

AUDITED FINANCIAL STATEMENTS

Colcom Foundation
June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Colcom Foundation

We have audited the accompanying statements of assets, liabilities and fund balance - modified cash basis of Colcom Foundation as of June 30, 2011 and 2010, and the related statements of revenues, expenditures and changes in fund balance - modified cash basis for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting used for federal excise tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balance of Colcom Foundation as of June 30, 2011 and 2010, and its revenues, expenditures and changes in fund balance for the years then ended, on the basis of accounting described in Note 2.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The fair value information presented on the statements of assets, liabilities and fund balance - modified cash basis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sisterson + Co. LLP

October 20, 2011

Colcom Foundation

Statements of Assets, Liabilities and Fund Balance -
Modified Cash Basis

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u> <i>(Unaudited)</i>	<u>Book Value</u>	<u>Fair Value</u> <i>(Unaudited)</i>
Assets				
Cash, cash equivalents, and short-term	\$ 20,252,218	\$ 20,252,218	\$ 18,968,679	\$ 18,968,679
Marketable securities:				
Equity investments	198,655,652	245,806,063	189,196,108	187,048,440
Fixed income investments	<u>96,078,935</u>	<u>101,667,705</u>	<u>98,264,956</u>	<u>102,649,165</u>
Total marketable securities	294,734,587	347,473,768	287,461,064	289,697,605
Partnership and nonmarketable investments	75,335,028	90,955,808	66,769,020	78,456,574
Prepaid taxes	-	-	107,653	107,653
Other assets (net of depreciation)	<u>7,093</u>	<u>7,093</u>	<u>17,348</u>	<u>17,348</u>
Total assets	<u>\$ 390,328,926</u>	<u>\$ 458,688,887</u>	<u>\$ 373,323,764</u>	<u>\$ 387,247,859</u>
Liabilities and Fund Balance				
Federal excise tax payable	\$ 90,385	\$ 90,385	\$ -	\$ -
Deferred income - calls sold	574,828	723,197	650,927	52,135
Appropriated for grants payable in future years	1,340,400	1,340,400	1,234,400	1,234,400
Unappropriated fund balance	<u>388,323,313</u>	<u>456,534,905</u>	<u>371,438,437</u>	<u>385,961,324</u>
Total liabilities and fund balance	<u>\$ 390,328,926</u>	<u>\$ 458,688,887</u>	<u>\$ 373,323,764</u>	<u>\$ 387,247,859</u>

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

Colcom Foundation

Statements of Revenues, Expenditures and Changes in Fund Balance -
Modified Cash Basis

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Gifts received	\$ 6,540,486	\$ 1,329,763
Realized capital gains	24,742,148	707,575
Dividends, interest and other income	10,223,762	9,701,296
	<u>41,506,396</u>	<u>11,738,634</u>
Expenditures:		
Grant payments, net	20,132,969	19,158,060
Investment and related administrative expenses	3,328,375	3,287,698
Administrative expenses related to grantmaking	736,138	814,181
Federal excise taxes	318,038	83,846
	<u>24,515,520</u>	<u>23,343,785</u>
Changes in Fund Balance:		
Excess of revenues over expenditures (expenditures over revenues)	16,990,876	(11,605,151)
Unappropriated fund balance at beginning of year	371,438,437	379,223,288
(Increase) decrease in grants payable	(106,000)	3,820,300
Unappropriated fund balance at end of year	<u>\$ 388,323,313</u>	<u>\$ 371,438,437</u>

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

Colcom Foundation

Notes to Financial Statements

1. Organization - Colcom Foundation (the Foundation) was incorporated in 1996 as a nonprofit private foundation to support awareness of major causes and consequences of human population growth on the environment and quality of life in the United States. Regionally, the Foundation supports conservation, environmental projects and cultural assets. The Foundation invites grant proposals, makes grants to charitable organizations and manages investments. Initial funding was provided by Cordelia S. May and additional contributions have been received from her estate since her death in January 2005.

2. Significant Accounting Policies

Basis of accounting - The Foundation reports on the modified cash basis of accounting generally following accounting principles used by foundations on the annual federal tax report - *Return of Private Foundations* on Form 990-PF. Revenues are recognized when cash or property (at cost) is received or when amounts are taxed, and expenditures are recognized when cash is disbursed. Accordingly, grants to charitable organizations are recognized as expenditures when paid. Accounts do not include interest and dividends receivable, amortization of bond premiums, accretion of bond discounts, or other liabilities unless subject to federal excise tax in the current period. Federal excise taxes are accrued as expenses in the year to which they relate.

The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) primarily due to GAAP requiring investments to be recorded at fair value and grant expenses to be recognized at the time an unconditional promise is made.

Cash, cash equivalents, and short-term investments - The Foundation considers all highly liquid investments having original maturities of three months or less to be cash equivalents and all investments having original maturities of one year or less to be short-term investments.

Marketable securities - These instruments are recorded at cost on the acquisition date. Acquisitions and sales are accounted for on the trade date, when the order to buy or sell is executed.

Partnership and nonmarketable investments - Investments are recorded at cost and adjusted in accordance with the Internal Revenue Code for increases (additional contributions and allocated income) and decreases (withdrawals and allocated expenses).

Colcom Foundation

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Other assets - Leasehold improvements, furniture, equipment, and software used in the operations of the Foundation are recorded at cost. These assets are depreciated using the straight-line method based on their estimated useful lives.

Fund balance - Grants approved to be paid in a future year are reflected as appropriated fund balance until paid. Unappropriated fund balance includes the amount of the original endowment, gains recognized on sales and other dispositions of assets, and net revenues in excess of expenditures.

Subsequent events - The Foundation evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 20, 2011, the date on which the financial statements were available to be issued.

Uncertain tax positions - The Financial Accounting Standards Board "Accounting Standards Codification on Income Taxes" clarifies recognition, measurement, presentation and disclosure relating to uncertain tax positions. The Foundation's excise tax returns for tax years 2008 and later remain subject to examination by the Internal Revenue Service.

3. Fair Value of Assets (unaudited) - The fair value of assets is presented for comparative purposes. The statements of revenues, expenditures and changes in fund balance - modified cash basis do not include any unrealized gains or losses due to changes in the fair value of assets. Fair values of marketable securities and short-term investments are based upon published quotations. The fair value of other investments and assets is determined by management, which relies primarily on the valuation of nonmarketable partnership investments provided by the general partners of the partnerships.

4. Retirement Benefits - The Foundation has a defined contribution retirement plan covering all employees after one year of service. The Foundation funded and charged to expenditures \$197,286 and \$203,073 for the years ended June 30, 2011 and 2010, respectively.

Colcom Foundation

Notes to Financial Statements (continued)

5. Taxes - The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax on net investment income. However, the Foundation is classified as a private foundation and is subject to income taxes on unrelated business income, if earned. As of June 30, 2011 the Foundation has net operating loss carryforwards for unrelated business income tax purposes of \$4,429,214, which expire in the years ending June 30, 2025-2029 if not used.

Private foundations are also subject to an excise tax on net investment income at the rate of 1% or 2%. For the years ended June 30, 2011 and 2010, the Foundation incurred excise tax at the rate of 1%. Private foundations are also subject to tax on the amount by which their minimum investment return exceeds qualifying distributions, but the Foundation has never incurred this tax and does not expect to in the future. As of June 30, 2011, the Foundation had excess qualifying distributions of \$6,568,558, which are available to reduce future minimum distribution requirements.

6. Grant Payments - The amount appropriated for grants payable in future years is due to an installment payment schedule approved by the Foundation or to contingencies or restrictions that had not been met by a grant recipient. The amount appropriated for future grants as of June 30, 2011 is expected to be paid as follows:

By June 30, 2012 -	\$ 456,000
By June 30, 2013 -	<u>884,400</u>
	<u>\$1,340,400</u>

Grant payments are sometimes accelerated to qualify for the 1% excise tax rate.

7. Lease Obligation and Related Party - The Foundation leases office space under an agreement that expires on October 31, 2018. Total lease expense for the year ended June 30, 2011 and 2010 was \$98,037 and \$105,936, respectively. Future minimum rental payments are as follows for the years ended June 30:

2012	\$ 110,379
2013	110,379
2014	114,065
2015	115,909
2016	115,909
Thereafter	<u>270,454</u>
	\$ <u>837,095</u>

Colcom Foundation

Notes to Financial Statements (continued)

7. Lease Obligation and Related Party (continued)

The Foundation shares office space with Laurel Foundation, which pays a portion of the above rental amounts pursuant to a sublease for the same term as the Foundation.

8. Commitments - In connection with certain partnership investments, the Foundation is committed to make additional capital contributions of \$36,229,379 as of June 30, 2011. Such contributions are due when called by the general partners of those partnerships.