	160,023,461
Donor advised	80,103,324	67,312,120
Supporting organizations	16,783,971	15,271,865
	\$ 476,649,536	409,010,443

## THE FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### Liquidity

Investments as of December 31, 2009 are summarized below based on when they may be redeemed or sold:

Daily	\$	261,388,879
Monthly		92,989,966
Quarterly		38,627,606
Annually		38,617,500
Illiquid		45,025,585
Total	\$	<u>476,649,536</u>

#### (3) Other Receivables

Other receivables consist of pledges and the Foundation's remainder interest in charitable remainder trusts where the Foundation is not the trustee.

Promises to give are expected to be collected as follows:

	<u>2009</u>	<u>2008</u>
Within one year	\$ 72,424	67,765
One to five years	89,559	138,783
Beyond five years	—	2,750
Less allowance for uncollectibles of 25% and a discount of 2% to present value	(45,051)	(59,341)
Pledges receivable, net	<u>\$ 116,932</u>	<u>149,957</u>

The Foundation's net interest in charitable remainder trusts as of December 31, 2009 and 2008 was \$18,701,672 and \$17,486,605, respectively. The Foundation's net interest in these charitable remainder trusts represents the fair value of assets in the trusts less the present value of payments expected to be made to other beneficiaries.

#### (4) Land

Included in other assets are land and a mining lease held by The Rhode Island Charities Trust Inc., in Sanderville, Georgia. The land is valued at cost and has been under lease to mining companies since 1963. The carrying value of the land at December 31, 2009 and 2008 is \$1 and the carrying value of the mining lease is \$1. The lease provides for a royalty based on the sales value of mining production. The royalty income in 2009 and 2008 was \$400,128 and \$453,041, respectively.

## THE FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (5) Promissory Notes Receivable

At December 31, promissory notes receivable consisted of:

A promissory note, in the amount of \$2,000,000 from Neighborhood Health Plan of Rhode Island, Inc. (NHPRI), a health maintenance organization licensed by the Rhode Island Department of Business Regulation (DBR). Interest is 5.75% payable quarterly, and is current as of December 31, 2009. Principal is payable in equal payments of \$500,000 due in 2005, 2010, 2015, and 2020. Payments of principal and interest are subordinate to claims of policyholders, claimants and beneficiaries, providers, and all other classes of creditors, and shall require the approval of DBR. Should NHPRI become unable to make principal payments, the Foundation may forgive those payments upon written notice from DBR to the Foundation that NHPRI is unable to make such payments. The balance was \$1,500,000 at December 31, 2009 and 2008.

A promissory note dated May 30, 2003, in the amount of \$400,000, amended on November 28, 2009, from Lerner Associates, LLC, a real estate developer in the downcity neighborhood of Providence. The term of the loan is 60 months. Principal and interest (5.5%) is calculated on a 15-year amortization schedule and is current as of December 31, 2009. A balloon payment of \$288,287.07 is due on November 28, 2013. The balance at December 31, 2009 and 2008 was \$355,564 and \$365,091, respectively.

A promissory note dated June 24, 2003, in the amount of \$700,000, amended on December 24, 2009, from Harrisburg Associates, LLC, a real estate developer in the downcity neighborhood of Providence. The term of the loan is 60 months. Principal and interest (5.5%) is calculated on a 15-year amortization schedule and is current as of December 31, 2009. A balloon payment of \$507,781.36 is due on December 24, 2014. The balance at December 31, 2009 and 2008 was \$628,536 and \$644,342, respectively.

A promissory note dated February 25, 2004, in the amount of \$3,500,000 from the Providence Preservation Society Revolving Fund, Inc., a nonprofit corporation organized to preserve Providence's architectural heritage and stimulate community revitalization. The initial term of the loan is for ten years, with additional 5-year extensions at the discretion of the Foundation. Interest is 1%, payable annually. The balance at December 31, 2009 and 2008 was \$3,500,000.

A promissory note dated July 7, 2005 in the amount of \$3,000,000 from the Providence Preservation Society Revolving Fund, Inc., a nonprofit corporation organized to preserve Providence's architectural heritage and stimulate community revitalization. The initial term of the loan is for ten years, with additional 5-year extensions at the discretion of the Foundation. Interest is 1%, payable annually. The balance at December 31, 2009 and 2008 was \$3,000,000.

A promissory note dated May 16, 2007 in the amount of \$2,360,109 from Rhode Island Public Radio, a nonprofit corporation. The principal of this note is due and payable in installments of \$786,703 each on May 16, 2012, May 16, 2017, and May 16, 2022. Interest is 5.36% and is payable quarterly. The balance at December 31, 2009 and 2008 was \$326,013 and \$2,360,109, respectively.

The Foundation has established an allowance on the above noted promissory notes receivable. The balance at December 31, 2009 and 2008 was \$650,000.

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (6) Charitable Trusts

The fair values of the charitable remainder trusts, charitable gift annuities and pooled income funds are as follows and are included in other assets:

	<b>2009</b>	<b>2008</b>
Charitable remainder trusts	\$ 2,915,191	2,526,710
Charitable gift annuities	3,332,510	2,956,566
Pooled income funds	5,967,538	5,191,985
Total	\$ 12,215,239	10,675,261

When the Foundation acts as trustee, a liability is recorded for the amount due to income beneficiaries of charitable gift annuities and charitable remainder trust, and for deferred revenue on pooled income funds. The present value of the estimated future payments to be distributed during the beneficiaries' expected lives is recorded as a liability using the current discount rate of 3.2% in 2009 and 3.4% in 2008.

#### (7) Fixed Assets

Fixed assets consisted of the following as of December 31:

	<b>2009</b>	<b>2008</b>
Land	\$ 450,000	450,000
Building	4,108,201	4,108,201
Building improvements	1,568,629	1,568,629
Furniture and fixtures	547,549	547,549
Computer equipment	792,025	784,426
Office equipment	127,120	127,120
Website design	315,912	229,728
Automotive equipment	39,177	22,177
	7,948,613	7,837,830
Less accumulated depreciation and amortization	(2,863,617)	(2,501,231)
	\$ 5,084,996	5,336,599

Depreciation expense was \$362,386 and \$312,827 for the years ended December 31, 2009 and 2008, respectively.

#### (8) Retirement Plan

The Foundation sponsors a defined contribution retirement plan in which contributions are based upon a specified percentage of salary. Retirement plan expense was \$308,561 and \$234,761 for 2009 and 2008, respectively. All employees are eligible after six months of service. Also, employees have the option to contribute to this plan through salary reductions. These funds are managed exclusively by third-party administrators. All contributions vest with employees as made.

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (9) Grants

Grant activity for the years ended December 31, 2009 and 2008 is summarized as follows:

	<b>2009</b>	<b>2008</b>
Grants payable at beginning of year	\$ 2,574,674	5,543,314
Plus grants approved	26,477,593	24,859,545
Less cancellations	(180,075)	(256,963)
Plus grants refunded	41,945	179,828
Grant payments	(25,769,726)	(27,751,050)
Grants payable at end of year	\$ 3,144,411	2,574,674

Grants payable are due within one year.

The Foundation approves grants with conditions; however, the probability is remote that the grantees will not meet these conditions. Accordingly, all grants are accounted for as grants payable when approved.

#### (10) Liability for Funds Held as Agency Endowments

At December 31, 2009 and 2008, the Foundation held agency endowment funds and certain other designated funds with a combined value of \$21,826,653 and \$17,842,074, respectively, which it accounts for as a liability. The following summarizes activity in such liability accounts during the years then ended:

	<b>2009</b>	<b>2008</b>
Beginning liability for funds held as agency endowments	\$ 17,842,074	22,689,656
Contributions	1,954,333	2,820,468
Investment income	310,871	395,491
Unrealized and realized gains	3,099,448	(6,405,513)
Investment management and custody fees	(62,909)	(72,220)
Foundation support fees	(225,655)	(207,412)
Grants	(1,091,509)	(1,378,396)
Ending liability for funds held as agency endowments	\$ 21,826,653	17,842,074

During 2009 and 2008, the Foundation, as a fiscal agent, received funds designated for specific organizations in the amount of \$1,804,641 and \$1,435,947, respectively. Included in accounts payable and accrued expenses is the Foundation's net fiscal agent liability from these funds which was \$197,010 and \$40,000 at December 31, 2009 and 2008, respectively.

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (11) Commitments and Contingencies

##### (a) *Investments*

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the Foundation is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of December 31, 2009 was \$35,000,000.

##### (b) *Loan Guarantees*

The Foundation is contingently liable as a guarantor of a Revolving Credit Loan Agreement from Citizens Bank of Rhode Island to The Trinity Repertory Company in the amount of \$1,000,000. The outstanding balance at December 31, 2009 was \$1,001,830, including interest. This guaranty is a continuing guaranty which shall remain in effect until the obligations are fully discharged or notice of termination in writing from the Foundation is actually received by an officer of Citizens Bank of Rhode Island.

The Foundation is a limited liability guarantor of a promissory note from Sovereign Bank to Carelink Pace Organization. The Foundation's guarantor liability is limited to \$25,000. The Foundation is also a limited liability guarantor of a promissory note from RBS Citizens, National Association to the Rhode Island Philharmonic Orchestra for up to \$3,500,000. This guaranty shall remain in effect until March 31, 2013, with extensions for a period of up to an additional fifteen years.

##### (c) *Potential Litigation*

The Foundation is involved in miscellaneous general liability suits arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Foundation's financial position or results of operations.

#### (12) Tax Status

Each of the entities comprising the Foundation is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

The Foundation is highly confident that it has at all times maintained its tax-exempt status by fulfilling its mission and is highly confident that the vast majority of its operations and revenue are exempt from income tax liability.

**THE FOUNDATION**

Notes to Consolidated Financial Statements

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The Foundation's long-term investments include alternative investments, such as hedge funds and venture capital funds that generate unrelated business income per Section 514 of the Internal Revenue Code. The Foundation reports all applicable unrelated business income by filing the applicable U.S. and state income tax returns.

**(13) Leases**

The Foundation leases property to others under noncancelable operating leases requiring fixed monthly payments over various terms. For the years ended December 31, 2009 and 2008, the Foundation recognized \$529,945 and \$517,446, respectively, in lease revenue which is included in other income. At December 31, 2009, future minimum lease receipts were as follows:

	<b>Amount</b>
Year ending December 31:	
2010	\$ 575,422
2011	572,398
2012	457,794
2013	457,794
2014	410,529
2015	158,000
Total	\$ 2,631,937

**(14) Functional Classification of Expenses**

For the years ended December 31, 2009 and 2008, total expenses of the Foundation were classified by function as follows:

	<b>2009</b>	<b>2008</b>
Grants and program services:		
Net grants appropriated	\$ 26,297,518	24,602,582
Administration of grants and programs	1,750,376	1,868,594
	28,047,894	26,471,176
Management and general and communications	3,818,968	3,715,707
Fundraising	1,125,857	848,536
	\$ 32,992,719	31,035,419

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(15) Unrestricted Net Assets by Organization**

Unrestricted net assets by organization at December 31, 2009 and 2008 consist of:

	<u>2009</u>	<u>2008</u>
The Rhode Island Community Foundation	\$ 442,863,832	383,348,382
The Rhode Island Charities Trust, Inc., The Haffenreffer Family Fund, The Downcity Partnership, Inc., and The Foundation for Trinity Repertory Company	<u>23,719,115</u>	<u>22,290,988</u>
Total	<u>\$ 466,582,947</u>	<u>405,639,370</u>

**(16) Temporarily Restricted Net Assets by Organization**

Temporarily restricted net assets by organization at December 31, 2009 and 2008 consist of:

	<u>2009</u>	<u>2008</u>
The Rhode Island Community Foundation: Time restrictions	<u>\$ 25,079,402</u>	<u>22,872,959</u>
Total	<u>\$ 25,079,402</u>	<u>22,872,959</u>

**(17) Subsequent Events**

The Foundation has evaluated subsequent events from the balance sheet date through July 22, 2010, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.