

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2016

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Mission Statement

*To mobilize philanthropy by matching donors and resources with
community needs for the benefit of our region.*

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Community Foundation of Southeastern Massachusetts, Inc.
New Bedford, Massachusetts

We have audited the accompanying financial statements of Community Foundation of Southeastern Massachusetts, Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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.

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 of 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 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 Southeastern Massachusetts, Inc. as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
May 9, 2017

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 1,293,463
Pledges Receivable	5,000
Other Receivables	8,575
Prepaid Expenses	<u>13,020</u>
Total Current Assets	<u>1,320,058</u>

PROPERTY AND EQUIPMENT, NET

438,852

NON-CURRENT ASSETS:

Investments	30,895,741
Intangible Assets, Net	<u>7,712</u>
Total Non-Current Assets	<u>30,903,453</u>

TOTAL ASSETS

\$ 32,662,363

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Current Portion of Long-Term Debt	\$ 16,800
Accounts Payable and Accrued Expenses	33,946
Accrued Payroll and Related Costs	35,093
Agency Funds Held for Others	107,406
Grants Payable, Current	<u>122,500</u>
Total Current Liabilities	<u>315,745</u>

NON-CURRENT LIABILITIES:

Annuity Payable	24,323
Long-Term Debt, Net of Current Portion	298,252
Grants Payable, Non-Current	150,000
Agency Endowment Funds	<u>856,050</u>
Total Non-Current Liabilities	<u>1,328,625</u>

TOTAL LIABILITIES

1,644,370

NET ASSETS:

Unrestricted Net Assets	27,304,692
Temporarily Restricted Net Assets	1,813,022
Permanently Restricted Net Assets	<u>1,900,279</u>
Total Net Assets	<u>31,017,993</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 32,662,363

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u>
<i>Gifts, Grants and Contributions:</i>				
Grants and Contributions	\$ 997,613	\$ 1,575,775	\$ 22,342	\$ 2,595,730
Gross Proceeds from Special Fund Raising Events	192,151	-	-	192,151
Less: Cost of Direct Benefits to Donors	(51,939)	-	-	(51,939)
<i>Other Revenues:</i>				
Investment Return	2,029,532	264,203	-	2,293,735
Other Miscellaneous Revenue	89,807	35,608	9,685	135,100
<i>Reclassification of Net Assets:</i>				
Satisfaction of Donor Restrictions for Fund Expenses and Grants	1,531,724	(1,531,724)	-	-
Fund Administration Fees	43,872	(43,872)	-	-
Interfund Grants	121,724	(121,724)	-	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>4,954,484</u>	<u>178,266</u>	<u>32,027</u>	<u>5,164,777</u>
<u>FUNCTIONAL EXPENSES:</u>				
Program Services	3,462,027	-	-	3,462,027
Administrative	296,728	-	-	296,728
Fund Raising	177,798	-	-	177,798
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>3,936,553</u>	<u>-</u>	<u>-</u>	<u>3,936,553</u>
<u>CHANGE IN NET ASSETS</u>	<u>1,017,931</u>	<u>178,266</u>	<u>32,027</u>	<u>1,228,224</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>26,286,761</u>	<u>1,634,756</u>	<u>1,868,252</u>	<u>29,789,769</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 27,304,692</u>	<u>\$ 1,813,022</u>	<u>\$ 1,900,279</u>	<u>\$ 31,017,993</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>PROGRAM</u>	<u>ADMINISTRATIVE</u>		<u>FUNDRAISING</u>		<u>TOTAL</u>
	<u>SERVICES</u>	<u>FUND SERVICES</u>	<u>OPERATIONS</u>	<u>FUND SERVICES</u>	<u>OPERATIONS</u>	<u>FUNCTIONAL</u>
						<u>EXPENSES</u>
Grants	\$ 2,332,300	\$ -	\$ -	\$ -	\$ -	\$ 2,332,300
Salaries and Wages	381,715	55,944	99,976	93,193	34,408	665,236
Payroll Taxes	31,907	4,676	8,357	7,790	2,876	55,606
Employee Benefits	34,912	5,117	9,144	8,523	3,147	60,843
Consultants and Professional Fees	315,675	-	36,548	-	-	352,223
Expenses for Fiscally Sponsored Projects	193,815	-	-	-	-	193,815
Occupancy Costs	48,990	7,180	12,831	11,960	4,416	85,377
Staff Travel and Mileage	8,113	-	3,667	-	-	11,780
Insurance	-	-	7,413	-	-	7,413
Outreach, Marketing and Advertising	41,048	-	1,156	-	-	42,204
Printing and Postage	8,470	-	16,328	-	-	24,798
Office Supplies and Expense	6,965	-	8,189	-	-	15,154
Donated Goods and Services	4,932	-	-	-	2,000	6,932
Equipment Rental and Repairs	19,422	2,846	5,087	4,742	1,750	33,847
Depreciation and Amortization Expense	8,951	1,312	2,344	2,185	808	15,600
Dues and Subscriptions	6,127	-	5,552	-	-	11,679
Meetings and Conferences	18,685	-	3,061	-	-	21,746
Total Functional Expenses	<u>\$ 3,462,027</u>	<u>\$ 77,075</u>	<u>\$ 219,653</u>	<u>\$ 128,393</u>	<u>\$ 49,405</u>	<u>\$ 3,936,553</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	<u>\$ 1,228,224</u>
<i>Adjustments to Reconcile the Above to Net Cash Used by Operating Activities:</i>	
Investment Return	(2,360,291)
Depreciation and Amortization Expense	15,600
<i>(Increase) Decrease in Current Assets:</i>	
Pledges Receivable	5,000
Other Receivables	5,013
Prepaid Expenses	(1,274)
<i>Increase (Decrease) in Current Liabilities:</i>	
Accounts Payable	(21,352)
Accrued Payroll and Related Costs	18,533
Agency Funds Held for Others	(5,000)
Grants Payable	(82,517)
<i>Increase (Decrease) in Non-Current Liabilities:</i>	
Annuity Payable	(8,000)
Agency Endowment Funds	38,654
Net Adjustment	<u>(2,395,634)</u>

NET CASH USED BY OPERATING ACTIVITIES

(1,167,410)

CASH FLOWS FROM INVESTING ACTIVITIES:

Equipment Purchases	(22,812)
Purchase of Intangible Assets	(7,489)
Proceeds from Sales of Investments	1,439,000
Net Cash Flows from Investing Activities	<u>1,408,699</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal Payments on Long-Term Debt	(16,039)
Cash Flows from Financing Activities	<u>(16,039)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

225,250

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

1,068,213

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 1,293,463

Supplemental Disclosure :

Interest Paid

\$ 16,026

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1 ORGANIZATION

The Community Foundation of Southeastern Massachusetts, Inc. (“CFSM” or the “Foundation”) is incorporated under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt, not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Community Foundation of Southeastern Massachusetts has been classified as an organization which is not a private foundation under IRC Section 509(a); accordingly, contributions made to the Foundation qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2 PROGRAM SERVICES

The Community Foundation of Southeastern Massachusetts, Inc. is primarily funded through contributions and pledges from the general public. Contributions are made to various types of funds.

Education:

The Foundation manages 75 educational funds, including five local educational foundations, 62 scholarship funds, 15 educational funds for individual schools and programs, an Early Literacy Initiative, and an adult education grant program.

The Arts:

The Foundation sponsors AHA! (Art History Architecture), the acclaimed monthly arts and culture nights in downtown New Bedford, and more recently, a seasonal version in Fall River.

The Environment:

One of the Foundation’s original flagship funds is SEEAL (the Southeastern Environmental Education Alliance), whose mission is to support its partners’ capacity to provide quality environmental education and stewardship in the region.

Capacity Building:

The development and strength of the non-profit sector is central to the Foundation’s mission of improving the quality of life in our region through philanthropy. Throughout its history, the Foundation has provided training and technical assistance to non-profits as well as individuals and groups seeking to establish such entities.

Advisors for Philanthropy:

The goal as a Community Foundation is to provide professional advisors and their clients with a range of giving options and professional oversight that will help donors meet their philanthropic and financial goals.

Grantmaking:

As part of the Foundation’s mission, grants are awarded which have been used to support youth programs, expand economic opportunities, increase educational attainment, promote sustainability, invest in the creative economy and, through the Women’s Fund, improve the economic status of women and girls.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Foundation's financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, adherence to generally accepted accounting principles has, in management's opinion, resulted in reliable and consistent financial reporting by the Foundation for the year presented.

Basis of Accounting:

The Foundation's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

Fair Value of Financial Instruments:

The Foundation reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. The hierarchy, established by generally accepted accounting principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

When available, the Foundation measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. The primary use of fair value measures in the Foundation's financial statements are the recurring measurement of the Foundation's investments. There have been no changes to this valuation methodology.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 (Continued)

Financial Statement Presentation:

As required by the *FASB Accounting Standards Codification*TM, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets - consists of assets, public support and program revenues which are available and used for operations and programs. Unrestricted net assets represents the portion of net assets of the Foundation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Foundation. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Foundation to expend part or all of the income derived from the donated assets.

Accounting principles generally accepted in the United States of America provide that if the governing body of the foundation has the unilateral power to redirect the use of donor contributions to another beneficiary, such contributions should be classified as unrestricted net assets. The Board of Directors of the Community Foundation of Southeastern Massachusetts, Inc. has the ability known as variance power; however, the Board would generally intend to exercise this authority only if the stated purpose of a contribution becomes no longer applicable and incapable of fulfillment. Accordingly, these financial statements reflect certain funds as temporarily restricted net assets and the original corpus of all donor endowed funds as permanently restricted net assets.

The Community Foundation of Southeastern Massachusetts, Inc. held the following types of funds for the year presented:

Donor-Advised and Committee-Advised Funds - Funds established through a formal agreement with the Foundation and the donor whereby the donor may advise the charity on the treatment of the fund and recommend grants from their accounts. During the year presented, the Foundation managed 46 committee-advised and donor-advised funds.

Donor-Designated Funds - Endowed and Non-Endowed - Funds established through a formal agreement with the Foundation whereby the donor has specified that the funds should go to a specific organization or group. Some funds were established through a formal endowment agreement with a donor whereby the donor has requested that the original corpus, and any additional contributions to the corpus, be held in perpetuity.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 (Continued)

Field of Interest Funds - Endowed and Non-Endowed - Funds established through a formal agreement with the Foundation whereby the donor identifies one (or more) areas of community interest. During the year presented, the Foundation did not have any funds classified as field of interest funds; however, if established, the Distribution Committee of the Foundation would advise the donor on disbursement of these funds, and select the most appropriate program within the fields specified by the donor.

Scholarship Funds - Scholarship funds are accepted by the Foundation to develop support of, and participation in, the philanthropic interests and activities of the Foundation and the greater Southeastern Massachusetts community. CFMS currently manages 65 scholarship funds. They are a means of encouraging endowment support, stimulating interchange of ideas between donors and the Foundation, promoting educational opportunity and providing funds to extend the charitable programs of the Foundation.

Fiscal Sponsorship and Fiscal Agency Funds - During the year presented, the Community Foundation of Southeastern Massachusetts, Inc. acted as a fiscal sponsor for several local groups (the "sponsees"). In accordance with the *FASB Accounting Standards Codification*TM, as CFMS retains ultimate variance power over these contributions, amounts received on behalf of the sponsoree are treated as temporarily restricted contributions to CFMS and expenses paid on behalf of the group are treated as expenses of the Foundation. CFMS also has several fiscal agency funds whereby the Foundation holds and administers funds on behalf of another charitable organization. In accordance with generally accepted accounting principles, these funds are reported as *Agency Funds Held for Others* in the accompany Statement of Financial Position.

Agency Endowed Funds - A number of Southcoast nonprofit organizations have entrusted the Foundation with management of their endowments and receive regular grant distributions from their fund.

Endowment Funds:

Many of the Foundation's funds are established as endowment funds with the earnings and appreciation either unrestricted for general giving or restricted for specific purposes by the endowment agreement. As required by the Commonwealth of Massachusetts, the Foundation follows the guidance of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA establishes law for the management of investment of donor-restricted endowment funds. The Board of Trustees' interpretation of state law is that the Foundation, absent explicit donor stipulations to the contrary, may appropriate as much of the net appreciation as is prudent considering the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination of whether to invest or appropriate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 *(Continued)*

Income and appreciation earned on endowment investments are classified as temporarily restricted until appropriated for expenditure by the Board of Directors based on the criteria above.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the original corpus which is reported as a permanently restricted net asset. As required by the *FASB Accounting Standards Codification*TM, deficiencies of this nature are reported in unrestricted net assets. There were no material deficiencies of this nature as of December 31, 2016.

The Foundation's endowment fund consists of both donor-restricted funds and a Board-designated endowment fund. The foundation also holds "spending-policy" funds which are treated similar to endowment funds. The Foundation has adopted investment and spending policies for endowment assets, and funds functioning as endowment, that attempt to provide a predictable stream of funding for programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment is to maintain its purchasing power by generating a total return, net of fees, that exceeds the spending rate over the long-term. For a majority of funds held during 2016, the spending rate on the endowment funds and funds held under "spending policy agreements" is 4% of the average market value of the trailing twenty-quarters.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent constraints.

Cash and Cash Equivalents:

The Organization considers short-term, interest bearing highly liquid investments with original maturities of three months or less, as cash equivalents. For purposes of these financial statements, cash held at brokerage firms are reported as investments.

Property and Equipment:

Property, equipment, furnishing and improvement purchases in excess of \$1,000 are capitalized at cost, if purchased, or if donated, at fair value on the date of receipt. Expenditures for maintenance repairs and renewals are charged to expense as incurred, whereas, major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged to activities over the estimated useful lives of the assets as expressed in terms of years.

Long-Term Investments:

The Foundation maintains an investment portfolio which includes cash and publicly traded mutual funds and exchange traded funds. As required by *FASB Accounting Standards Codification*TM, investments are reported at their fair value, including unrealized gains and losses. Cash held in brokerage accounts is reported as investments for purposes of these financial statements. Investments are classified as either short-term or long-term, depending upon the underlying intention. All investments in the accompanying financial statements are classified as long-term within Level 1 of the fair value hierarchy.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 (Continued)

Intangible Assets:

The Foundation amortizes intangible assets on a straight-line basis over their estimated useful lives. *Intangible Assets* consists of computer software and website costs with a combined original cost of \$46,310 and are presented net of accumulated amortization of \$38,598 as of December 31, 2016. The estimated useful life of these assets is three years. Amortization Expense was \$1,437 for the year presented. Management expects the amortization expense to be \$3,082, \$2,496 and \$1,976 for the next three years, at which time the *Intangible Assets* will be fully amortized.

Agency Funds:

As required by generally accepted accounting principles, if a nonprofit organization establishes with its own funds, a fund at the Foundation for its own benefit, the transfer of assets to the Foundation is not considered contribution revenue to the Foundation and is accounted for as a liability. Funds of this nature are reported as *Agency Endowment Funds*, a non-current liability, in the accompanying Statement of Financial Position. Additionally, the Foundation will periodically hold and administer funds for another public charity. The donor organization places funds with the Foundation and directs the Foundation to disburse funds from time to time on the organization's behalf. These funds are reported as *Agency Funds Held for Others*, a current liability in the accompanying Statement of Financial Position.

Split-Interest Agreements:

The Foundation is a party to a split-interest agreement that provides an annuity payment to a beneficiary, and upon the beneficiary's death, the remaining principal is transferred to the Foundation. The Foundation records contribution revenue derived from charitable gift annuities based on the fair value of assets associated with the instrument and the present value of the amount expected to be paid to beneficiaries under the arrangement. This requires the use of life-expectancy estimates and discounting cash flows in determining the amount to be recorded.

Contributions, Gifts and Grants:

As required by the *FASB Accounting Standards Codification*TM, contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, bequests, collection items, stocks or promises to give.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 (Continued)

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Goods and Services:

As required by the *FASB Accounting Standards Codification*TM, Community Foundation of Southeastern Massachusetts, Inc. maintains a policy whereby the value of the donated goods and services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recognized as revenue on the Statement of Activities and are reported as expenses on the Statement of Functional Expenses. For the year presented, the Organization received donated goods and services of \$4,932 related to fund events and \$2,000 related to the annual gala.

Investment Return:

Interest and dividends on investments are recognized when earned. Realized and unrealized gains and losses are recognized as incurred or based on market value changes during the period. Investment expenses are netted against the investment return.

Functional Expenses:

Community Foundation of Southeastern Massachusetts, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases used in conjunction with the Foundation's cost allocation plan. Supporting services are those related to operating and managing CFSM and its programs on a day-to-day basis.

Supporting services have been sub-classified as follows:

Administrative - includes all activities related to Community Foundation of Southeastern Massachusetts, Inc.'s internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of donated funds. Total fund raising costs for the year ended December 31, 2016 were \$229,737.

Supporting services have been further sub-classified as pertaining to Fund Services, which reflects fund raising and administrative activities conducted on behalf of other funds and fiscally sponsored projects, while supporting services designated as applicable to operations represents those activities which are specific to CFSM.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 3 *(Continued)*

Grants Expense and Grants Payable:

The Foundation recognizes a grant expense for both grants to charities and scholarships at the time the Board of Directors approves the award and all significant conditions are met. Grants awarded to area nonprofits totaled \$2,121,353 and scholarships awarded to area students amounted to \$210,947 for the year ended December 31, 2016. The Foundation's scholarship awards will frequently have a condition that the student provide a transcript and/or meet other requirements prior to release of the funds. Following this policy, as of December 31, 2016, the Foundation had awarded \$171,625 in scholarships that were conditional upon receipt of transcripts and, therefore, have not been recognized in the accompanying financial statements. The scholarship awards will be recognized as expenses when the conditions have been met and the funds are obligated for distribution.

The Foundation has committed to several multi-year grants payable. The liability arising from multi-year commitments which is expected to be paid within one year of the statement of financial position date is classified as current. The remaining future obligation is categorized as non-current.

Advertising:

CFSM uses print advertising and other media to promote its programs and events. Advertising costs are expensed as incurred.

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of the Foundation's property and equipment as of December 31, 2016:

<u>Asset Category</u>	<u>Est. Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	-	\$ 88,627	\$ -	\$ 88,627
Building and Improvements	15 - 39	372,712	26,940	345,772
Office Equipment	5	14,480	10,027	4,453
Total		<u>\$475,819</u>	<u>\$36,967</u>	<u>\$438,852</u>

During 2016, the Foundation determined that fully-depreciated property and equipment with an aggregate original cost of \$65,599 was no longer in use and deemed obsolete. As the assets were fully depreciated, there was no gain or loss recognized upon disposition. Depreciation expense for the year ended December 31, 2016 was \$14,163.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 5 INVESTMENTS

As of December 31, 2016, investment costs and unrealized gains and losses consisted of the following components:

<u>Investment Type</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Money Market Funds	\$ 106,574	\$ -	\$ -	\$ 106,574
Mutual Funds:				
Fixed-Income Funds	8,128,088	23,184	(99,200)	8,052,072
Equity-Based Funds	18,957,056	2,547,693	(99,861)	21,404,888
Equity Securities	657,706	368,238	(58,919)	967,025
Preferred Stock	166,720	-	(6,299)	160,421
Exchange-Traded REITs	100,414	14,655	-	115,069
Exchange-Traded Partnerships	<u>105,723</u>	<u>508</u>	<u>(16,539)</u>	<u>89,692</u>
Total	<u>\$28,222,281</u>	<u>\$2,954,278</u>	<u>\$(280,818)</u>	<u>\$30,895,741</u>

The Foundation uses the following ways to determine the fair value of its investments:

Money Market Funds: Determined by the published net asset value (“NAV”) per unit at the end of the last trading day of the year, which is the basis for transactions at that date.

Mutual Funds: Determined at the published NAV unit at the end of the last trading day of the fiscal year, which is the basis for the transactions at that date. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares held by the Foundation at year end. NAV is quoted in an active market.

Equity Securities, Exchange-Traded REITs, Preferred Stock and Partnerships: Determined by the published closing price on the last business day of the fiscal year.

<u>Components of Investment Return</u>	<u>Amount</u>
Interest and Dividends	\$ 722,614
Operating Interest	1,568
Investment Fees	(115,558)
Net Realized/Unrealized Gain on Investments	<u>1,753,235</u>
Total Investment Return	2,361,859
Less: Agency Fund Return, Net	<u>(68,124)</u>
Net Investment Return	<u>\$2,293,735</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 6 GRANTS PAYABLE

As of December 31, 2016, the liability for grants payable scheduled for future payment is as follows:

<u>Payable in Year Ending</u>	<u>Amount</u>
December 31, 2018	\$ 90,000
December 31, 2019	40,000
December 31, 2020	<u>20,000</u>
Total Grants Payable, Non-Current	<u>\$150,000</u>

NOTE 7 DEBT

Note Payable:

The Foundation is party to a term note for \$50,000 payable to BayCoast Bank that matures in April 2020. The note is payable in equal monthly installments of \$922, including interest, at the fixed annual rate of 3.99%. The note is secured by all business assets of the Organization.

Mortgage Note:

In April 2014, the Foundation secured a mortgage in the amount of \$297,500 from BayCoast Bank. The mortgage is subject to a fixed annual interest rate of 4.99% until April 16, 2024, at which time, the rate will be adjusted to the Federal Home Loan Bank five-year advance rate, plus 2.5%. The mortgage interest rate will continue to be re-adjusted every five years using this basis. Under the agreement, the monthly payments are \$1,750, and the maturity date of the note is April 14, 2039. The note is secured by the real estate owned by the Foundation.

Interest expense on these notes was \$16,026 for the year ended December 31, 2016 and is included in *Occupancy Costs* on the Statement of Functional Expenses.

As of December 31, 2016, the current principal portion of the long-term debt is \$16,800, while the principal maturities for the following periods are due as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
December 31, 2018	\$ 17,561
December 31, 2019	18,358
December 31, 2020	11,633
December 31, 2021	8,484
Thereafter	<u>242,216</u>
Total	<u>\$298,252</u>

NOTE 8 SPLIT-INTEREST AGREEMENTS

The Foundation is the recipient of a charitable gift annuity. Investment earnings on the annuity, which are considered temporarily-restricted funds, are used to meet current or future obligations. As of December 31, 2016, the Foundation has accumulated funds of \$85,457 to meet the minimum future annuity obligation of \$24,323.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 8 (Continued)

The Foundation's obligations under split-interest agreements are non-recurring fair value measurements. These instruments are initially recorded at the present value of future cash flows with a discounted rate adjusted for market conditions to determine fair value. Annuity obligations are valued using other observable outputs that are significant to their fair value, including age, frequency of distributions, life expectancy, and discount rate. In computing the present value of annuity payments, the Foundation will use a discount rate of 2.2% for the term of the annuity.

NOTE 9 AGENCY FUNDS

Agency Funds Held for Others:

The following schedule summarized the activity within *Agency Funds Held for Others* for the year ended December 31, 2016:

	<u>Amount</u>
Agency Funds Held for Others, January 1	\$112,406
Amounts Received on Behalf of Others	-
CFSM Fees	-
Expenditures on Behalf of Others	<u>(5,000)</u>
Agency Funds Held for Others, December 31	<u>\$107,406</u>

Agency Endowment Funds:

The following schedule summarized in the *Agency Endowment Funds* for the year ended December 31, 2016:

	<u>Amount</u>
Agency Endowment Funds, January 1	\$817,396
Contributions	-
Investment Return, Net	68,124
CFSM Fees	(6,457)
Grants and Expenditures	<u>(23,013)</u>
Agency Endowment Funds, December 31	<u>\$856,050</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 10 RESTRICTED NET ASSETS

Temporarily Restricted:

As of December 31, 2016, the Foundation's temporarily restricted net assets consisted of the following:

<u>Nature of Restriction</u>	<u>Amount</u>
Funds Considered Donor-Restricted	\$1,095,106
Appreciation on Permanently Restricted Funds - Without Donor Restrictions	591,669
Appreciation on Permanently Restricted Funds - With Donor Restrictions	121,247
Time Restricted Pledges	<u>5,000</u>
Total	<u>\$1,813,022</u>

NOTE 11 ENDOWMENT NET ASSETS

As of December 31, 2016, the net asset composition of the endowment is as follows:

<u>Type of Endowment</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted	\$ -	\$712,916	\$1,900,279	\$2,613,195
Board-Designated	<u>617,762</u>	<u>-</u>	<u>-</u>	<u>617,762</u>
Total	<u>\$617,762</u>	<u>\$712,916</u>	<u>\$1,900,279</u>	<u>\$3,230,957</u>

The following schedule summarizes the change in endowment net assets for the years ended December 31, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment Net Assets, December 31, 2015	\$598,616	\$ 612,601	\$1,868,252	\$3,079,469
Contributions and Revenue	-	-	32,027	32,027
Investment Income	14,601	52,031	-	66,632
Investment Appreciation	35,233	152,516	-	187,749
Appropriated for Expenditures	<u>(30,688)</u>	<u>(104,232)</u>	<u>-</u>	<u>(134,920)</u>
Endowment Net Assets, December 31, 2016	<u>\$617,762</u>	<u>\$ 712,916</u>	<u>\$1,900,279</u>	<u>\$3,230,957</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 12 FUND RAISING ACTIVITIES

The Foundation sponsors a Gala to generate contributions. Additionally, certain funds will hold special fund raising events during the year. The results of these fund raising events for the year ended December 31, 2016 is summarized below:

	<u>Amount</u>
Gross Proceeds - Gala	\$105,185
Mother's Day Race - Womens' Fund	44,273
Other Fund Events	<u>42,693</u>
Gross Event Proceeds	192,151
Less: Cost of Direct Benefit to Donors	<u>(51,939)</u>
Net Event Revenues	<u>\$140,212</u>

NOTE 13 EMPLOYEE BENEFIT PLAN

The Foundation maintains a qualified 401(k) retirement plan (the "Plan"). The Plan allows eligible employees of the Foundation to defer a percentage of their earnings from current taxation. Under the Plan, the Foundation makes a matching contribution of up to 4% of gross salary for each eligible employee who contributes to the plan. For the year ended December 31, 2016, the employer contributions to the Plan were \$14,081, and are included in *Employee Benefits* on the accompanying Statement of Functional Expenses.

NOTE 14 CONCENTRATIONS

Financial instruments which potentially subject the Foundation to concentrations of credit and market risk consist principally of the Foundation's cash balances, investment portfolio, and contributions receivable.

Cash:

The Organization is subject to concentrations in credit risk relating to cash balances. For the years presented, the majority of the Foundation's cash deposits were held in three financial institutions. Cash deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. As of December 31, 2016, cash balances in excess of the FDIC limit were \$910,177; however, these banks are members of the Depositors Insurance Fund ("DIF") which insures in full cash balances in excess of FDIC limits. The Foundation has not experienced any losses on uninsured cash balances and Management considers risk on concentration in cash balances to be low.

Investments:

The Foundation invests or holds a variety of investment vehicles, including money market funds, mutual funds and preferred stocks and bonds. These investments are exposed to interest rate, market, credit and other risks depending upon the nature of the investment. Accordingly, it is reasonably possible that these factors will result in changes in the value of the Foundation's investments; however, the Foundation's investments do not represent significant concentrations of market risk considering the Foundation's portfolio is widely diversified among issuers. The brokerage services are a member of the Securities Investor Protection Corporation ("SIPC") which protects securities customers of its members up to \$500,000, including \$250,000 for claims of cash.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

NOTE 14 *(Continued)*

Funds:

For the year presented, one Donor-Advised Fund accounted for 26% of the total net assets of the Foundation.

NOTE 15 RELATED PARTY TRANSACTIONS

Six Board members serve as officers or directors of various local banking institutions with which the Foundation has depository relationships. Three Board Members are Directors and one is an officer of a bank that the Foundation paid \$16,026 in mortgage interest payments. That Director is also the CEO of a subsidiary of that Bank to which the Foundation paid \$14,992 in investment management fees. Three catering companies owned by a Board member and one owned by the Board Chair were paid \$29,850 to provide services for fundraising events during the years. Also, two board members, one of whom is the Treasurer, are the Senior Vice Chancellor and Associate Vice Chancellor at U-Mass Dartmouth, whose organization and foundation received grants totaling \$70,730 and payments of \$49,129 in fees for service from the Foundation during 2016. Additionally, one Board Member is the former Chancellor at U-Mass Dartmouth and is currently a professor there. One Board member is Chief Operating Officer of Southcoast Health System which received grants totaling \$125,683 from the Foundation in 2016.

NOTE 16 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through May 9, 2017, the date which the financial statements were available for issue, and noted no events which met the recognition criteria.