

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2018 AND 2017

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017



COMMUNITY FOUNDATION
of Southeastern Massachusetts

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

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Community Foundation of Southeastern Massachusetts, Inc.

Restatements

As discussed in Note 19, the Foundation has restated its opening net assets to properly include its Beneficial Interest in Remainder Trusts as of January 1, 2017. Also discussed in Note 19, the financial statements as of, and for the year ended, December 31, 2017 have been restated accordingly. Our opinion is not modified with respect to this matter.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
April 26, 2019

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 AND 2017

	<u>ASSETS</u>	<u>2018</u>	<u>2017</u> <i>(Restated)</i>
<u>CURRENT ASSETS:</u>			
Cash and Cash Equivalents		\$ 1,399,064	\$ 1,760,289
Pledges Receivable, Current		80,000	55,000
Other Receivables		-	29,059
Prepaid Expenses		19,257	14,423
Total Current Assets		<u>1,498,321</u>	<u>1,858,771</u>
<u>PROPERTY AND EQUIPMENT, NET</u>		<u>29,238</u>	<u>32,343</u>
<u>NON-CURRENT ASSETS:</u>			
Investments		29,835,601	34,049,853
Assets Held for Sale		-	421,226
Pledges Receivable, Non-Current		-	25,000
Beneficial Interest in Remainder Trusts		4,354,345	4,921,158
Intangible Assets, Net		1,977	4,630
Total Non-Current Assets		<u>34,191,923</u>	<u>39,421,867</u>
<u>TOTAL ASSETS</u>		<u>\$ 35,719,482</u>	<u>\$ 41,312,981</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES:</u>			
Current Portion of Long-Term Debt		\$ -	\$ 17,561
Accounts Payable and Accrued Expenses		5,655	31,311
Accrued Payroll and Related Costs		24,399	21,065
Agency Funds Held for Others		70,833	99,276
Grants Payable, Current		115,000	145,000
Total Current Liabilities		<u>215,887</u>	<u>314,213</u>
<u>NON-CURRENT LIABILITIES:</u>			
Annuity Payable		8,323	16,323
Long-Term Debt, Net of Current Portion		-	280,673
Grants Payable, Non-Current		80,000	155,000
Agency Endowment Funds		935,684	1,047,226
Total Non-Current Liabilities		<u>1,024,007</u>	<u>1,499,222</u>
<u>TOTAL LIABILITIES</u>		<u>1,239,894</u>	<u>1,813,435</u>
<u>NET ASSETS:</u>			
Net Assets Without Donor Restrictions		26,199,348	30,114,381
Net Assets With Donor Restrictions:			
Restricted by Purpose		6,322,272	7,464,930
Restricted in Perpetuity		1,957,968	1,920,235
Total Net Assets With Donor Restrictions		<u>8,280,240</u>	<u>9,385,165</u>
Total Net Assets		<u>34,479,588</u>	<u>39,499,546</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>		<u>\$ 35,719,482</u>	<u>\$ 41,312,981</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Summarized Comparative Restated Totals for 2017)

	<u>WITHOUT DONOR</u> <u>RESTRICTIONS</u>	<u>WITH DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL ACTIVITIES</u> <u>2018</u>	<u>2017</u> <i>(Restated)</i>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>				
<i>Gifts, Grants and Contributions:</i>				
Grants and Contributions	\$ 1,883,078	\$ 1,180,155	\$ 3,063,233	\$ 2,619,390
Gross Proceeds from Special Fund Raising Events	225,018	10,980	235,998	279,313
Less: Cost of Direct Benefits to Donors	(53,329)	-	(53,329)	(55,472)
<i>Other Revenues:</i>				
Investment Return (Loss)	(2,621,298)	(330,172)	(2,951,470)	4,469,905
Other Miscellaneous Revenue	31,327	104,654	135,981	179,790
Change in Value of Beneficial Interest in Trusts	-	(446,643)	(446,643)	337,578
<i>Reclassification of Net Assets:</i>				
Satisfaction of Donor Restrictions for Fund Expenses and Grants	1,535,691	(1,535,691)	-	-
Fund Administration Fees	88,208	(88,208)	-	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>1,088,695</u>	<u>(1,104,925)</u>	<u>(16,230)</u>	<u>7,830,504</u>
<u>FUNCTIONAL EXPENSES:</u>				
Program Services	4,241,559	-	4,241,559	3,326,565
Administrative	351,384	-	351,384	354,804
Fund Raising	309,205	-	309,205	251,162
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>4,902,148</u>	<u>-</u>	<u>4,902,148</u>	<u>3,932,531</u>
<u>CHANGE IN NET ASSETS FROM OPERATIONS</u>	<u>(3,813,453)</u>	<u>(1,104,925)</u>	<u>(4,918,378)</u>	<u>3,897,973</u>
<u>OTHER CHANGES IN NET ASSETS:</u>				
Loss on Sale of Building	(101,580)	-	(101,580)	-
<u>TOTAL CHANGE IN NET ASSETS</u>	<u>(3,915,033)</u>	<u>(1,104,925)</u>	<u>(5,019,958)</u>	<u>3,897,973</u>
<u>NET ASSETS - BEGINNING OF YEAR AS RESTATED</u> <i>(Note 19)</i>	<u>30,114,381</u>	<u>9,385,165</u>	<u>39,499,546</u>	<u>35,601,573</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 26,199,348</u>	<u>\$ 8,280,240</u>	<u>\$ 34,479,588</u>	<u>\$ 39,499,546</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

(Restated)

<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL ACTIVITIES</u>
<i>Gifts, Grants and Contributions:</i>			
Grants and Contributions	\$ 1,741,846	\$ 877,544	\$ 2,619,390
Gross Proceeds from Special Fund Raising Events	267,553	11,760	279,313
Less: Cost of Direct Benefits to Donors	(55,472)	-	(55,472)
<i>Other Revenues:</i>			
Investment Return	3,971,540	498,365	4,469,905
Other Miscellaneous Revenue	73,095	106,695	179,790
Change in Value of Beneficial Interest in Trusts	-	337,578	337,578
<i>Reclassification of Net Assets:</i>			
Satisfaction of Donor Restrictions for Fund Expenses and Grants	680,640	(680,640)	-
Fund Administration Fees	63,018	(63,018)	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>6,742,220</u>	<u>1,088,284</u>	<u>7,830,504</u>
 <u>FUNCTIONAL EXPENSES:</u>			
Program Services	3,326,565	-	3,326,565
Administrative	354,804	-	354,804
Fund Raising	251,162	-	251,162
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>3,932,531</u>	<u>-</u>	<u>3,932,531</u>
<u>CHANGE IN NET ASSETS</u>	<u>2,809,689</u>	<u>1,088,284</u>	<u>3,897,973</u>
<u>NET ASSETS - BEGINNING OF YEAR AS RESTATED</u> (Note 19)	<u>27,304,692</u>	<u>8,296,881</u>	<u>35,601,573</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 30,114,381</u>	<u>\$ 9,385,165</u>	<u>\$ 39,499,546</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Summarized Comparative Totals for 2017)

	<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 EXPENSES</u>	
						<u>2018</u>	<u>2017</u>
Grants	\$ 3,272,101	\$ -	\$ -	\$ -	\$ -	\$ 3,272,101	\$ 2,317,476
Salaries and Wages	389,411	47,683	135,102	95,366	127,155	794,717	732,120
Payroll Taxes	37,718	4,619	13,086	9,237	12,316	76,976	72,754
Employee Benefits	44,874	5,495	15,568	10,989	14,653	91,579	75,085
Consultants and Professional Fees	120,469	-	55,645	-	-	176,114	155,793
Expenses for Fiscally Sponsored Projects	227,841	-	-	-	-	227,841	328,683
Occupancy Costs	41,691	5,105	14,464	10,210	13,613	85,083	54,891
Staff Travel and Mileage	7,473	-	2,995	-	-	10,468	8,330
Insurance	-	-	7,628	-	-	7,628	7,758
Outreach, Marketing and Advertising	24,787	-	720	-	-	25,507	24,282
Cost of Direct Benefits to Donors	-	-	-	-	53,329	53,329	55,472
Printing and Postage	12,131	-	11,329	-	-	23,460	24,302
Office Supplies and Expense	11,503	-	7,911	-	-	19,414	12,975
Equipment Rental and Repairs	21,550	2,639	7,477	5,278	7,037	43,981	50,484
Depreciation and Amortization Expense	5,865	718	2,036	1,436	1,915	11,970	19,316
Dues and Subscriptions	4,909	-	7,600	-	-	12,509	14,258
Meetings and Conferences	19,236	-	3,564	-	-	22,800	34,024
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses	4,241,559	66,259	285,125	132,516	230,018	4,955,477	3,988,003
Less: Cost of Direct Benefits to Donors	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-	(53,329)	(53,329)	(55,472)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses per Statement of Activities	\$ 4,241,559	\$ 66,259	\$ 285,125	\$ 132,516	\$ 176,689	\$ 4,902,148	\$ 3,932,531
	<u>86%</u>	<u>1%</u>	<u>6%</u>	<u>3%</u>	<u>4%</u>	<u>100%</u>	

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<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	\$ 2,317,476	\$ -	\$ -	\$ -	\$ -	\$ 2,317,476
Salaries and Wages	366,060	51,248	131,782	87,854	95,176	732,120
Payroll Taxes	36,377	5,093	13,096	8,730	9,458	72,754
Employee Benefits	37,543	5,256	13,515	9,010	9,761	75,085
Consultants and Professional Fees	104,410	-	51,383	-	-	155,793
Expenses for Fiscally Sponsored Projects	328,683	-	-	-	-	328,683
Occupancy Costs	27,446	3,842	9,880	6,587	7,136	54,891
Staff Travel and Mileage	6,512	-	1,818	-	-	8,330
Insurance	-	-	7,758	-	-	7,758
Outreach, Marketing and Advertising	22,504	-	1,778	-	-	24,282
Cost of Direct Benefits to Donors	-	-	-	-	55,472	55,472
Printing and Postage	9,982	-	14,320	-	-	24,302
Office Supplies and Expense	6,555	-	6,420	-	-	12,975
Equipment Rental and Repairs	25,242	3,534	9,087	6,058	6,563	50,484
Depreciation and Amortization Expense	9,658	1,352	3,477	2,318	2,511	19,316
Dues and Subscriptions	6,571	-	7,687	-	-	14,258
Meetings and Conferences	21,546	-	12,478	-	-	34,024
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses	3,326,565	70,325	284,479	120,557	186,077	3,988,003
Less: Cost of Direct Benefits to Donors	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-	(55,472)	(55,472)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses per Statement of Activities	\$ 3,326,565	\$ 70,325	\$ 284,479	\$ 120,557	\$ 130,605	\$ 3,932,531
	<u>85%</u>	<u>2%</u>	<u>7%</u>	<u>3%</u>	<u>3%</u>	<u>100%</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u> <i>(Restated)</i>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ (5,019,958)	\$ 3,897,973
<i>Adjustments to Reconcile the Above to Net Cash Used by Operating Activities:</i>		
Investment Return	3,049,841	(4,599,241)
Change in Value of Beneficial Interest in Remainder Trusts	446,643	(337,578)
Loss on Sale of Building	101,580	-
Depreciation and Amortization Expense	11,970	19,316
<i>(Increase) Decrease in Current Assets:</i>		
Pledges Receivable, Current	(25,000)	(50,000)
Other Receivables	29,059	(20,484)
Prepaid Expenses	(4,834)	(1,403)
<i>(Increase) Decrease in Non-Current Assets:</i>		
Pledges Receivable, Non-Current	25,000	(25,000)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable	(25,656)	(2,635)
Accrued Payroll and Related Costs	3,334	(14,028)
Agency Funds Held for Others	(28,443)	(8,130)
Grants Payable, Current	(30,000)	22,500
<i>Increase (Decrease) in Non-Current Liabilities:</i>		
Annuity Payable	(8,000)	(8,000)
Grants Payable, Non-Current	(75,000)	5,000
Agency Endowment Funds	(111,542)	191,176
Net Adjustment	<u>3,358,952</u>	<u>(4,828,507)</u>
<u>NET CASH USED BY OPERATING ACTIVITIES</u>	<u>(1,661,006)</u>	<u>(930,534)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sale of Building	315,000	-
Equipment Purchases	(1,566)	(30,951)
Proceeds from Sales of Investments	1,164,411	1,445,129
Proceeds from Beneficial Interest in Remainder Trust	120,170	-
Net Cash Flows from Investing Activities	<u>1,598,015</u>	<u>1,414,178</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Principal Payments on Long-Term Debt	(298,234)	(16,818)
Cash Flows from Financing Activities	<u>(298,234)</u>	<u>(16,818)</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>(361,225)</u>	<u>466,826</u>
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>1,760,289</u>	<u>1,293,463</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 1,399,064</u>	<u>\$ 1,760,289</u>
<i>Supplemental Disclosure :</i>		
Interest Paid	<u>\$ 3,362</u>	<u>\$ 15,249</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 78 scholarship funds, 15 educational funds for individual schools and programs and an adult education grant program.

Arts and Culture:

The Foundation sponsors AHA (“Art History Architecture”), the acclaimed monthly arts and culture nights in downtown New Bedford. The Foundation has embarked on a Creative Commonwealth Initiative that, in partnership with other foundations, seeks to elevate the arts and creative expression in New Bedford and Fall River.

Economic Opportunity:

The Foundation seeks to remove the obstacles to economic engagement through a variety of means. The Women’s Fund seeks to improve the economic status of women and girls in the region, and various funds, including the Polaroid Fund, seeks to provide assistance to recent immigrants and others for whom English is a second language and well as developing workforce skills.

Capacity Building:

The development and strength of the nonprofit 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 nonprofits 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 and invest in the arts.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(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.

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 and its beneficial interest in remainder trusts. There have been no changes to this valuation methodology.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - consists of assets, public support and program revenues which are available and used for operations and programs. Net assets without donor restrictions represents the portion of net assets of the Foundation that is not restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Net Assets With Donor Restrictions - 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, and may include investment income earned on restricted funds. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 net assets without donor restrictions. 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 report certain funds as net assets with donor restrictions regardless of ultimate variance power.

The Community Foundation of Southeastern Massachusetts, Inc. held the following types of funds for the years 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 years presented, the Foundation managed 79 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

YEARS ENDED DECEMBER 31, 2018 AND 2017

(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 years presented, the Foundation had a single field of interest fund; the Distribution Committee of the Foundation selected the most appropriate programs within the field specified by the donor and advised the donor on disbursement of these funds.

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 78 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 years 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 contributions with donor restrictions 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 accompanying 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 available 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 endowment funds with donor restrictions. The Board of Directors' 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 endowment funds with donor restrictions:

- The duration and preservation of the fund
- The purposes of the Foundation and the endowment funds with donor restrictions
- 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

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 3 (Continued)

Income and appreciation earned on endowment investments are classified as net assets with donor restrictions until appropriated for expenditure by the Board of Directors based on the above criteria.

From time to time, the fair value of assets associated with individual endowment funds with donor restrictions may fall below the level of the original corpus. As required by the *FASB Accounting Standards Codification*TM, deficiencies of this nature are reported in net assets with donor restrictions. There were no significant deficiencies of this nature as of December 31, 2018 and 2017.

The Foundation's endowment funds consists of both funds with donor restrictions 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 the years presented, the spending rate on the endowment funds and funds held under "spending policy agreements" is 4% of the average market value of the fund's 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 Foundation 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.

Pledges Receivable:

Pledges Receivable are classified as current if they are scheduled for receipt within one year, and non-current when the expected date of receipt exceeds one year. As of December 31, 2017, the Organization's non-current pledges were due within two years. Outstanding pledge payments with expected receipt dates that extend beyond one year have not been discounted in these financial statements because these amounts are considered to be immaterial. Management believes that all pledges receivable are collectible, and therefore, no allowance for doubtful amounts has been established. If amounts are determined to be uncollectible in subsequent periods, an allowance will be established at that time. There were no pledges determined to be uncollectible for the years presented.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 3 (Continued)

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.

Investments:

The Foundation maintains an investment portfolio which includes cash, equities, 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. The Foundation reports the investments' net realized and unrealized gains and losses at each reporting date in the Foundation's Statement of Activities. 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.

Beneficial Interest in Remainder Trusts:

As required by the *FASB Accounting Standards Codification*TM, the Organization's *Beneficial Interest in Remainder Trusts* is reported at fair value, which is estimated as CFSEMA's ownership percentage of the underlying trust assets, and is classified within Level 3 of the fair value hierarchy.

The change in the value of the *Beneficial Interest in Remainder Trusts* is reported as a valuation adjustment with an increase or decrease in net assets with donor restrictions. Proceeds received as the ultimate distribution of the remainder trust are offset against the *Beneficial Interest in Remainder Trusts*, an asset in the accompanying Statements of Financial Position.

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 \$44,333 and \$41,680 as of December 31, 2018 and 2017, respectively. The estimated useful life of these assets is three years. Amortization Expense was \$2,653 and \$3,082 for the years presented. Management expects the amortization expense to be \$1,977 for the next year, at which time the *Intangible Assets* will be fully amortized.

Assets Held for Sale:

The Foundation records assets held for sale at the lower of its carrying amount or fair value less cost to sell. The assets held for sale as of December 31, 2017 consists of the Foundation's office building that was placed on the market in October 2017 and subsequently sold in March 2018.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 3 (Continued)

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.

Charitable Gift Annuity:

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 Foundation 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. As of December 31, 2017, the Foundation had \$250,000 in conditional grant funding for its arts, culture and creativity initiative which was conditional upon a matching requirement. This match was met in 2018, at which time the funding was received and recognized as revenue. Contributions of assets other than cash are reported at their estimated fair value when received.

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 net assets with donor restrictions depending on the nature of the restriction until the restriction expires, at which time these amounts are reclassified to net assets without donor restrictions.

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.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 3 (Continued)

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 based upon space and time usage. For the years presented, the following expenses are allocated based on employee time and effort: *Salaries, Payroll Taxes, Employee Benefits, Occupancy, Equipment Rental and Repair and Depreciation and Amortization*. 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, special fund raising events, distribution of materials and other similar projects related to the procurement of donated funds.

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.

Grants Expense and Grants Payable:

The Foundation recognizes a grant expense for grants to charities and for scholarships at the time the Board of Directors approves the award and all significant conditions are met. Grants and other distributions on behalf of funds awarded to area nonprofits totaled \$2,903,769 and \$2,035,152 and scholarships awarded to area students amounted to \$368,332 and \$282,324 for the years ended December 31, 2018 and 2017, respectively. 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, 2018, the Foundation had awarded \$617,027 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.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 3 *(Continued)*

Advertising:

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

Reclassifications:

Certain amounts in the prior year summarized comparative information have been reclassified to conform to the 2018 presentation in relation to the adoption of ASU 2016-14. Reclassifications made to the prior year summarized information have no impact on total net assets or changes in net assets.

Recent Accounting Guidance:

Recently Implemented Standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASC Update No. 2016-14, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, with the goal of improving not-for-profit financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users. This ASU modified the current guidance over several criteria, of which the following affected the Foundation’s financial statements:

- The Foundation’s net assets were segregated into two categories, “with donor restrictions” and “without donor restrictions” as opposed to the previous requirement of three classes of net assets.
- The Foundation provided qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the statement of financial position date.
- The Foundation provided a more in depth explanation of the methods used to allocate costs among program and supporting functions.
- The Foundation presented its investment return net of external and direct internal investment expenses.

Recently Issued Standards

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts not-for-profit entities that have revenue transactions other than contributions. In August 2015, the FASB deferred the effective date of ASC Update No. 2014-09 by one year when it issued ASC Update No. 2015-14, (Topic 606) *Revenue from Contracts with Customers*. This standard is effective for this Foundation in financial statements issued for fiscal years beginning January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Foundation’s financial position or change in net assets.

In June 2018, the FASB issued ASC Update No. 2018-08, (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides additional guidance to help determine whether a contribution is conditional or unconditional. This standard is effective for this Foundation in financial statements issued

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 3 *(Continued)*

for fiscal years beginning January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Foundation's financial position or change in net assets.

In February 2016, the FASB issued ASC Update No. 2016-02, (Topic 842) *Leases* which establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. This standard is effective for this Foundation in financial statements issued for fiscal years beginning January 1, 2020. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. The adoption of this ASU is not expected to have a material effect on the Foundation's financial position or change in net assets.

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of the Foundation's property and equipment as of December 31, 2018 and 2017:

<u>Asset Category</u>	<u>Est. Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
				<u>2018</u>	<u>2017</u>
Land	-	\$ -	\$ -	\$ -	\$ 88,627
Buildings and Improvements	15 - 39	-	-	-	332,599
Leasehold Improvements	15	25,616	2,749	22,867	24,050
Office Equipment	5	<u>21,380</u>	<u>15,009</u>	<u>6,371</u>	<u>8,293</u>
Total		46,996	17,758	29,238	453,569
Less: Assets Held for Sale		-	-	-	<u>(421,226)</u>
Total		<u>\$46,996</u>	<u>\$17,758</u>	<u>\$29,238</u>	<u>\$ 32,343</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$9,317 and \$16,233, respectively.

During 2017, the Foundation listed their building for sale. The value of the building was moved to *Assets Held for Sale* as of December 31, 2017. On March 7, 2018, the Foundation sold the building for \$320,000 resulting in a net loss of \$101,580.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 5 INVESTMENTS

As of December 31, 2018 and 2017, investment costs and unrealized gains and losses consisted of the following components:

<u>Investment Type</u>	<u>December 31, 2018</u>			<u>Fair Value (Level 1)</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Money Market Funds	\$ 475,682	\$ -	\$ -	\$ 475,682
Mutual Funds:				
Fixed-Income Funds	9,129,926	-	(250,018)	8,879,908
Equity-Based Funds	18,753,524	407,942	-	19,161,466
Equity Securities	694,419	347,848	-	1,042,267
Exchange-Traded Funds:				
Preferred Stock	185,654	-	(18,618)	167,036
REITs	81,424	9,363	-	90,787
Partnerships	19,720	-	(1,265)	18,455
Total	<u>\$29,340,349</u>	<u>\$765,153</u>	<u>\$(269,901)</u>	<u>\$29,835,601</u>
<u>Investment Type</u>	<u>December 31, 2017</u>			<u>Fair Value (Level 1)</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Money Market Funds	\$ 594,042	\$ -	\$ -	\$ 594,042
Mutual Funds:				
Fixed-Income Funds	8,352,847	-	(11,742)	8,341,105
Equity-Based Funds	18,532,073	5,050,187	-	23,582,260
Equity Securities	663,829	555,107	-	1,218,936
Exchange-Traded Funds:				
Preferred Stock	146,353	-	(1,605)	144,748
REITs	74,446	17,987	-	92,433
Partnerships	97,877	-	(21,548)	76,329
Total	<u>\$28,461,467</u>	<u>\$5,623,281</u>	<u>\$(34,895)</u>	<u>\$34,049,853</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 Fund at year end. NAV is quoted in an active market.

Equity Securities and Exchange-Traded Funds: Determined by the published closing price on the last business day of the fiscal year.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 5 (Continued)

<u>Components of Investment Return</u>	<u>2018</u>	<u>2017</u>
Interest and Dividends	\$ 1,096,684	\$ 892,317
Operating Interest	1,087	948
Investment Fees	(104,731)	(103,112)
Net Realized/Unrealized Gain		
(Loss) on Investments	<u>(4,042,881)</u>	<u>3,809,088</u>
Total Investment Return	(3,049,841)	4,599,241
Agency Endowment Fund Allocation	<u>98,371</u>	<u>(129,336)</u>
Net Investment Return	<u><u>\$(2,951,470)</u></u>	<u><u>\$4,469,905</u></u>

NOTE 6 BENEFICIAL INTEREST IN REMAINDER TRUSTS

The following schedule summarizes the change in the *Beneficial Interest in Remainder Trusts* for the years ended December 31, 2018 and 2017:

	<u>Amount</u>
Balance as of January 1, 2017	\$4,583,580
Change in Value of Beneficial Interest in Trusts	<u>337,578</u>
Balance as of December 31, 2017	4,921,158
Change in Value of Beneficial Interest in Trusts	(446,643)
Proceeds from Beneficial Interest in Remainder Trusts	<u>(120,170)</u>
Balance as of December 31, 2018	<u><u>\$4,354,345</u></u>

NOTE 7 GRANTS PAYABLE, NON-CURRENT

As of December 31, 2018, the liability for *Grants Payable, Non-Current* scheduled for future payment is as follows:

<u>Payable in Year Ending</u>	<u>Amount</u>
December 31, 2020	\$60,000
December 31, 2021	<u>20,000</u>
Total Grants Payable, Non-Current	<u><u>\$80,000</u></u>

NOTE 8 DEBT

Note Payable:

Through March 7, 2018, the Foundation was party to a term note for \$50,000 payable to BayCoast Bank that was scheduled to mature in April 2020. The note was payable in equal monthly installments of \$922, including interest, at the fixed annual rate of 3.99% and was secured by all business assets of the Foundation. The note was paid in full on March 7, 2018 upon the sale of the building.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 8 *(Continued)*

Mortgage Note:

In April 2014, the Foundation secured a mortgage in the amount of \$297,500 from BayCoast Bank. The mortgage was subject to a fixed annual interest rate of 4.99% until April 16, 2024, at which time, the rate would adjust to the Federal Home Loan Bank five-year advance rate, plus 2.5%. The mortgage interest rate would continue to be re-adjusted every five years using this basis. Under the agreement, the monthly payments were \$1,750, and the maturity date of the note was April 14, 2039. The note was secured by the real estate owned by the Foundation. The note was paid in full on March 7, 2018 upon the sale of the building.

Interest expense on these notes was \$3,362 and \$15,249 for the years ended December 31, 2018 and 2017, respectively, and is included in *Occupancy Costs* on the Statement of Functional Expenses.

NOTE 9 CHARITABLE GIFT ANNUITY

The Foundation is the recipient of a charitable gift annuity. Investment earnings on the annuity, which are considered net assets with donor restrictions, are used to meet current or future obligations. As of December 31, 2018 and 2017, the Foundation has accumulated funds of \$74,134 and \$88,863 to meet the minimum future annuity obligation of \$8,323 and \$16,323, respectively.

The Foundation's obligations under split-interest agreements, such as charitable gift annuities, 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 10 AGENCY FUNDS

Agency Funds Held for Others:

The following schedule summarized the activity within *Agency Funds Held for Others* for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Agency Funds Held for Others, January 1	\$ 99,276	\$107,406
Expenditures on Behalf of Others	<u>(28,443)</u>	<u>(8,130)</u>
Agency Funds Held for Others, December 31	<u>\$ 70,833</u>	<u>\$ 99,276</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 10 (Continued)

Agency Endowment Funds:

The following schedule summarized in the *Agency Endowment Funds* for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Agency Endowment Funds, January 1	\$1,047,226	\$ 856,050
Contributions	1,500	100,000
Investment Return, Net	(95,300)	129,336
CFSM Fees	(6,713)	(8,481)
Grants and Expenditures	<u>(11,029)</u>	<u>(29,679)</u>
Agency Endowment Funds, December 31	<u>\$ 935,684</u>	<u>\$1,047,226</u>

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, the Foundation's net assets with donor restrictions consisted of the following:

<u>Nature of Restriction</u>	<u>2018</u>	<u>2017</u>
Subject to Expenditure for Specified Purposes:		
Grants and Scholarships	\$ 989,867	\$1,330,438
Technology Infrastructure Improvements	150,190	-
Accumulated Gains on Endowment Funds	106,375	279,431
Charity Gift Annuity	<u>63,811</u>	<u>72,540</u>
Total Funds Subject to Expenditure for Specified Purposes	<u>1,310,243</u>	<u>1,682,409</u>
Subject to the Passage of Time:		
Contributions Receivable	<u>80,000</u>	<u>80,000</u>
Beneficial Interest in Remainder Trusts	<u>4,354,345</u>	<u>4,921,158</u>
Subject to the Foundation's Spending Policy and Appropriation:		
Accumulated Gains and Term Endowments	577,684	781,363
Endowment Funds Restricted in Perpetuity	<u>1,957,968</u>	<u>1,920,235</u>
Total Funds Subject to Spending Policy and Appropriation	<u>2,535,652</u>	<u>2,701,598</u>
Total Net Assets with Donor Restrictions	<u>\$8,280,240</u>	<u>\$9,385,165</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 12 ENDOWMENT NET ASSETS

As of December 31, 2018 and 2017, the net asset composition of the endowment is as follows:

<u>Type of Endowment</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total Endowment 2018</u>
		<u>Original Gift Amount</u>	<u>Net Appreciation</u>	<u>Total With Donor Restrictions</u>	
Donor-Restricted	\$ -	\$1,957,968	\$684,059	\$2,642,027	\$2,642,027
Board-Designated	<u>434,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>434,008</u>
Total	<u>\$434,008</u>	<u>\$1,957,968</u>	<u>\$684,059</u>	<u>\$2,642,027</u>	<u>\$3,076,035</u>

<u>Type of Endowment</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total Endowment 2017</u>
		<u>Original Gift Amount</u>	<u>Net Appreciation</u>	<u>Total With Donor Restrictions</u>	
Donor-Restricted	\$ -	\$1,920,235	\$1,060,794	\$2,981,029	\$2,981,029
Board-Designated	<u>650,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>650,839</u>
Total	<u>\$650,839</u>	<u>\$1,920,235</u>	<u>\$1,060,794</u>	<u>\$2,981,029</u>	<u>\$3,631,868</u>

The following schedule summarizes the change in endowment net assets for the years ended December 31, 2018 and 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total Endowment</u>
		<u>Original Gift Amount</u>	<u>Net Appreciation</u>	<u>Total With Donor Restrictions</u>	
Endowment Net Assets,					
December 31, 2016	\$617,762	\$1,900,279	\$ 712,916	\$2,613,195	\$3,230,957
Contributions	252	19,956	-	19,956	20,208
Investment Income	18,134	-	78,821	78,821	96,955
Investment Appreciation	73,697	-	317,393	317,393	391,090
Appropriated for Expenditures	<u>(59,006)</u>	<u>-</u>	<u>(48,336)</u>	<u>(48,336)</u>	<u>(107,342)</u>
Endowment Net Assets,					
December 31, 2017	650,839	1,920,235	1,060,794	2,981,029	3,631,868
Contributions	14,101	37,733	-	37,733	51,834
Investment Income	18,694	-	100,501	100,501	119,195
Investment Depreciation	(64,478)	-	(366,466)	(366,466)	(430,944)
Appropriated for Expenditures	<u>(185,148)</u>	<u>-</u>	<u>(110,770)</u>	<u>(110,770)</u>	<u>(295,918)</u>
Endowment Net Assets,					
December 31, 2018	<u>\$434,008</u>	<u>\$1,957,968</u>	<u>\$ 684,059</u>	<u>\$2,642,027</u>	<u>\$3,076,035</u>

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 13 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 years presented is summarized below:

	<u>2018</u>	<u>2017</u>
Gross Proceeds - Gala	\$134,620	\$131,495
Mother's Day Race - Womens' Fund	29,897	39,627
Other Fund Events	<u>71,481</u>	<u>108,191</u>
Gross Event Proceeds	235,998	279,313
Less: Cost of Direct Benefit to Donors	<u>(53,329)</u>	<u>(55,472)</u>
Net Event Revenues	<u>\$182,669</u>	<u>\$223,841</u>

NOTE 14 OPERATING LEASES

The Foundation entered into a lease agreement in October 2017 for its administrative and program offices under an operating lease agreement for 3,400 square feet of office space in New Bedford, Massachusetts. The lease is for a five-year term ending on September 30, 2022 with a monthly rent expense of \$4,533, or \$54,400 annually for the first year of the lease. The annual base rent will escalate by 3.5% each year of the lease. The Foundation did not move into the space and begin making payments until February 2018.

Future minimum lease payments for the remainder of the lease term are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
December 31, 2019	\$ 56,797
December 31, 2020	58,785
December 31, 2021	60,314
December 31, 2022	<u>45,236</u>
Total	<u>\$221,132</u>

NOTE 15 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 years ended December 31, 2018 and 2017, the employer contributions to the Plan were \$21,346 and \$16,584, respectively, and are included in *Employee Benefits* on the accompanying Statement of Functional Expenses.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 16 CONCENTRATIONS

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

Cash:

The Foundation 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, 2018 and 2017, cash balances in excess of the FDIC limit were \$843,258 and \$951,804, respectively; 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.

Funds:

For the years ended December 31, 2018 and 2017, one Donor-Advised Fund accounted for 25% and 24%, respectively, of the total net assets of the Foundation.

NOTE 17 RELATED PARTY TRANSACTIONS

Six Board Members serve as officers or directors of various local banking institutions with which the Foundation has depository relationships. Two Board Members are Officers and one is a Director of a bank that the Foundation paid \$3,362 and \$15,249 for the years ended December 31, 2018 and 2017, respectively, in mortgage interest payments. One of the bank Officers and the bank Director are also officers of a subsidiary of that Bank to which the Foundation paid \$16,571 and \$16,514 for the years ended December 31, 2018 and 2017, respectively, in investment management fees. One Director is a trustee for a private foundation from which the Foundation received \$62,000 and \$195,000 as of December 31, 2018 and 2017 respectively, in grant support. A catering company owned by the Board Chair was paid \$1,700 and \$1,360 for the years ended December 31, 2018 and 2017, respectively, to provide services for fundraisings held during these years. Two Board Members, one of whom was the Treasurer, are the Senior Vice-Chancellor and Associate Vice-Chancellor at U-Mass Dartmouth, whose organization and foundation received grants totaling \$103,250 and \$18,495 and payments of \$0 and \$5,443 in fees for service from the Foundation for the years ended December 31, 2018 and 2017, respectively. Additionally, one Board Member is the former Chancellor at U-Mass Dartmouth and is currently Professor there. One Board member is Chief Operating Officer of Southcoast Health System which received grants totaling \$27,229 and \$126,804 from the Foundation for the years ended December 31, 2018 and 2017, respectively.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 18 LIQUIDITY AND AVAILABILITY

The Foundation manages its cash available to meet general expenditures and grants following two guiding principles:

- Operating within a prudent range of financial soundness and stability, and
- Maintaining adequate liquid assets

General Expenditures:

General expenditures include management and general expenses, fundraising expenses, and some program expenses.

Financial assets as of December 31, 2018 and 2017 designated by the board for operating purposes and available for general expenditures within one year:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ -	\$205,191
Investments	<u>378,348</u>	<u>391,038</u>
Total	<u>\$ 378,348</u>	<u>\$596,229</u>

In addition to these funds available for general expenditures, the Foundation charges an administrative fee to all funds based on the funds' average balance for the month of the fee to cover general expenditures. The administrative fee ranges from .75% - 1.5% and are assessed monthly. Estimated administrative fees available for general expenditures during 2019 are \$377,338.

In addition, an estimated amount of \$1.2M based on the current spending rate of 4% will be available for granting during 2019, at the Board's discretion.

The Foundation manages its cash available for grant purposes by reviewing cash needs on a quarterly basis. Funds are invested in the Foundation's investment pool which holds a diversity mix of marketable, liquid, equity and fixed income funds along with cash instruments. This allocation is designated to achieve the dual objective of growing the corpus of the pool for the future while providing necessary liquidity for grants and operational purposes.

The amount available for granting is determined on an annual basis. This amount is calculated according to the Foundation's spending policy, which is currently 4% of the funds' average quarterly market value over the preceding twenty quarters. To protect the value of an endowment funds and not consume principal, no grant distributions are made that will cause such a fund value to dip below the amounts contributed to the fund.

COMMUNITY FOUNDATION OF SOUTHEASTERN MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

NOTE 19 RESTATEMENT OF OPENING NET ASSETS

The Foundation had not previously recorded its share of irrevocable charitable remainder trusts. This omission resulted in an understatement of *Beneficial Interest in Remainder Trusts* as of and for the year ended December 31, 2016. Therefore, net assets have been restated as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total Net</u> <u>Assets</u>
Net Assets as of December 31, 2016	\$27,304,692	\$3,713,301	\$31,017,993
Restatement of Net Assets with Donor Restrictions	<u>-</u>	<u>4,583,580</u>	<u>4,583,580</u>
Net Assets as Restated as of December 31, 2016	<u>\$27,304,692</u>	<u>\$8,296,881</u>	<u>\$35,601,573</u>

As a result of this correction, the 2017 financial statements have been restated. This restatement resulted in an asset, *Beneficial Interest in Remainder Trusts*, valued at \$4,921,158 and a *Change in Value in Beneficial Interest in Trusts* of (\$446,643) reported in the accompanying restated Statement of Financial Position and Statement of Activities, respectively.

NOTE 20 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 April 26, 2019, the date which the financial statements were available for issue, and noted the no events which met the disclosure criteria.