

***COMMUNITY FOUNDATION
OF WESTERN MASSACHUSETTS***

FINANCIAL STATEMENTS

MARCH 31, 2019

***WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED MARCH 31, 2018***

**COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS
FINANCIAL STATEMENTS**

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Independent Auditor's Report

To the Trustees of
Community Foundation of Western Massachusetts

We have audited the accompanying financial statements of Community Foundation of Western Massachusetts (a nonprofit organization), which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, functional expenses 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.

Auditor's 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 auditor's 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 auditor considers 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 Western Massachusetts as of March 31, 2019, 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 Community Foundation of Western Massachusetts' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Hartford, Connecticut
August 13, 2019

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

STATEMENTS OF FINANCIAL POSITION MARCH 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and money market funds	\$ 5,383,763	\$ 4,829,928
Fees receivable	2,125	4,250
Investments	140,990,956	134,077,529
Assets held under charitable trusts	3,460,507	3,269,077
Notes receivable	326,751	543,501
Loans receivable, net	2,828,628	2,813,719
Contributions receivable	-	400,000
Prepaid expenses	70,098	47,870
Property and equipment, net	<u>134,360</u>	<u>141,953</u>
Total assets	<u><u>\$ 153,197,188</u></u>	<u><u>\$ 146,127,827</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 167,399	\$ 233,306
Grants payable	5,000	-
Liabilities under unitrust agreements	1,783,449	1,738,675
Agency funds	<u>15,879,797</u>	<u>10,095,315</u>
Total liabilities	<u>17,835,645</u>	<u>12,067,296</u>

Net assets

Without donor restrictions - undesignated	36,380,933	35,775,917
Without donor restrictions - Board designated	1,354,253	1,456,446
With donor restrictions	<u>97,626,357</u>	<u>96,828,168</u>
Total net assets	<u>135,361,543</u>	<u>134,060,531</u>

Total liabilities and net assets

<u><u>\$ 153,197,188</u></u>	<u><u>\$ 146,127,827</u></u>
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The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED MARCH 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenues				
Contributions	\$ 10,601,762	\$ 2,131,126	\$ 12,732,888	\$ 11,767,540
Less amounts received from agency funds	(5,688,859)	-	(5,688,859)	(415,823)
Net contributions	4,912,903	2,131,126	7,044,029	11,351,717
Investment gains and other investment activity				
Interest and dividend income	976,464	2,120,430	3,096,894	2,535,340
Realized and unrealized gains (losses)	1,211,714	1,022,280	2,233,994	11,109,576
Less amounts received from agency funds	(676,141)	-	(676,141)	(963,098)
Net investment activity	1,512,037	3,142,710	4,654,747	12,681,818
Administrative revenue	396,147	-	396,147	381,340
Change in split interest agreements	-	146,656	146,656	257,700
Miscellaneous revenue	-	-	-	2,100
Net assets released from restrictions	5,277,919	(5,277,919)	-	-
Change in donor restriction	(655,616)	655,616	-	-
Total support and revenues	11,443,390	798,189	12,241,579	24,674,675
Expenses				
Disbursements for grants and scholarships	8,320,433	-	8,320,433	8,806,715
Less amounts distributed to agency funds	(499,802)	-	(499,802)	(339,563)
Total disbursements for grants and scholarships	7,820,631	-	7,820,631	8,467,152
Operating expenses	3,119,936	-	3,119,936	2,783,439
Total expenses	10,940,567	-	10,940,567	11,250,591
Change in net assets	502,823	798,189	1,301,012	13,424,084
Net assets, beginning of year	37,232,363	96,828,168	134,060,531	120,636,447
Net assets, end of year	\$ 37,735,186	\$ 97,626,357	\$ 135,361,543	\$ 134,060,531

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

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

STATEMENTS OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED MARCH 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2018**

	Program expenses	Management and general	Fundraising	2019 Total	2018 Total
Disbursements for grants and scholarships	\$ 8,320,433	\$ -	\$ -	\$ 8,320,433	\$ 8,803,715
Less amounts distributed to agency funds	(499,802)			(499,802)	(336,563)
Net distributions for grants and scholarships	7,820,631	-	-	7,820,631	8,467,152
Salaries	498,126	663,964	435,972	1,598,062	1,566,058
Employee benefits and payroll taxes	132,140	169,305	111,493	412,938	347,140
Professional services	146,900	153,363	93,428	393,691	184,550
Information technology	44,757	46,726	28,466	119,949	137,801
Office expense	27,895	29,123	17,741	74,759	108,014
Occupancy	52,163	54,459	33,176	139,798	125,603
Publications	8,276	8,640	5,263	22,179	31,182
Conferences and meetings	7,455	7,783	4,741	19,979	9,903
Travel	6,548	6,835	4,164	17,547	19,552
Advertising and marketing	29,083	30,364	18,497	77,944	67,343
Bad debt	243,090	-	-	243,090	186,293
Total expenses	<u>\$ 9,017,064</u>	<u>\$ 1,170,562</u>	<u>\$ 752,941</u>	<u>\$ 10,940,567</u>	<u>\$ 11,250,591</u>

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

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 1,301,012	\$ 13,424,084
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,241	7,269
Bad debt	243,090	186,293
Net realized and unrealized (gains) losses on investments	(2,233,994)	(10,146,478)
Net changes in operating assets and liabilities:		
Fees receivable	2,125	7,400
Contributions receivable	400,000	(400,000)
Prepaid expenses	(22,228)	20,457
Donated investments immediately liquidated	2,339,093	3,726,728
Accounts payable and accrued expenses	(65,907)	123,490
Grants payable	5,000	-
Liability under unitrust agreements	44,774	98,953
Agency funds	5,784,482	978,668
Net cash provided by operating activities	<u>7,812,688</u>	<u>8,026,864</u>
Cash flows from investing activities		
Purchases of investments	(27,791,171)	(36,072,167)
Proceeds from the sales and maturities of investments	20,581,215	27,273,345
Purchases of property and equipment	(7,648)	(122,324)
Notes receivable	216,750	-
Loan proceeds	471,001	464,336
Loan disbursements	(729,000)	(561,000)
Net cash used in investing activities	<u>(7,258,853)</u>	<u>(9,017,810)</u>
Net (decrease) increase in cash and money market funds	553,835	(990,946)
Cash and money market funds, beginning of year	<u>4,829,928</u>	<u>5,820,874</u>
Cash and money market funds, end of year	<u><u>\$ 5,383,763</u></u>	<u><u>\$ 4,829,928</u></u>
Supplemental disclosure of cash flow information		
Cash paid for taxes	\$ 2,342	\$ 12,288

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

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

1. NATURE OF OPERATIONS:

The Community Foundation of Western Massachusetts (the "Foundation") was established by a trust instrument effective November 15, 1990. The Foundation is a nonprofit Foundation, which administers and distributes funds to worthy organizations, students and causes throughout the Pioneer Valley. The Foundation's programs are supported primarily by contributions and investment returns.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Comparative information

The financial statements include certain prior year summarized comparative information shown 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. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended March 31, 2018, from which the summarized information was derived.

Method of accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when the Foundation obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

Net assets

The Foundation presents information regarding its financial position and activities according to two classifications of net assets described as follows:

Net assets without donor restrictions - Resources include donor-advised funds and all resources over which the governing board has discretionary control. The governing board of the Foundation may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Net assets with donor restrictions - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or by the passage of time. This category includes those funds which allow the Foundation to adhere to its current spending policy. Net assets with donor restrictions also include assets which are intended to be held in perpetuity, and the related accumulated unspent appreciation and earnings on such funds. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments. The Foundation utilizes a total return concept for payout as described in the investment policies and procedures.

Cash and money market funds

The Foundation considers all short-term investments with an original maturity date of 90 days or less to be cash and money market funds (a cash equivalent).

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Loans receivable

As part of their mission, the Foundation advances loans to eligible students. These loans are unsecured and recorded at amortized cost less a reserve for uncollectible balances. The collection of these loans begins 90 days after the student has graduated, at which time regular payments are made for up to five years. These loans are non-interest bearing. An allowance for doubtful accounts is recorded based upon management's evaluation of the collectability of individual student accounts (Note 8). The Foundation considers any account which has stopped regular payment as past due and is written off only after all methods of collection have been exhausted. Bad debts, including the change in the allowance for doubtful accounts, for the years ending March 31, 2019 and 2018 were \$243,090 and \$186,293, respectively. The Foundation paid fees to assist with the administration of these loans of \$32,879 in 2019 and \$23,499 in 2018.

Investments including endowments

Investments are stated at fair value using methodologies discussed in Notes 4 and 5. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains and losses resulting from sales or maturities are calculated on a specific identification basis. Investment activity is reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments and related activity reported on the financial statements.

The Foundation's investments also include limited partnership interests in private equity hedge funds and certain other funds ("Funds") whose underlying investments are comprised of other funds and partnerships. These Funds make investments that include both publicly traded investments as well as others that do not have readily ascertainable market values. Certain interests may be subject to withdrawal restrictions. The underlying investments within these funds primarily include private equity, venture capital, long/short equity positions, distressed companies, oil and gas, timber and real estate.

The managers of the Funds that hold certain non-marketable investments initially value these investments at cost. They require that changes in value be established by meaningful third party transaction or a significant development in the financial condition or operating performance of the issuer. To the extent that the Funds hold marketable securities in the underlying partnerships or funds, the managers of the Funds value the investments in these funds based upon the quoted market values as provided by the managers or fund managers of the underlying funds. The Foundation values its investments in such Funds in accordance with valuations provided by the managers of the Funds. The Foundation's management may, in addition, consider other factors in assessing the fair value of these investments.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investments including endowments (continued)

The Foundation's investments consist of donor restricted endowment funds and funds functioning as quasi-endowment funds (Note 5). Donor restricted endowments consist of gifts received with a donor stipulation that require the funds to be invested in perpetuity. Funds functioning as quasi-endowment funds consist of board designated, donor restricted purpose funds and donor advised funds. Board designated funds consist of monies internally designated. Donor restricted purpose funds consist of gifts received with a donor stipulation to be used for a particular purpose, but with no requirement for the funds to be invested in perpetuity and for which a fund was established to function as an endowment.

Professional and accounting literature provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 ("UPMIFA") which serves as a model act for states to modernize their laws governing donor restricted endowment funds. This standard also requires additional disclosures about endowments (both donor restricted funds and quasi-endowment funds). The Trustees of the Foundation have interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act ("MPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary.

Under this interpretation, the historic dollar value of the original gift that establishes a donor restricted endowment fund (and any subsequent gifts) is classified as net assets with donor restrictions.

MPMIFA allows prudent appropriation of the total return on donor restricted endowment funds taking into consideration the Foundation's long and short-term needs, present and anticipated financial requirements, expected future total return on its investments, price level trends and general economic conditions. The Trustees have authorized a spending policy based on 4.25% of a trailing thirteen quarter rolling market value of these funds. This policy is designed to preserve the value of donor restricted endowment funds in real terms (after inflation) and provide a predictable flow of funds to support operations. Although not required by state law, the same spending policy is followed for the donor restricted purpose funds. For the years ended March 31, 2019 and 2018, the Foundation had approximately \$4,062,150 and \$4,067,000, respectively, of this return available for spending, of which the Foundation utilized \$3,808,762 and \$3,112,966, respectively.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets ranging from 3-10 years. Maintenance and repairs are charged to expense as incurred.

The Foundation follows the policy of capitalizing property that costs more than \$5,000.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Liabilities under unitrust agreements

Assets held in charitable trusts and charitable gift annuities are recorded as follows:

Charitable trusts - the Foundation serves as trustee for various charitable remainder trusts. Under the terms of these agreements, the Foundation makes distributions to income beneficiaries for a given term or the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the Foundation. The Foundation records the assets held in these trusts at their fair value based on current quoted market values and records a liability for the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries based on Internal Revenue Service group annuity tables. The present value of payments to beneficiaries under these agreements is calculated using discount rates representing risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in the value of split interest agreements are recorded in the statement of activities.

Charitable gift annuities - Donors have contributed assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by and the liability is an obligation of the Foundation. The present value of payments to beneficiaries under these agreements is calculated using discount rates representing risk-free rates in existence at the date of the gift.

Charitable lead trusts - From time to time, the Foundation Trustees have been named as term beneficiary for charitable lead trusts. At March 31, 2019 and March 31, 2018, the Foundation was not named as term beneficiary on any such trusts.

Agency funds

The Foundation accepts contributions from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. If a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, that community foundation must account for the transfer of such assets as a liability rather than as a contribution.

Contributions

Unconditional promises to give are recorded as contributions receivable when the promise is received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and nature of any donor restrictions. Contributions may include gifts of cash or promises to give. Such contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Gifts or promises restricted as to use or passage of time are required to be reported as restricted support in the period received and are then reclassified to net assets without donor restrictions upon satisfaction of the donor restriction. It is the Foundation's policy to record restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Administrative revenue

The Foundation charges administrative fees on the funds it holds for charitable purposes. Administrative fee revenue is recorded as earned. The Trustees of the Foundation are responsible for the adoption and implementation of the administrative revenue policy.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Grants paid

Grants are recorded as expense and accrued as a liability when approved by the Distribution Committee. Conditional grants are expensed when the specific conditions are met. Grants payable were \$5,000 and \$-0- at March 31, 2019 and 2018, respectively. There are no conditional grants at March 31, 2019.

Income taxes

The Foundation is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. The Foundation monitors its activities and it considers the potential for income taxes if any activities are not related to its exempt purpose.

Uncertain tax positions

Professional accounting standards provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. They require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. A tax position is deemed to include such things as the Foundation's tax exempt status.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition. The Foundation's tax returns are subject to examination by taxing authorities for all years ended on or after March 31, 2016.

Contributed services

The Foundation pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific programs, gift solicitations, and various committee assignments. The value of this contributed time and service is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Functional allocation of expenses

The statement of functional expenses presents the nature and function of expenses. Expenses that can be identified with a specific program or supporting function are charged directly to that program or support function. Expenses that are attributed to multiple functions are allocated using a reasonable allocation method that is consistently applied. Salaries and related costs are allocated based on staff functions. Non-personnel costs are allocated based on full-time equivalents for each program and supporting function.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Adoption of new accounting standards

Effective April 1, 2018, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, Not for Profit Entities. This standard requires net assets to be presented in two classifications (without donor restriction and with donor restriction), essentially collapsing 'temporarily restricted' and 'permanently restricted' net assets into one net asset class. The election to treat gifts to purchase long-lived assets as temporarily restricted net assets has been eliminated. When implemented, an organization with underwater endowment funds will reclassify the underwater portion of the endowment fund from 'without donor restriction' to 'with donor restrictions'. The ASU requires that direct internal investment expenses be included as an investment expense, shown netted from investment revenue. An analysis of expenses by both functional expense and natural classification will be required as part of the basic financial statements. Additionally, organizations are required to provide qualitative and quantitative information on the way they manage their liquidity and availability of funds.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Foundation's net assets previously reported as temporarily restricted and permanently restricted are now reported as net assets with donor restrictions. Likewise, the Foundation's net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

3. LIQUIDITY:

Financial assets available for use by the Foundation within one year from March 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and money market funds	\$ 5,383,763	\$ 4,829,928
Fees receivable	2,125	4,250
Investments	144,451,463	137,346,606
Notes receivable	326,751	543,501
Loans receivable	2,828,628	2,813,719
Contributions receivable	-	400,000
Total financial assets	<u>152,992,730</u>	<u>145,938,004</u>
Less amounts not available to be used within one year:		
Assets held under charitable trusts	(3,460,507)	(3,269,077)
Agency funds	(15,879,797)	(10,095,315)
Donor restricted funds	(96,529,897)	(95,619,912)
Board designated funds	(1,137,657)	(1,243,964)
Donor/Agency advised funds	<u>(31,415,256)</u>	<u>(29,820,283)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,569,616</u>	<u>\$ 5,889,453</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

3. LIQUIDITY: (CONTINUED)

The above table reflects board designated funds as unavailable because it is the Foundation's intention to invest these resources for long-term support of the Foundation. However, in the case of need, the Trustees could make these board designated funds available for general use. The Foundation has no outstanding debt and has no plan to incur any debt.

4. INVESTMENTS AND ASSETS HELD UNDER CHARITABLE TRUSTS INCLUDING ENDOWMENTS:

The Foundation Trustees, as the governing board, are responsible for oversight of the Foundation's investments. Implementation of investment policy, including the selection of investment managers, has been delegated by the Foundation Trustees to its Investment Committee. Investments authorized by the Investment Committee include high quality, readily marketable equity and fixed income securities; other types of investments may be made with the prior approval of the Foundation Trustees.

The Foundation's investment portfolio consists of a number of investment pools in which a large number of individual funds (donor restricted endowment funds and funds functioning as endowment funds) participate in order to benefit from the diversification and economies of scale. The primary investment objective of the long-term investment portfolios is growth of principal sufficient to preserve purchasing power and to provide income to support current and future activities of the Foundation.

The Trustees have authorized a spending policy based on 4.25% of a thirteen quarter rolling market value of the funds, as discussed in Note 2.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or MPMIFA requires to be retained for perpetual funds ("underwater"). The historic gift value of donor restricted endowment funds cannot be reduced for any excess losses. Any excess losses shall reduce temporarily restricted net assets to the extent there is net appreciation on the related funds. Any remaining excess losses shall reduce unrestricted net assets. There are no underwater funds at March 31, 2019 and 2018.

Investments, including assets held under charitable trusts (collectively "Investments"), at March 31 are as follows:

	2019	2018
	Fair Value	Fair Value
Mutual funds	\$ 138,407,006	\$ 129,715,127
U.S. Government obligations	453,964	93,086
Municipal and corporate bonds	307,729	313,362
Common stocks	2,018,069	2,062,213
Limited partnerships	3,264,695	5,162,818
Total investments and assets held under charitable trusts	<u>\$ 144,451,463</u>	<u>\$ 137,346,606</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

4. INVESTMENTS AND ASSETS HELD UNDER CHARITABLE TRUSTS INCLUDING ENDOWMENTS: (CONTINUED)

At March 31, 2019 and 2018, approximately 98% and 96% respectively, of investments are reported at fair value based on quoted market prices (level 1 investments - see Note 5). The remaining investments are reported at estimated fair value as determined by management based upon various valuation techniques developed by the general partners or investment managers. Because these investments are not readily marketable, their reported values are subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from the currently reported amounts.

The Foundation is obligated under the terms of certain limited partnership agreements to remit additional funding periodically as capital calls are exercised. At March 31, 2019 and 2018, the Foundation had uncalled commitments of \$369,725 and \$387,965, respectively. Such commitments are generally callable over a period of years and the related agreements contain fixed expiration dates or other termination clauses.

Investments are carried at fair value and are based on quoted market prices, except for certain alternative investments such as limited partnership interests, for which quoted market prices are not available (see Note 5).

The limited partnership agreements associated with the limited partnership investments have original termination dates ranging from December 2012 through December 2016 with extensions available at the discretion of the General Partner or consent of a majority of limited partners with transfers approved only by the discretion of these same parties. During the year ending March 31, 2019, Pine Grove Offshore Fund was redeemed.

5. FAIR VALUE MEASUREMENTS:

A fair value hierarchy that prioritizes the inputs is used to measure fair value. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no changes in the valuation techniques during 2019.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Assets measured at fair value on a recurring basis at March 31 were as follows:

	Total 2019	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Assets				
Mutual funds:				
Equity index funds	\$ 81,549,650	\$ 81,549,650	\$	\$
Bond index funds	32,566,497	32,566,497		
Growth funds	7,788,123	7,788,123		
Balanced funds	8,385,582	8,385,582		
Income funds	526,147	526,147		
Bond funds	2,432,631	2,432,631		
Commodity fund	1,286,342	1,286,342		
Hedge funds	3,872,033	3,872,033		
U.S. Government obligations	453,964	453,964		
Municipal and corporate bonds:				
Municipal	25,070		25,070	
Corporate	282,659		282,659	
Common stocks:				
Energy	73,802	73,802		
Financial services	222,812	222,812		
Consumer goods	387,473	387,473		
Industrials	289,705	289,705		
Health care	220,206	220,206		
Materials	91,541	91,541		
Technology	415,254	415,254		
Telecommunications	198,152	198,152		
Utilities	64,076	64,076		
Real estate	55,049	55,049		
Limited partnerships:				
Private equity venture capital	1,488,709			1,488,709
Natural resources	1,074,727			1,074,727
Real estate	701,259			701,259
	<u>\$ 144,451,463</u>	<u>\$ 140,879,039</u>	<u>\$ 307,729</u>	<u>\$ 3,264,695</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Liabilities				
Liabilities under unitrust agreement	\$	1,783,449		\$ 1,783,449
	Total 2018	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Assets				
Mutual funds:				
Equity index funds	\$ 75,593,045	\$ 75,593,045	\$	\$
Bond index funds	28,614,212	28,614,212		
Growth funds	12,608,724	12,608,724		
Balanced funds	5,364,313	5,364,313		
Income funds	550,884	550,884		
Bond funds	3,595,961	3,595,961		
Commodity fund	341,281	341,281		
Hedge funds	3,046,707	3,046,707		
U.S. Government obligations	93,086	93,086		
Municipal and corporate bonds:				
Municipal	24,635		24,635	
Corporate	288,727		288,727	
Common stocks:				
Energy	80,060	80,060		
Financial services	392,036	392,036		
Consumer goods	487,499	487,499		
Industrials	306,138	306,138		
Health care	194,433	194,433		
Materials	41,812	41,812		
Technology	473,906	473,906		
Telecommunications	21,041	21,041		
Utilities	34,847	34,847		
Real estate	30,441	30,441		
Limited partnerships:				
Private equity venture capital	1,725,159			1,725,159
Natural resources	1,372,619			1,372,619
Real estate	829,084			829,084
Hedge funds	1,235,956			1,235,956
	<u>\$ 137,346,606</u>	<u>\$ 131,870,426</u>	<u>\$ 313,362</u>	<u>\$ 5,162,818</u>
Liabilities				
Liabilities under unitrust agreement	\$	1,738,675		\$ 1,738,675

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Mutual funds, common stocks, and U.S. Government obligations

Valued at closing price reported on the active market on which the individual securities are traded.

Municipal and corporate bonds

Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Limited partnerships

Underlying investments are valued at the closing prices reported on the active market on which the individual securities are traded. Included in the portfolios are securities that are not actively or frequently traded, and for which public information can be minimal or not available. When market quotations are not readily available, portfolio securities are valued at their net asset value as determined in good faith under procedures established by and under the general supervision of the trustee or the investment manager.

Liabilities under unitrust agreements

The fair value of split interest agreements was determined by calculating the present value of the agreement using life expectancy tables and a 6.5% discount rate.

Level 3 fair value measurements

The following schedule reconciles fair value measurements using significant unobservable inputs (Level 3) as noted above for the years ended March 31, 2019 and 2018:

	Liabilities Under Unitrust Agreements	Limited Partnerships
Balance April 1, 2017	\$ 1,639,722	\$ 7,468,001
Total gains	189,120	409,860
Purchases, issuances and settlements	(90,167)	(2,715,043)
Balance March 31, 2018	1,738,675	5,162,818
Total gains	107,734	218,723
Purchases, issuances and settlements	(62,960)	(2,116,846)
Balance March 31, 2019	<u>\$ 1,783,449</u>	<u>\$ 3,264,695</u>

Total activity for the period included on the statement of activities related to change in realized and unrealized gains for Level 3 assets held at March 31, 2018

\$	189,120	\$	409,860
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COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Level 3 fair value measurements (continued)

Total activity for the period included on the statement of activities related to change in realized and unrealized gains for Level 3 assets still held at March 31, 2019

\$ 107,734 \$ 218,723

The estimated fair value of limited partnership investments is based on quarterly valuations and other data provided by the external investment managers, updated for capital calls and distributions and other market activity. Since the value is determined by the external managers, the Foundation is not applying any unobservable inputs to measure these investments at fair value. The valuations from the external managers for these alternative investments involve appraisals, assumptions, and methods that are reviewed by the Foundation's management, as well as the Investment Committee. Accordingly, such values may differ from the values that would have been used had a readily available market for these investments existed. Such differences could be material. The limited partnership interests are comprised of other funds, partnerships and trusts with underlying investments primarily consisting of private equity, venture capital, mezzanine debt, long/short equity positions, distressed companies, oil and gas, timber and real estate.

The following table describes the valuation techniques used for fair value measurements for liabilities in Level 3 of the fair value hierarchy.

Quantitative Information about Level 3 Fair Value Measurements

	<u>Fair Value at March 31, 2019</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Liabilities under Unitrust Agreements	\$ 1,783,449	Present value based on life expectancies	Present value	4.5% - 9.9%

Quantitative Information about Level 3 Fair Value Measurements

	<u>Fair Value at March 31, 2018</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Liabilities under Unitrust Agreements	\$ 1,738,675	Present value based on life expectancies	Present value	4.5% - 9.9%

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

5. FAIR VALUE MEASUREMENTS: (CONTINUED)

Level 3 fair value measurements (continued)

Fair value of other financial instruments

The fair value of contributions receivable, notes receivable, loans receivable and agency funds approximate carrying value. The Foundation's financial instruments are as follows at March 31:

	<u>March 31, 2019</u>		<u>March 31, 2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Assets				
Notes receivable	\$ 326,751	\$ 326,751	\$ 543,501	\$ 543,501
Loans receivable, net	2,828,628	2,828,628	2,813,719	2,813,719
Liabilities				
Agency funds	15,879,797	15,879,797	10,095,315	10,095,315

6. CONTRIBUTIONS RECEIVABLE:

Contributions receivable as of March 31, 2018 amounted to \$400,000 and was expected to be received in less than one year. There were no contributions receivable at March 31, 2019. The Foundation is known to have been named as beneficiary in the wills of certain supporters. These conditional contributions have not been recorded as of March 31, 2019 and 2018 as they are deemed revocable.

7. NOTES RECEIVABLE:

A note receivable of \$271,751 and \$543,501 at March 31, 2019 and 2018, respectively, due for collection on January 15, 2024. Interest only is receivable quarterly at 6%.

A note receivable of \$55,000 at March 31, 2019 from the Franklin Land Trust, due for collection on January 31, 2019. Interest accrues at 2.9% for the first six months and prime less ½% for the next 12 months and prime thereafter. The note was repaid subsequent to March 31, 2019.

8. LOANS RECEIVABLE:

Loans receivable at March 31 are as follows:

	<u>2019</u>	<u>2018</u>
Loans receivable	\$ 3,171,108	\$ 3,179,343
Less: Reserve for uncollectable loans	(342,480)	(365,624)
	<u>\$ 2,828,628</u>	<u>\$ 2,813,719</u>

The loans, primarily advances to students, are unsecured and non-interest bearing with collection periods of up to five years.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

9. PROPERTY AND EQUIPMENT:

Property and equipment at March 31 are as follows:

	<u>2019</u>	<u>2018</u>
Computer equipment and furniture	\$ 118,291	\$ 110,643
Leasehold improvements	<u>61,632</u>	<u>61,632</u>
	179,923	172,275
Less: Accumulated depreciation	<u>(45,563)</u>	<u>(30,322)</u>
	<u>\$ 134,360</u>	<u>\$ 141,953</u>

10. LEASE COMMITMENT:

The Foundation leases office space under an agreement which expires on March 31, 2027. Rent expense for the years ended March 31, 2019 and 2018 amounted to \$100,581.

The following is a schedule of future minimum lease payments excluding building and maintenance costs:

Year ending March 31,	
2020	\$ 100,581
2021	100,581
2022	100,581
2023	108,318
2024	108,318
Thereafter	<u>324,954</u>
Total future minimum lease payments	<u>\$ 843,333</u>

11. EMPLOYEE BENEFIT PLAN:

The Foundation has a defined contribution 401(k) Profit Sharing Plan. All full time employees completing one year of service are eligible to participate through voluntary tax deferred contributions. The Foundation contributes 7% of each eligible participant's annual gross salary and matches up to 2% of any voluntary contributions. The plan expense was \$123,341 and \$104,749 for the years ended March 31, 2019 and 2018, respectively.

12. RELATED PARTY TRANSACTION:

Certain Trustees are distribution advisors to various funds held by the Foundation. The Foundation also receives contributions from Trustees. Total donations from Trustees were \$246,809 and \$406,187 in 2019 and 2018, respectively.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

13. NET ASSETS:

Net assets without donor restrictions include certain amounts that the Trustees have designated as a reserve for operations. Net assets without donor restrictions as of March 31 are comprised of the following:

	<u>2019</u>	<u>2018</u>
Designated by the Trustees for:		
Operating reserves	\$ 216,596	\$ 212,482
Quasi-endowment	1,137,657	1,243,964
Undesignated	36,380,933	35,775,917
	<u>\$ 37,735,186</u>	<u>\$ 37,232,363</u>

Net assets with donor restrictions as of March 31 are comprised of the following:

	<u>2019</u>	<u>2018</u>
Colgan and Sutton Annen loan funds	\$ 8,704,996	\$ 9,007,198
Gifts restricted to particular purposes	82,705,286	81,604,895
Funds held in perpetuity	6,216,075	6,216,075
	<u>\$ 97,626,357</u>	<u>\$ 96,828,168</u>

During the years ended March 31, 2019 and 2018 net assets released from restrictions to support the Foundation's activities, as follows:

	<u>2019</u>	<u>2018</u>
Qualifying grant expenditures	\$ 5,277,919	\$ 4,879,398

During the year ended March 31, 2019, two donors changed the intent for use of their funds resulting in a change from an unrestricted net asset to a temporarily restricted net asset. Total amount of change in donor restriction for 2019 was \$655,616.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

14. GRANT ADMINISTRATION:

The Distribution Committee of the Foundation makes recommendations to the Bank of America Charitable Trusts (Eugene A. Dexter Charitable Fund, Nan and Matilda Heydt Fund, and The Valley Charitable Trust Fund) as to which projects should be funded. The Foundation serves as a centralized clearinghouse for grant applications, notification of awards, distribution of funds and monitoring and evaluation of grants. For the grants administration service, the Foundation received amounts from the aforementioned trusts totaling \$226,398 for the years ended March 31, 2019 and 2018, which have been recorded as administrative fees revenue.

Subsequent to March 31, 2019, ownership of the Bank of America Charitable Trusts were transferred to the Foundation by the court. The result to this transfer will be an increase in Foundation assets of \$23,889,122. These funds will be administered as all other funds of the Foundation and will be charged an internal administration fee rather than the fee for grant administration services discussed above.

15. CONCENTRATIONS AND CREDIT RISKS:

During 2019, there was one donor who made 16% of total contributions. During 2018, there was one donor who made 19% of total contributions.

The Foundation maintains its cash balances at various banks and other financial institutions. Cash balances at banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At various times during the year, the cash balances may exceed the insured amount. At March 31, 2019 and 2018, the Foundation had \$1,545,670 and \$1,721,193 in excess of the FDIC insurance limit, respectively. The Foundation has not experienced any losses on these accounts. The Foundation believes it is not exposed to any significant credit risk on cash and money market accounts.

16. RECLASSIFICATIONS:

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

17. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through August 13, 2019, the date which the financial statements were available to be issued.

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