THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.

CONTENTS

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Independent Auditors' Report

To the Board of Directors
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, 2012 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 Community Foundation of Eastern Connecticut, Inc., as of December 31, 2012 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 2011 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated June 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
June 21, 2013

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012
(With Summarized Financial Information as of December 31, 2011)

	2012	**2011**
ASSETS		
Cash and cash equivalents	$ 1,046,735	$ 897,779
Investments	37,953,754	34,201,077
Contributions receivable, net	50,933	52,890
Other assets	4,474	91,367
Split-interest agreements:		
Beneficial interest in perpetual trust	3,718,055	3,427,883
Charitable trusts	1,576,722	1,466,445
Charitable gift annuities	123,784	105,856
Property and equipment, net	339,735	348,706
Total Assets	$ 44,814,192	$ 40,592,003
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 64,618	$ 33,149
Grants payable, net	357,902	657,193
Liabilities under charitable gift annuities	104,238	73,810
Total liabilities	526,758	764,152
Net Assets		
Unrestricted:		
Board designated, administrative endowment	2,358,886	2,171,155
Board designated, capital	41,682	116,327
Undesignated	36,541,156	32,593,151
Total unrestricted	38,941,724	34,880,633
Temporarily restricted	1,627,655	1,519,335
Permanently restricted	3,718,055	3,427,883
Total net assets	44,287,434	39,827,851
Total Liabilities and Net Assets	$ 44,814,192	$ 40,592,003

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, 2012
(With Summarized Financial Information for the Year Ended December 31, 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Gains and Other Support					
Contributions	$ 3,078,840	$ 72,226	$ -	$ 3,151,066	$ 3,562,977
Change in value of split-interest agreements	(7,192)	73,001	-	65,809	(144,010)
Change in value of perpetual trust	-	-	290,172	290,172	(280,082)
Net realized and unrealized gains (losses) on investments	4,008,399	-	-	4,008,399	(227,063)
Investment income	997,037	-	-	997,037	541,295
Rental income	14,400	-	-	14,400	19,450
	8,091,484	145,227	290,172	8,526,883	3,472,567
Less investment fees	142,477	-	-	142,477	102,325
Total support	7,949,007	145,227	290,172	8,384,406	3,370,242
Net assets released from purpose restrictions	36,907	(36,907)	-	-	-
Total revenues, gains and other support	7,985,914	108,320	290,172	8,384,406	3,370,242
Expenses					
Program services:					
Grants	2,772,986	-	-	2,772,986	2,685,275
Scholarships	315,192	-	-	315,192	288,271
Other program expenses	266,495	-	-	266,495	264,910
Total program services	3,354,673	-	-	3,354,673	3,238,456
Supporting services:					
General and administrative expenses	346,088	-	-	346,088	342,240
Fundraising	224,062	-	-	224,062	214,748
Total supporting services	570,150	-	-	570,150	556,988
Total expenses	3,924,823	-	-	3,924,823	3,795,444
Increase (Decrease) in Net Assets	4,061,091	108,320	290,172	4,459,583	(425,202)
Net Assets - Beginning of Year	34,880,633	1,519,335	3,427,883	39,827,851	40,253,053
Net Assets - End of Year	$ 38,941,724	$ 1,627,655	$ 3,718,055	$ 44,287,434	$ 39,827,851

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, 2012
(With Summarized Financial Information for the Year Ended December 31, 2011)

	2012	2011
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 4,459,583	$ (425,202)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	31,662	26,296
Net realized and unrealized (gains) losses on investments	(4,008,399)	227,063
(Increase) decrease in operating assets:		
Contributions receivable	1,957	27,599
Other assets	86,893	(80,800)
Charitable trusts	(110,277)	167,675
Charitable gift annuities	(17,928)	(65,766)
Beneficial interest in perpetual trust	(290,172)	280,082
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	31,469	561
Grants payable	(299,291)	198,860
Liabilities under charitable gift annuities	30,428	42,101
Net cash provided by (used in) operating activities	(84,075)	398,469
Cash Flows from Investing Activities		
Proceeds from the sale of investments	458,408	16,951,670
Purchases of investments	(202,686)	(17,412,615)
Purchase of property and equipment	(22,691)	(49,967)
Net cash provided by (used in) investing activities	233,031	(510,912)
Net Increase (Decrease) in Cash and Cash Equivalents	148,956	(112,443)
Cash and Cash Equivalents - Beginning of Year	897,779	1,010,222
Cash and Cash Equivalents - End of Year	$ 1,046,735	$ 897,779

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 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, 2011, 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 Directors 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 trustees, for which the Foundation is an income beneficiary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Significant estimates include those used in determining the present value of split-interest agreements, the discount of pledges receivable and grants payable, and the valuation of alternative investments.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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). The Foundation's informational returns for the years ended December 31, 2010 through 2012 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through June 21, 2013, which represents the date the financial statements were available to be issued. See Note 11 for additional documentation on subsequent event activity.

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.

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

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. When, as a practical expedient, an investment is measured at fair value on the basis of net asset value, its classification as Level 2 or 3 will be impacted by the ability to redeem the investment at net asset value at the measurement date. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

Assets Measured at Fair Value on a Recurring Basis - The following is a summary of the source of fair value measurements for assets that are measured at fair value on a recurring basis as of December 31, 2012:

Description	December 31, 2012	Fair Value Measurements Using Level 1	Level 2	Level 3
Cash equivalents	$ 567,394	$ 567,394	$ -	$ -
Common stock:				
Domestic equities	10,210,275	10,210,275	-	-
Mutual funds:				
U.S. equity funds	8,350,800	8,350,800	-	-
Fixed income	4,231,415	4,231,415	-	-
International equity funds	1,841,531	1,841,531	-	-
Strategic reserve funds	5,800,790	5,800,790	-	-
Alternative investments:				
Hedge funds	6,336,360	-	3,158,560	3,177,800
Private equity fund	196,418	-	-	196,418
Real estate income fund	418,771	-	-	418,771
Total investments	37,953,754	31,002,205	3,158,560	3,792,989
Beneficial interest in perpetual trusts	3,718,055	-	-	3,718,055
Split-interest agreements	1,700,506	-	1,700,506	-
Total	$ 43,372,315	$ 31,002,205	$ 4,859,066	$ 7,511,044

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

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. The managers’ underlying investments 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 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.
>
> **Private Equity Fund** - Interests in private equity 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 Trusts - Beneficial interest in perpetual trusts 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.

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

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

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedge funds:				
Long/short equity fund	$ 2,113,600	$ -	30 days	60 days
York investment fund	2,094,393	-	1 year	1 year
Taconic capital partners fund	1,044,960	-	30 days	60 days
Asian opportunity fund	1,083,407	-	Restricted	Restricted
Real estate income fund	418,771	-	Restricted	Restricted
Private equity fund	196,418	-	Restricted	Restricted
Total	$ 6,951,549	$ -		

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

	Total	Beneficial Interest in Perpetual Trust	Hedge Funds	Private Equity Fund	Real Estate Income Fund
Balance - beginning of year	$ 6,513,546	$ 3,427,883	$ 2,673,956	$ 105,000	$ 306,707
Realized gains (losses)	332,206	367,598	(35,392)	-	-
Unrealized gains (losses)	511,794	321,980	168,238	(8,142)	29,718
Purchases	2,995,071	1,501,654	1,263,598	99,560	130,259
Redemptions	(2,841,573)	(1,901,060)	(892,600)	-	(47,913)
Balance - End of Year	$ 7,511,044	$ 3,718,055	$ 3,177,800	$ 196,418	$ 418,771

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about significant unobservable inputs related to the Foundation's investment in Level 3 assets at December 31, 2012:

Type	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Beneficial interest in perpetual trust	$ 3,718,055	Discounted cash flow	Duration	Perpetual

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, 2012 are expected to be collected as follows:

Receivable in less than one year	$ 36,365
Receivable in one to five years	16,050
Total contributions receivable	52,415
Less discounts to net present value	1,482
Net Contributions Receivable	$ 50,933

Contributions receivable in more than one year are discounted at 4%.

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, 2012 was $143,972.

NOTE 4 - SPLIT-INTEREST AGREEMENTS (Continued)

Charitable Remainder Trusts - The Foundation is a named beneficiary in the charitable remainder trusts established by Lawrence P. and Marjory B. Smith, Nancy Comita and Judith N. Hart 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 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. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries 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 make distributions to the designated beneficiaries based on actuarial assumptions. The Foundation recognized two contributions to this program for the year ended December 31, 2012.

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2012:

Land, building and improvements	$	475,561
Furniture, fixtures and equipment		103,340
		578,901
Less accumulated depreciation		239,166
Net Property and Equipment	$	339,735

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 2012, the amount of such pass-through grants was $1,668,302, 54% 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, 2012:

To be paid in less than one year	$ 276,490
To be paid in one to five years	83,700
To be paid in more than five years	3,000
Gross unconditional grants payable	363,190
Less discounts to net present value	5,288
Net Unconditional Grants Payable	$ 357,902

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, 2012, temporarily restricted net assets are comprised of the following:

Contributions receivable	$ 50,933
Lawrence P. and Marjory B. Smith Charitable Remainder Trust, net	1,500,374
Hart Trust, net	37,276
Comita Trust, net	28,249
Vergason Trust, net	8,773
Clement Trust, net	2,050
	$ 1,627,655

NOTE 8 - ENDOWMENT AND VARIANCE POWER

The Foundation's endowment consists of 346 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 Directors to function as an administrative endowment. The Board of Directors 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 Directors 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 Directors 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 Directors 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.

NOTE 8 - ENDOWMENT AND VARIANCE POWER (Continued)

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 Directors, 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 2012 are as follows:

Endowed funds	4.0%
Administrative funds	5.25
Agency funds	4.0

NOTE 9 - LEASES

The Foundation leases the finished basement, second and fourth floors of their building to three independent tenants with fixed monthly rental payments. The terms of these leases currently expire through December 31, 2013. Income derived from these leases was $14,400 for the year ended December 31, 2012. The lease for the finished basement expired in August 2012 and is currently operating on a month-to-month basis.

Minimum future rental income to be received under these operating leases as of December 31, 2012 is $10,550 for the year ending December 31, 2013.

NOTE 10 - 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.

NOTE 11 - SUBSEQUENT EVENTS

On May 15, 2013, the Foundation entered into a commitment to purchase a building and corresponding property in the amount of $325,000. The closing date for this purchase is scheduled for June 21, 2013, and will be paid for in cash.

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Independent Auditors' Report on Supplementary Information

To the Board of Directors
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, 2012, and our report thereon dated June 21, 2013, 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, 2011 was derived from the Foundation's 2011 financial statements, and, in our report dated June 5, 2012, 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
June 21, 2013

THE COMMUNITY FOUNDATION OF EASTERN CONNECTICUT, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information for the Year Ended December 31, 2011)

	2012	2011
Salaries	$ 193,469	$ 193,010
Employee benefits	24,922	27,912
Payroll taxes	14,075	14,856
Professional fees	28,100	26,015
Other	16,836	19,128
Office and administrative	17,299	14,550
Computer and software	7,429	7,050
Occupancy	10,744	12,138
Publications	1,552	1,285
General and administrative expense before depreciation	314,426	315,944
Depreciation	31,662	26,296
Total General and Administrative Expenses (Note 10)	$ 346,088	$ 342,240