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THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

CONTENTS

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Independent Auditors' Report

To the Board of Trustees
The Community Foundation of Eastern Connecticut, Inc.

We have audited the accompanying financial statements of The Community Foundation of Eastern Connecticut, Inc. (the Foundation), which comprise the statement of financial position as of December 31, 2015 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated May 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2015, The Community Foundation of Eastern Connecticut, Inc., elected early adoption of Accounting Standards Update No. 2015-07, *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).* The amendments require retrospective application. As a result, certain amounts related to investment disclosures have been restated as of and for the year ended December 31, 2014. Our opinion is not modified with respect to this matter.

Blum, Shapiro + Company, P.C.

West Hartford, Connecticut
May 9, 2016

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(With Summarized Financial Information as of December 31, 2014)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 1,462,083	$ 1,922,192
Investments	57,088,362	51,519,094
Contributions receivable, net	54,012	61,538
Prepaid expenses and other assets	178,053	-
Split-interest agreements:		
Beneficial interest in perpetual trust	3,589,119	3,838,868
Charitable trusts	295,263	2,116,479
Charitable gift annuities	138,197	154,104
Property and equipment, net	457,345	439,419
Total Assets	$ 63,262,434	$ 60,051,694
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 78,015	$ 106,887
Grants payable, net	590,824	436,588
Liabilities under charitable gift annuities	97,706	102,673
Total liabilities	766,545	646,148
Net Assets		
Unrestricted:		
Board designated, administrative endowment	2,583,916	2,658,354
Board designated, capital	16,589	16,589
Undesignated	55,956,990	50,713,718
Total unrestricted	58,557,495	53,388,661
Temporarily restricted	349,275	2,178,017
Permanently restricted	3,589,119	3,838,868
Total net assets	62,495,889	59,405,546
Total Liabilities and Net Assets	$ 63,262,434	$ 60,051,694

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information for the Year Ended December 31, 2014)

	2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2014 Total
Revenues, Gains and Other Support					
Contributions	$ 10,119,058	$ 228,954	$ -	$ 10,348,012	$ 10,182,693
Change in value of split-interest agreements	(7,341)	(1,720)	-	(9,061)	404,650
Change in value of perpetual trust	-	-	(249,749)	(249,749)	(94,971)
Net realized and unrealized gains (losses) on investments	(1,535,660)	-	-	(1,535,660)	2,165,150
Investment income	841,614	-	-	841,614	806,922
Rental income	-	-	-	-	14,500
	9,417,671	227,234	(249,749)	9,395,156	13,478,944
Less investment fees	199,355	-	-	199,355	171,605
Total support	9,218,316	227,234	(249,749)	9,195,801	13,307,339
Net assets released	2,055,976	(2,055,976)	-	-	-
Total revenues, gains and other support	11,274,292	(1,828,742)	(249,749)	9,195,801	13,307,339
Expenses					
Program services:					
Grants	4,509,260	-	-	4,509,260	3,567,513
Scholarships	509,475	-	-	509,475	455,590
Other program expenses	309,382	-	-	309,382	285,864
Total program services	5,328,117	-	-	5,328,117	4,308,967
Supporting services:					
General and administrative expenses	486,123	-	-	486,123	429,770
Fundraising	291,171	-	-	291,171	261,338
Total supporting services	777,294	-	-	777,294	691,108
Total expenses	6,105,411	-	-	6,105,411	5,000,075
Increase (Decrease) in Net Assets Before Other Losses	5,168,881	(1,828,742)	(249,749)	3,090,390	8,307,264
Loss on Disposal of Property and Equipment	47	-	-	47	141,092
Increase (Decrease) in Net Assets	5,168,834	(1,828,742)	(249,749)	3,090,343	8,166,172
Net Assets - Beginning of Year	53,388,661	2,178,017	3,838,868	59,405,546	51,239,374
Net Assets - End of Year	$ 58,557,495	$ 349,275	$ 3,589,119	$ 62,495,889	$ 59,405,546

The accompanying notes are an integral part of the financial statements

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information for the Year Ended December 31, 2014)

	2015	2014
Cash Flows from Operating Activities		
Increase in net assets	$ 3,090,343	$ 8,166,172
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	22,166	36,359
Net realized and unrealized (gains) and losses on investments	1,535,660	(2,165,150)
Change in value of beneficial interest in perpetual trust	249,749	94,971
Loss on disposition of property and equipment	47	141,092
(Increase) decrease in operating assets:		
Contributions receivable	7,526	30,582
Prepaid expenses and other assets	(178,053)	13,128
Charitable trusts	1,821,216	(382,372)
Charitable gift annuities	15,907	(22,072)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(28,872)	16,260
Grants payable	154,236	165,343
Liabilities under charitable gift annuities	(4,967)	8,472
Net cash provided by operating activities	6,684,958	6,102,785
Cash Flows from Investing Activities		
Proceeds from the sale of investments	3,934,663	5,045,870
Purchases of investments	(11,039,591)	(10,704,116)
Purchase of property and equipment	(40,139)	(125,149)
Proceeds from the sale of property and equipment	-	186,911
Net cash used in investing activities	(7,145,067)	(5,596,484)
Net Increase (Decrease) in Cash and Cash Equivalents	(460,109)	506,301
Cash and Cash Equivalents - Beginning of Year	1,922,192	1,415,891
Cash and Cash Equivalents - End of Year	$ 1,462,083	$ 1,922,192

The accompanying notes are an integral part of the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

The Community Foundation of Eastern Connecticut, Inc. (the Foundation), formerly the Community Foundation of Southeastern Connecticut, is a nonprofit corporation headquartered in New London, Connecticut, serving 42 towns of eastern Connecticut. It promotes local philanthropy by building a permanent endowment and making grants to support the programs offered by local nonprofit organizations. It also awards college scholarships to local students. The Foundation solicits and receives contributions from individuals and businesses and trusts, invests them for the long term, and distributes grants and scholarships from the earnings of those invested funds. It also serves many individual donors in accomplishing their immediate charitable interests by making pass-through grants to eligible nonprofit organizations. The Foundation supports arts and education, health and human services, youth, civic, animal welfare and environmental causes.

Prior Year Summarized Financial Information

The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Foundation's audited financial statements as of and for the year ended December 31, 2014, from which the summarized information was derived.

Basis of Accounting and Presentation

The Foundation prepares its financial statements in accordance with GAAP. Accordingly, the accounts of the Foundation are reported in the following categories:

Unrestricted Net Assets
Unrestricted net assets represent available resources other than donor-restricted contributions. The Board of Trustees of the Foundation has variance power, the unilateral power to redirect the use of a donor's contribution to another beneficiary. Such contributions must be classified as unrestricted net assets. Accordingly, the Foundation's financial statements classify substantially all funds, including the corpus of endowment funds, as unrestricted net assets. The Board has designated a portion of the unrestricted net assets for the purposes of administrative endowment and capital.

Temporarily Restricted Net Assets
Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure. This classification includes income and appreciation subject to purpose restrictions and split-interest agreements, as discussed below.

Permanently Restricted Net Assets
Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Foundation to expend the income earned thereon. These permanently restricted net assets include the Foundation's proportionate share of the principal amount of irrevocable trusts with outside directors, for which the Foundation is an income beneficiary.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents, exclusive of cash equivalents held by investment managers, which are considered to be investments. The Foundation's deposits in financial institutions may, at times, exceed federal depository insurance limits. However, management believes the Foundation is not subject to significant credit risk on its deposits.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Investment Committee of the Foundation determines the Foundation's valuation policies and procedures utilizing information provided by investment advisers. The Foundation's Investment Committee reports to the Board of Trustees on a quarterly basis. See Note 2 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Split-Interest Agreements

Split-interest agreements consist of assets placed in trust for the benefit of the 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 Foundation is notified of the existence of the agreement. The accounting treatment varies depending upon the type of agreement created and whether the Foundation or a third party is the trustee. See Note 4 for a further discussion of split-interest agreements.

Property and Equipment

Property and equipment acquisitions and improvements thereon that exceed $500 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives ranging from 3 to 40 years. Donated property and equipment are recognized at fair value at the date of donation.

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Foundation reports nongovernmental contributions and grants of cash and other assets as 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 statement of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Assets

Donated marketable securities and other asset donations are recognized as contributions at their fair values at the date of donation.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A).

Reclassifications

Certain amounts reported in prior periods have been reclassified in order to conform to the current year presentation.

Change in Accounting Principle

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy tables. The standard is effective for years beginning after December 15, 2016 and early adoption is permitted. The Foundation has elected to early adopt ASU 2015-07 for the year ended December 31, 2015.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through May 9, 2016, which represents the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2
Inputs to the valuation methodology include:

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

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

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

The following is a description of the valuation methodologies used for financial instruments measured at fair value:

Common Stocks
Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

Mutual Funds
Mutual funds are valued at the quoted net asset value of shares held by the Foundation at year end.

Alternative Investments
Alternative investments include both multi-strategy and long/short equity approaches. Multi-strategy funds typically involve event-driven, stressed and distressed credit, and spread-based arbitrage investments. These strategies tend to be both flexible and opportunistic and incorporate differentiated drivers of return compared to traditional investment strategies. As a result, they are expected to produce returns that exhibit relatively low correlation to broad market indices over longer time horizons. Long/short equity managers typically make both long and short investments in publicly traded equity securities and produce returns that can be expected to correlate more closely with the

performance of the equity markets than is expected from multi-strategy managers, though with lower volatility than traditional “long only” equity managers. Investments in hedged assets are generally subject to an initial lock-up of three months with advance notice. Alternative investments also include public real estate which comprises of an investment in real estate investment trusts. This investment class focuses on a yield-advantaged return with the majority of total return coming from dividends and reinvested dividends over a market cycle. The managers’ underlying investments in hedged assets and public real estate may themselves be less liquid, but the investment cycle is substantially shorter than for private equity. The private equity fund is an investment in a partnership with a ten-year holding period. The private debt fund, also classified as private equity, is an investment in private debt with a three-year investment period followed by a five-year harvest subject to two one-year extensions. The real estate income fund invests in direct commercial property assets that offer the investor potential for attractive returns through the implementation of a core and enhanced core real estate strategy. Over time, alternative assets are expected to generate equity-like returns with lower volatility than equity markets.

Hedge Fund

Interests in hedge funds are valued using net asset values as determined by the investment manager of the fund. The net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class seeks long-term equity like returns with minimal correlation to the major market average.

Public Real Estate

Interests in public real estate are valued using net asset values as determined by the investment manager of the fund. The net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class seeks a ten-year correlation to the major market average focusing on a yield-advantaged return.

Private Equity Fund

Interests in private equity and debt are valued using net asset values as determined by the investment manager of the fund. This investment class makes commitments to private investment opportunities with the goal of outperforming market indices over the long term.

Real Estate Income Fund

The real estate income fund class includes several real estate funds that invest in primarily U.S. commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the Foundation’s ownership interest in partners’ capital.

Beneficial Interest in Perpetual Trust

Beneficial interest in perpetual trust is measured at the present value of expected future cash flows.

Split-Interest Agreements

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

There have been no changes in the methodologies used at December 31, 2015 and 2014.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2015:

	December 31, 2015	Fair Value Measurements Using: Level 1	Level 2	Level 3	Investments Measured at Net Asset Value (a)
Cash equivalents	$ 3,443,556	$ 3,443,556	$ -	$ -	$ -
Common stock:					
Domestic equities	18,917,314	18,917,314	-	-	-
Mutual funds:					
U.S. equity funds	3,446,349	3,446,349	-	-	-
Fixed income	2,585,863	2,585,863	-	-	-
International equity funds	7,247,293	7,247,293	-	-	-
Strategic reserve funds	12,066,530	12,066,530	-	-	-
Emerging market	2,310,109	2,310,109	-	-	-
Alternative investments:					
Hedge funds	2,018,046	-	-	-	2,018,046
Public real estate	2,003,691	-	-	-	2,003,691
Private equity fund	2,177,527	-	-	-	2,177,527
Real estate income fund	872,084	-	-	-	872,084
Total investments	57,088,362	50,017,014	-	-	7,071,348
Beneficial interest in perpetual trusts	3,589,119	-	-	3,589,119	-
Split-interest agreements	433,460	-	433,460	-	-
Total Assets at Fair Value	$ 61,110,941	$ 50,017,014	$ 433,460	$ 3,589,119	$ 7,071,348

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 this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

There were no transfers between levels of investments during the year ended December 31, 2015.

Additional information regarding investments that report fair value based on net asset value per share or unit as of December 31, 2015 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedge funds:				
Long/short equity fund	$ 2,018,046	$ -	30 days	60 days
Public real estate	2,003,691		Monthly	Monthly
Private equity fund	2,177,527	1,609,270	Restricted	Restricted
Real estate income fund	872,084	292,384	Restricted	Restricted
Total	$ 7,071,348	$ 1,901,654		

The investment strategies of these investments are as follows:

a. To diversify investments within asset classes to reduce the impact of losses in a single investment and to provide returns that over the long term provide sufficient income and appreciation to fund the Foundation's spending policy;
b. To preserve capital and to generate consistent long-term appreciation.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended December 31, 2015:

	Beneficial Interest in Perpetual Trust
Balance - beginning of year	$ 3,838,868
Realized gains	72,712
Unrealized gains (losses)	(142,402)
Purchases	398,735
Redemptions	(578,794)
Balance - End of Year	$ 3,589,119

Gains and losses (realized and unrealized) included in changes in net assets for the year ended December 31, 2015 are reported in net realized and unrealized gains on investments on the statement of activities.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of pledges receivable from various individuals for the "Women and Girls Fund" initiative.

Contributions receivable as of December 31, 2015 are expected to be collected as follows:

Receivable in less than one year	$ 38,199
Receivable in one to five years	16,233
Total contributions receivable	54,432
Less discounts to net present value	420
Net Contributions Receivable	$ 54,012

Contributions receivable in more than one year are discounted at 2%.

The Foundation has been named the sole beneficiary of a donor's estate who passed away in September 2013. The original notification of the bequest valued the estate at approximately $10,000,000. As of December 31, 2015, the Foundation has received $9,688,846 in distributions from this estate. The valuation of the donor's estate as of December 31, 2015 values the remaining liquid assets at $244,931, before the deduction of various fees and expenses related to the liquidation, which are unknown. Due to the fact that the estate is still in arbitration and not fully liquidated, a receivable has not been recorded as of December 31, 2015.

NOTE 4 - SPLIT-INTEREST AGREEMENTS

Beneficial Interest in Perpetual Trust

The Foundation retains a beneficial interest in a trust established by Dorothy L. Morgan and held by an unrelated trustee. Under this arrangement, the Foundation receives distributions from the trust but does not have access to the principal. Changes in the carrying amount of the beneficial interest are recognized as increases or decreases in permanently restricted net assets. Distributions received from the trust and included in investment income in the statement of activities for the year ended December 31, 2015 was $180,479.

Charitable Remainder Trusts

The Foundation is a named beneficiary in the charitable remainder trusts established by Lawrence P. and Marjory B. Smith, Nancy Comita, Judith N. Hart, Roger H. Dickinson, and the Popiel children (Cynthia Patrick, Patricia Popiel, and Pamela Kelly) and two charitable lead trusts established by Helen C. Vergason and Adele Clement. These trusts represent an arrangement in which a donor establishes and funds a trust that is held by a third party with the grantor or other designated beneficiaries as the named life beneficiary. The trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term, usually the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recognized in the statement of activities as a temporarily restricted contribution in the period the trust was established. During the year ended December 31, 2015, the term of the trust established by Lawrence P. and Marjory B. Smith expired and the assets of the trust, as held by the trustee, were distributed to the Foundation without purpose restrictions. On an annual basis, the Foundation revalues the liability to account for distributions to the designated beneficiaries and to adjust for the change in market value based on actuarial assumptions.

The liability is calculated using the federal applicable rate for a remainder interest under Internal Revenue Code Section 7520 and applicable mortality tables.

Charitable Gift Annuity

The Foundation is the beneficiary of charitable gift annuities through their charitable gift annuity program. Under the terms of the program, contributions are received from donors in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to a donor or individuals designated by the donor. Annuity contracts may be established for either one or two lives and provide that fixed payments be made to the annuitants for the remainder of their lives. Upon termination of the annuity contract, any remaining assets revert to the Foundation for purposes as specified in the charitable gift annuity contract. On an annual basis, the Foundation revalues the liability to account for distributions to the designated beneficiaries and to adjust for the change in market value based on actuarial assumptions.

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2015:

Land, building and improvements	$	462,477
Furniture, fixtures and equipment		49,843
		512,320
Less accumulated depreciation		54,975
Net Property and Equipment	$	457,345

NOTE 6 - GRANTS PAYABLE

The Foundation distributes grants and scholarships throughout the year, based on proposals submitted by local agencies/students and vetted by volunteer committees. Award amounts from endowed funds are determined by the spending policy, as described in Note 8 and recommended by the Investment Committee, with Board approval. Further, the Foundation authorizes grants and scholarships recommended by donors from current contributions. For 2015, the amount of such pass-through grants was $2,984,102, 59% of the total grants/scholarships awarded. Grants authorized but unpaid as of year end are reported as liabilities.

Grants to be paid in more than one year are discounted using a rate of 4%. The following is a summary of grants authorized and payable at December 31, 2015:

To be paid in less than one year	$	386,144
To be paid in one to five years		210,192
Gross unconditional grants payable		596,336
Less discounts to net present value		5,512
Net Unconditional Grants Payable	$	590,824

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions, gifts and income from investments that are restricted based on time or purposes specified by the donor. At December 31, 2015, temporarily restricted net assets are comprised of the following:

Contributions receivable, net	$	54,012
Popiel Children Trust, net		215,504
Hart Trust, net		40,704
Comita Trust, net		29,052
Dickinson Trust, net		7,953
Clement Trust, net		2,050
	$	349,275

As of December 31, 2015, net assets in the amount of $20,976 were released from restrictions by incurring expenses for the purpose of the Women & Girls fund. In addition to this, net assets in the amount of $2,035,000 were released due to the term expiration of a charitable trust.

NOTE 8 - ENDOWMENT AND VARIANCE POWER

The Foundation's endowment consists of 396 individual funds established for a variety of purposes. Its endowment includes undesignated, field of interest, scholarship, donor-advised funds, donor-designated funds, as well as funds designated by the Board of Trustees to function as an administrative endowment. The Board of Trustees of the Foundation has the unilateral power to redirect the use of a donor's contribution to another beneficiary. Such endowment funds are subject to variance power pursuant to Sections 1.170A-9(e)(11)(v)(B), (C) and (D) of the Internal Revenue Code. The Board of Trustees has adopted a policy describing the criteria and limited circumstances under which the Foundation would exercise this power. For internal management and recordkeeping, the Foundation segregates the portion that is managed as an endowment from the funds that are currently available for grant distribution.

As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The State of Connecticut adopted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA). The impact of such adoption was negligible on the presentation of the Foundation's financial statements, given the existing governing documents' inclusion of variance power, the unilateral power to redirect the use of a contribution for another charitable purpose. The criteria and circumstances under which the Board of Trustees of the Foundation would exercise the variance power responsibility are prescribed under the by-laws of the organization.

Under the provisions of the by-laws, the Foundation, in its sole discretion, shall determine to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund. As a result of this responsibility under the by-laws, all contributions not classified as temporarily restricted are classified as unrestricted net assets for financial statement purposes. Temporarily restricted net assets consist of irrevocable charitable trusts and lead trusts, which are classified as split-interest agreements, as defined in Note 4. Accordingly, the Foundation's financial statements classify substantially all net assets as unrestricted; however, all recordkeeping for internal management and external reporting retains the original donor intent for every charitable asset within the Foundation.

The spending policy and philosophy contained in the investment policy, including the long-term investment management policies and procedures constructed based on the by-laws, were designed to function as integrated processes and are administered to reflect the following factors, as described in CTPMIFA, for prudent stewards of charitable assets, including:

1. the duration and preservation of a fund;
2. the purpose of the organization and the donor designations thereto;
3. general economic conditions;
4. the possible effects of inflation and deflation;
5. the expected total return of the charitable assets;
6. other resources of the organization; and
7. the investment policies.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that are comparable to a blended benchmark. This benchmark is intended to reflect the diverse asset allocation. The goal is to maximize returns while reducing volatility and assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an annual average rate of return of at least the rate of inflation plus yearly spending. Actual returns in any given year may vary from this amount.

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 distribution includes allocations ranging from 1% to 1.25% for costs associated with administering the funds. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Related to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4-6% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at least at the annual rate of inflation plus yearly spending. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held for a specified term as well as to provide additional real growth through new gifts and investment return.

The Foundation's goal is to increase its distributions by at least the rate of inflation annually, but it may hold spending flat during extended periods of poor market performance, recognizing the need to balance immediate needs against those of future generations. In years of sustained market growth, the Foundation may consider creating a future reserve or declare a "community dividend" for that period only. The actual spending rates for 2015 are as follows:

Endowed funds	4.0%
Administrative funds	5.25
Agency funds	4.0
Not-for-profits	4.25

NOTE 9 - DESCRIPTION OF FUNCTIONAL EXPENSE CATEGORIES

Program Services:

Grants

The Foundation distributes grants from discretionary, donor-advised and designated funds to organizations and projects that benefit New London, Windham and Tolland counties. The Foundation's grant-making strategy is intended to strengthen the capacity of local nonprofit organizations and the community as a whole. Grants are awarded across a broad range of fields. Other program expenses represent direct costs associated with the grant-making process.

Scholarships

The Foundation distributes scholarship awards from managed scholarship funds according to the criteria established by the donor. The Foundation also distributes scholarship awards from its own discretionary funds by committee. Recipients are primarily students graduating from high school who are planning to further their education, typically from New London, Windham and Tolland counties.

Supporting Services:

General and Administrative

These managerial functions are necessary to maintain and ensure an adequate working environment, to provide coordination and articulation of the Foundation's program strategy, to ensure prudent investment policies, and to ensure proper administrative functioning and management of the financial and budgetary responsibilities of the Foundation.

Fundraising

Careful stewardship of donated funds is essential to increasing the grant-making capacity of the Foundation. Development of new donors and cultivation of existing donors serves to enable the Foundation to meet increasing demand for grants and scholarships, offset market fluctuations and build a solid base of philanthropy for the entire service area.

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Independent Auditors' Report on Supplementary Information

To the Board of Trustees
The Community Foundation of Eastern Connecticut, Inc.

We have audited the financial statements of The Community Foundation of Eastern Connecticut, Inc., as of and for the year ended December 31, 2015, and our report thereon dated May 9, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of general and administrative expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The prior year summarized financial information for the year ended December 31, 2014 was derived from the Foundation's 2014 financial statements, and, in our report dated May 14, 2015, we also noted that such information had been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, was fairly stated in all material respects in relation to the financial statements as a whole.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
May 9, 2016

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

	2015	2014
Salaries	$ 209,094	$ 197,566
Employee benefits	36,216	34,616
Consulting services	90,960	37,879
Professional fees	39,002	32,439
Office and administrative	19,967	22,989
Training and education	19,868	4,991
Payroll taxes	16,116	14,725
Computer and software	9,726	6,246
Occupancy	9,112	19,055
Other	7,818	12,077
Maintenance and repairs	4,860	9,860
Publications	1,218	968
General and administrative expense before depreciation	463,957	393,411
Depreciation	22,166	36,359
Total General and Administrative Expenses (Note 9)	$ 486,123	$ 429,770