

***COMMUNITY FOUNDATION
OF WESTERN MASSACHUSETTS***

FINANCIAL STATEMENTS

MARCH 31, 2016

***WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED MARCH 31, 2015***

**COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS
FINANCIAL STATEMENTS**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Community Foundation of Western Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Community Foundation of Western Massachusetts (the "Foundation"), which comprise the statement of financial position as of March 31, 2016, 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 auditor considers internal control relevant to the Foundation'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 Foundation'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 Community Foundation of Western Massachusetts as of March 31, 2016 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 Community Foundation of Western Massachusetts's 2015 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated June 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maureen Beckett Kalicka, P.C.

Holyoke, Massachusetts
June 29, 2016

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015**

ASSETS

	2016	2015
Cash and money market funds	\$ 7,424,970	\$ 5,461,452
Fees receivable	42,094	9,500
Investments	104,633,065	109,041,989
Assets held under charitable trusts	2,880,534	3,200,200
Notes receivable	543,501	543,501
Loans receivable, net	2,915,717	3,014,902
Prepaid expenses	47,477	27,889
Property and equipment, net	53	705
Total assets	\$ 118,487,411	\$ 121,300,138

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 85,784	\$ 64,867
Liabilities under unitrust agreements	1,658,311	1,888,222
Agency funds	8,371,819	8,580,919
Total liabilities	10,115,914	10,534,008

Net assets

Unrestricted	31,420,490	30,954,045
Temporarily restricted	72,260,046	75,121,124
Permanently restricted	4,690,961	4,690,961
Total net assets	108,371,497	110,766,130

Total liabilities and net assets	\$ 118,487,411	\$ 121,300,138
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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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and revenues					
Contributions	\$ 7,504,076	\$ 2,982,746	\$ -	\$ 10,486,822	\$ 7,638,666
Administrative revenue	367,561	-	-	367,561	344,508
Interest and dividend income	466,302	1,891,187	-	2,357,489	1,632,839
Realized and unrealized (losses) gains on investments	(1,136,975)	(4,444,478)	-	(5,581,453)	4,425,828
Change in split interest agreements	-	(90,116)	-	(90,116)	36,122
Net assets released from restrictions	3,574,028	(3,574,028)	-	-	-
Change in donor restriction	(373,611)	373,611	-	-	-
Total support and revenues	<u>10,401,381</u>	<u>(2,861,078)</u>	<u>-</u>	<u>7,540,303</u>	<u>14,077,963</u>
Expenses					
Disbursements for grants and scholarships	7,784,391	-	-	7,784,391	6,160,313
Investment management fees	194,264	-	-	194,264	205,041
Salaries and benefits	1,313,468	-	-	1,313,468	1,143,522
Professional services	226,568	-	-	226,568	191,528
Office operations	279,956	-	-	279,956	167,918
Occupancy costs	89,230	-	-	89,230	107,720
Publications	24,080	-	-	24,080	25,199
General marketing	<u>22,979</u>	<u>-</u>	<u>-</u>	<u>22,979</u>	<u>101,170</u>
Total expenses	<u>9,934,936</u>	<u>-</u>	<u>-</u>	<u>9,934,936</u>	<u>8,102,411</u>
Change in net assets	466,445	(2,861,078)	-	(2,394,633)	5,975,552
Net assets, beginning of year	<u>30,954,045</u>	<u>75,121,124</u>	<u>4,690,961</u>	<u>110,766,130</u>	<u>104,790,578</u>
Net assets, end of year	<u>\$ 31,420,490</u>	<u>\$ 72,260,046</u>	<u>\$ 4,690,961</u>	<u>\$ 108,371,497</u>	<u>\$ 110,766,130</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, 2016 AND 2015**

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (2,394,633)	\$ 5,975,552
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	652	1,894
Net realized and unrealized losses (gains) on investments	5,581,453	(4,425,828)
Change in reserve for uncollectible loans	-	42,718
Net changes in operating assets and liabilities:		
Fees receivable	(32,594)	(9,500)
Prepaid expenses	(19,588)	(540)
Donated investments immediately liquidated	4,555,425	1,440,457
Accounts payable and accrued expenses	20,917	34,392
Liability under unitrust agreements	(229,911)	(104,608)
Agency funds	(209,100)	1,101,175
Net cash provided by operating activities	7,272,621	4,055,712
Cash flows from investing activities		
Purchases of investments	(10,399,764)	(24,790,507)
Proceeds from the sales and maturities of investments	4,991,476	20,699,174
Net collections (advances) loans and notes receivable	99,185	(142,535)
Net cash (used) in investing activities	(5,309,103)	(4,233,868)
Net increase (decrease) in cash and money market funds	1,963,518	(178,156)
Cash and money market funds, beginning of year	5,461,452	5,639,608
Cash and money market funds, end of year	\$ 7,424,970	\$ 5,461,452
Supplemental disclosure of cash flow information		
Cash paid for taxes	\$ 19,327	\$ 2,567

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

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

1. FOUNDATION:

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 or property to worthy organizations and causes.

2. 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 grants from the aforementioned trusts totaling \$244,533 and \$236,148 for the years ended March 31, 2016 and 2015, respectively, which have been recorded as administrative fees revenue.

3. 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, 2015, from which the summarized information was derived.

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.

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.

Financial statement presentation

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

Unrestricted - 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.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Temporarily restricted - 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.

Permanently restricted - Resources accumulated through donations or grants that are subject to the restriction that the corpus be maintained permanently. 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.

Liquidity

A statement of financial position that sequences assets and liabilities based upon their relative liquidity is presented.

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).

Loans and fee receivable

The Foundation agrees to advance loans to eligible students each year. These loans are unsecured and recorded at amortized cost less a reserve for uncollectible balances. The collection of these loans begin ninety 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 prior collection and bad debt experience (Note 9). 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. The Foundation paid fees to assist with the administration of these loans of \$25,611 in 2016 and \$24,896 in 2015.

At times, administrative revenue is collected after services are provided. These receivables are non-interest bearing. An allowance for doubtful accounts is recorded based upon prior collection experience (there is no allowance as of March 31, 2016 and 2015). The Foundation will write off old uncollected amounts only after all methods of collection have been exhausted.

Investments including endowments

Investments are stated at fair value using methodologies discussed in Notes 5 and 6. 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. Dividend and interest income are accrued when earned and reported net of investment advisory fees of \$168,653 and \$180,145 for the years ended March 31, 2016 and 2015, respectively. Investment activity is reported as increases or decreases in unrestricted net assets 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.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investments including endowments (continued)

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, mezzanine debt, 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.

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 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 permanently restricted.

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 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. The amount available to spend on grants under this policy was approximately \$3,588,700 and \$2,659,800 for the years ended March 31, 2016 and 2015, respectively

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 3-7 years. Maintenance and repairs are charged to expense as incurred.

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.

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 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

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support 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 unrestricted use 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 temporarily restricted support in the period received and are then reclassified as unrestricted support upon satisfaction of the donor restriction.

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, 2016 AND 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Grants paid

Grants are recorded as expense when distributed since the Foundation reserves the right to rescind any unpaid grants.

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, 2013.

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.

New accounting pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ASU-2015-07, Fair Value Measurement (Topic: 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which removes the requirement to present investments for which the practical expedient is used to measure fair value at net asset value (NAV) within the fair value hierarchy table. Instead, an entity would be required to include those investments as a reconciling item so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the Statement of Financial Position. The Foundation will adopt ASU 2015-07 as of March 31, 2017 and will apply ASU 2015-07 retrospectively, as required.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform with the current year presentation. The reclassification eliminates overstatements from interfund transfers and lists certain functional expenses rather than netting them against related revenue. These reclassifications had no effect on previously reported changes in net assets.

4. CHARITABLE LEAD TRUSTS:

From time to time, the Foundation Trustees have been named as term beneficiary for charitable lead trusts. At March 31, 2016 and March 31, 2015, the Foundation was not named as term beneficiary on any trusts.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

5. 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 3.

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, 2016 and 2015.

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

	2016 Fair Value	2015 Fair Value
Mutual funds	\$ 80,770,136	\$ 83,016,634
U.S. Government obligations	3,923,311	4,381,276
Corporate bonds	325,650	250,511
Common stocks	1,347,435	1,074,846
Limited partnerships and other	21,147,067	23,518,922
 Total investments and assets held under charitable trusts	 \$ 107,513,599	 \$ 112,242,189

At March 31, 2016 and 2015, approximately 80% and 77% respectively, of investments are reported at fair value based on quoted market prices (level 1 investments - see Note 6). 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.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

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

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, 2016 and 2015, the Foundation had uncalled commitments of \$854,897 and \$913,624, 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 6).

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. Pine Grove Offshore Fund allows quarterly redemptions and requires a written notice of redemption 100 days in advance (\$1,088,954 of investments at March 31, 2016 and \$1,165,846 at March 31, 2015). The Alternative Investments Group investment can be redeemed twice yearly on June 30th and December 31st with 90 days notice with a 5-10% hold back (\$1,205,105 at March 31, 2016 and \$1,243,067 at March 31, 2015). The High Vista investment has an initial two year period which expired April 1, 2010 where redemption is not allowed and then 60 days notice is required with a 10% holdback (\$6,276,078 at March 31, 2016 and \$6,656,746 at March 31, 2015). Only the TIFF investment holds no redemption restriction of investments at March 31, 2016 (\$6,872,758 of investments at March 31, 2016 and \$7,117,389 at March 31, 2015). The redemption restrictions on the remaining investments in this category vary based upon termination date of the partnership and is at the discretion of the general partner (\$5,704,173 of investments at March 31, 2016 and \$7,335,874 at March 31, 2015).

Endowed investments and assets held under charitable trusts by net asset class and type at March 31, 2016 consist of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor advised funds	\$ 29,635,357	\$ -	\$ -	\$ 29,635,357
Donor restricted purpose funds	-	73,187,281	-	73,187,281
Donor restricted endowment funds	-	-	4,690,961	4,690,961
Total investments	\$ 29,635,357	\$ 73,187,281	\$ 4,690,961	\$ 107,513,599

Endowed investments and assets held under charitable trusts by net asset class and type at March 31, 2015 consist of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor advised funds	\$ 32,448,256	\$ -	\$ -	\$ 32,448,256
Donor restricted purpose funds	-	75,102,972	-	75,102,972
Donor restricted endowment funds	-	-	4,690,961	4,690,961
Total investments	\$ 32,448,256	\$ 75,102,972	\$ 4,690,961	\$ 112,242,189

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

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

The following schedule reconciles the change in investments by net asset class for the years ended March 31, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments – April 1, 2014	\$ 31,961,081	\$ 68,513,443	\$ 4,690,961	\$ 105,165,485
Investment income	445,352	1,152,701	-	1,598,053
Realized and unrealized gains	1,076,581	3,804,439	-	4,881,020
Contributions received	-	3,470,197	-	3,470,197
Spending policy distributions	-	(2,282,123)	-	(2,282,123)
Split interest agreements investment gain	-	117,432	-	117,432
Other/release from restriction	<u>(1,034,758)</u>	<u>326,883</u>	-	<u>(707,875)</u>
Investments – March 31, 2015	32,448,256	75,102,972	4,690,961	112,242,189
Investment income	425,090	1,891,187	-	2,316,277
Realized and unrealized (losses)	(1,136,975)	(4,444,478)	-	(5,581,453)
Contributions received	-	2,911,621	-	2,911,621
Spending policy distributions	-	(2,535,416)	-	(2,535,416)
Split interest agreements investment (loss)	-	(158,726)	-	(158,726)
Other/release from restriction	<u>(2,101,014)</u>	<u>420,121</u>	-	<u>(1,680,893)</u>
Investments – March 31, 2016	\$ <u>29,635,357</u>	\$ <u>73,187,281</u>	\$ <u>4,690,961</u>	\$ <u>107,513,599</u>

6. 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 2016.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

6. FAIR VALUE MEASUREMENTS:

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

	Total 2016	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Assets				
Cash and money market funds	\$ 7,424,970	\$ 7,424,970		
Mutual funds:				
Equity index funds	45,703,961	45,703,961		
Bond index funds	12,373,096	12,373,096		
Growth funds	13,548,834	13,548,834		
Balanced funds	5,686,684	5,686,684		
Income funds	518,515	518,515		
Bond funds	2,496,635	2,496,635		
Commodity fund	442,411	442,411		
U.S. Government obligations	3,923,311	3,923,311		
Corporate bonds:				
AAA Rating	191,227	191,227		
A Rating	10,996	10,996		
A- Rating	16,515	16,515		
BBB+ Rating	106,912	106,912		
Common stocks:				
Energy	46,439	46,439		
Financial services	238,716	238,716		
Consumer goods	338,742	338,742		
Industrials	156,580	156,580		
Health care	198,276	198,276		
Materials	28,637	28,637		
Technology	281,584	281,584		
Telecommunications	17,678	17,678		
Utilities	40,783	40,783		
Limited partnerships and other:				
Private equity venture capital	9,633,028		\$ 9,633,028	
Natural resources	2,860,826			2,860,826
Real estate	563,709			563,709
Hedge funds	8,012,359			8,012,359
Mezzanine	77,145			77,145
Liabilities				
Liabilities under unitrust agreement	\$ 1,658,311		\$ 1,658,311	

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

6. FAIR VALUE MEASUREMENTS: (CONTINUED)

	<u>Total 2015</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash and money market funds	\$ 5,461,452	\$ 5,461,452		
Mutual funds:				
Equity index funds	46,844,237	46,844,237		
Bond index funds	12,763,535	12,763,535		
Growth funds	14,268,863	14,268,863		
Balanced funds	5,827,451	5,827,451		
Income funds	583,962	583,962		
Bond funds	2,728,586	2,728,586		
U.S. Government obligations	4,381,276	4,381,276		
Corporate bonds:				
AAA Rating	166,261	166,261		
A Rating	36,230	36,230		
A- Rating	17,092	17,092		
BBB+ Rating	30,928	30,928		
Common stocks:				
Energy	62,762	62,762		
Financial services	190,906	190,906		
Consumer goods	178,243	178,243		
Industrials	166,702	166,702		
Health care	126,419	126,419		
Materials	37,961	37,961		
Technology	220,074	220,074		
Telecommunications	47,239	47,239		
Utilities	44,540	44,540		
Limited partnerships and other:				
Private equity venture capital	10,460,314		\$ 10,460,314	
Natural resources	3,365,210		3,365,210	
Real estate	824,727		824,727	
Hedge funds	8,780,014		8,780,014	
Mezzanine	88,657		88,657	
Liabilities				
Liabilities under unitrust agreement	\$ 1,888,222		\$ 1,888,222	

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

6. FAIR VALUE MEASUREMENTS: (CONTINUED)

Cash and money market funds

The carrying value of cash and money market funds approximates fair value as maturities are less than 90 days.

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.

Corporate bonds

Valued at quoted market prices.

Limited partnerships and other

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 fair 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, 2016 and 2015:

	Liabilities Under Unitrust Agreements	Limited Partnerships And Other
Balance April 1, 2014	\$ 1,992,830	\$ 25,056,843
Total gains	117,432	1,389,711
Purchases, issuances and settlements	(222,040)	(2,927,632)
Balance March 31, 2015	1,888,222	23,518,922
Total (losses)	(158,726)	(1,031,098)
Purchases, issuances and settlements	(71,185)	(1,340,757)
Balance March 31, 2016	\$ 1,658,311	\$ 21,147,067
Total activity for the period included on the statement of activities related to change in unrealized gains for Level 3 assets held at March 31, 2015	\$ 117,432	\$ 1,389,711
Total activity for the period included on the statement of activities related to change in unrealized (losses) for Level 3 assets still held at March 31, 2016	\$ (158,726)	\$ (1,031,098)

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

6. FAIR VALUE MEASUREMENTS: (CONTINUED)

Level 3 fair value measurements (continued)

The estimated fair value of limited partnerships and other 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 and other 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 assets in Level 3 of the fair value hierarchy.

<u>Quantitative Information about Level 3 Fair Value Measurements</u>				
	<u>Fair Value at March 31, 2016</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Liabilities under Unitrust Agreements	\$ 1,658,311	Present value based on life expectancies	Present value	4.5% - 9.9%

<u>Quantitative Information about Level 3 Fair Value Measurements</u>				
	<u>Fair Value at March 31, 2015</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Liabilities under Unitrust Agreements	\$ 1,888,222	Present value based on life expectancies	Present value	4.5% - 9.9%

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, 2016</u>		<u>March 31, 2015</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Assets				
Notes receivable	\$ 543,501	\$ 543,501	\$ 543,501	\$ 543,501
Loans receivable, net	2,915,717	2,915,717	3,014,902	3,014,902
Liabilities				
Agency funds	8,371,819	8,371,819	8,580,919	8,580,919

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

7. CONTRIBUTIONS RECEIVABLE:

There are no contributions receivable as of March 31, 2016 and 2015. 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, 2016 and 2015 as they are deemed revocable.

8. NOTES RECEIVABLE:

Notes receivable consist of the following:

A note receivable of \$543,501 at March 31, 2016 and 2015, due for collection on January 15, 2019. Interest only is receivable quarterly at 6%. Collateral is 160 shares of common stock of H.S. Gere & Sons, Inc.

9. LOANS RECEIVABLE:

Loans receivable at March 31 are as follows:

	2016	2015
Loans receivable	\$ 3,768,295	\$ 3,867,480
Less: reserve for uncollectable loans	<u>(852,578)</u>	<u>(852,578)</u>
	<u>\$ 2,915,717</u>	<u>\$ 3,014,902</u>

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

10. PROPERTY AND EQUIPMENT:

Property and equipment at March 31 are as follows:

	2016	2015
Computer equipment and furniture	\$ 147,245	\$ 147,245
Less: accumulated depreciation	<u>(147,192)</u>	<u>(146,540)</u>
	<u>\$ 53</u>	<u>\$ 705</u>

11. LEASE COMMITMENT:

The Foundation leases office space under an agreement which expires on June 30, 2016. Rent expense for the years ended March 31, 2016 and 2015 amounted to \$81,161 and \$85,552, respectively. Future minimum lease payments excluding building and maintenance costs are \$20,616 for the year ending March 31, 2017. The Foundation is currently renegotiating this lease.

During the year ending March 31, 2016, the Foundation began leasing shared office space under an agreement which expires on June 30, 2016. Rent expense for the year ended March 31, 2016 amounted to \$1,000. There is no future minimum rent for the year ending March 31, 2017.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

12. CONDITIONAL PROMISES TO GIVE:

The Foundation has made certain conditional promises to give in the amount of approximately \$113,250 as of March 31, 2016. The allocations are contingent upon certain agency performance targets and availability of funding. Conditional promises to give are not recorded until conditions have been met and as such, the related expense and allocation payable have not been recorded in the accompanying financial statements. The Foundation anticipates payment being made over the period from April 1, 2016 to March 31, 2017.

13. 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 \$60,481 and \$68,112 for the years ended March 31, 2016 and 2015, respectively.

14. 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 \$367,612 and \$714,705 in 2016 and 2015, respectively.

15. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets as of March 31 are comprised of the following:

	2016	2015
Colgan and Sutton Annen loan funds	\$ 8,326,791	\$ 8,805,509
Gifts restricted to particular purposes	63,933,255	66,315,615
	\$ 72,260,046	\$ 75,121,124

During the years ended March 31, temporarily restricted net assets were released from restrictions to support the Foundation's activities, as follows:

	2016	2015
Qualifying grant expenditures	\$ 3,574,028	\$ 3,846,419

During the year ended March 31, 2016, 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 2016 was \$373,611.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

16. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets as of March 31 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Grant making purposes	\$ 4,201,503	\$ 4,201,503
Scholarships	489,458	489,458
	<u>\$ 4,690,961</u>	<u>\$ 4,690,961</u>

17. FUNCTIONAL EXPENSES:

Expenses by functional classification for the years ended March 31 are as follows:

	<u>2016</u>	<u>2015</u>
Grants	\$ 6,514,603	\$ 4,779,516
Scholarship	2,114,815	2,438,383
Management and general	713,653	469,773
Fund raising	591,865	414,739
	<u>\$ 9,934,936</u>	<u>\$ 8,102,411</u>

18. CONCENTRATIONS AND CREDIT RISKS:

During 2016, there was one donor who made 28% of total contributions. During 2015, another donor made 24% 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. 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.

19. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through June 29, 2016, the date which the financial statements were available to be issued.