



**FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Contents
December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Greater Worcester Community Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Greater Worcester Community Foundation, Inc. (a Massachusetts corporation, not for profit) (the Foundation) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the statement of functional expenses for the year ended December 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Greater Worcester Community Foundation, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 2, during 2017, the Foundation early adopted Accounting Standards Updated (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which aims to provide, among other items, clarity over the Foundation's classification of net assets, methods used to allocate costs to programmatic and support functions, as well as information concerning liquidity and availability of resources. Our opinion is not modified with respect to this matter.

Alexander, Brown, Fenning & Co., P.C.

Westborough, Massachusetts
March 29, 2018

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Statements of Financial Position
December 31, 2017 and 2016

Assets	2017	2016
Assets:		
Cash - operations	\$ 1,284,062	\$ 776,467
Cash - investment	834,758	2,859,373
Pledges receivable	435,000	-
Investments	152,825,959	135,133,018
Split-interest agreements	1,429,705	1,202,078
Property and equipment, net	29,050	49,083
Other assets	176,871	130,327
Total assets	<u>\$ 157,015,405</u>	<u>\$ 140,150,346</u>
Liabilities and Net Assets		
Liabilities:		
Distributions payable	\$ 352,117	\$ 14,150
Accounts payable and accrued expenses	59,056	101,375
Split-interest obligations	991,931	817,246
Funds held as agency endowments	22,126,274	17,823,159
Total liabilities	<u>23,529,378</u>	<u>18,755,930</u>
Net Assets:		
Without donor restrictions	1,358,435	1,170,002
With donor restrictions	132,127,592	120,224,414
Total net assets	<u>133,486,027</u>	<u>121,394,416</u>
Total liabilities and net assets	<u>\$ 157,015,405</u>	<u>\$ 140,150,346</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Total investment return, net	\$ 134,301	\$ 20,395,420	\$ 20,529,721
Less - investment return for agency endowments	-	(2,841,639)	(2,841,639)
Net investment return	<u>134,301</u>	<u>17,553,781</u>	<u>17,688,082</u>
Total gifts and donations	137,717	5,755,818	5,893,535
Less - gifts and donations for agency endowments	-	(3,367,913)	(3,367,913)
Net gifts and donations	<u>137,717</u>	<u>2,387,905</u>	<u>2,525,622</u>
Other support	114,058	20,347	134,405
Change in value of split-interest agreements	-	2,994	2,994
Net assets released for distributions, net of agency funds	6,600,673	(6,600,673)	-
Net assets released for operations	<u>1,424,424</u>	<u>(1,424,424)</u>	<u>-</u>
Sub-total	<u>8,139,155</u>	<u>(8,001,756)</u>	<u>137,399</u>
Total revenues	<u>8,411,173</u>	<u>11,939,930</u>	<u>20,351,103</u>
Expenses:			
Total distributions	8,400,355	-	8,400,355
Less - distributions for agency funds	<u>(1,799,682)</u>	<u>-</u>	<u>(1,799,682)</u>
Net distributions	6,600,673	-	6,600,673
Operating expenses	<u>1,658,819</u>	<u>-</u>	<u>1,658,819</u>
Total expenses	<u>8,259,492</u>	<u>-</u>	<u>8,259,492</u>
Changes in net assets	151,681	11,939,930	12,091,611
Net Assets:			
Beginning of year	1,170,002	120,224,414	121,394,416
Reclassification	<u>36,752</u>	<u>(36,752)</u>	<u>-</u>
End of year	<u>\$ 1,358,435</u>	<u>\$ 132,127,592</u>	<u>\$ 133,486,027</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Total investment return, net	\$ 53,607	\$ 7,006,899	\$ 7,060,506
Less - investment return for agency endowments	-	(821,710)	(821,710)
Net investment return	<u>53,607</u>	<u>6,185,189</u>	<u>6,238,796</u>
Total gifts and donations	115,075	5,626,735	5,741,810
Less - gifts and donations for agency endowments	-	(2,119,764)	(2,119,764)
Net gifts and donations	<u>115,075</u>	<u>3,506,971</u>	<u>3,622,046</u>
Other support	119,256	27,520	146,776
Change in value of split-interest agreements	-	75,711	75,711
Net assets released for distributions, net of agency funds	5,739,794	(5,739,794)	-
Net assets released for operations	<u>1,302,579</u>	<u>(1,302,579)</u>	<u>-</u>
Sub-total	<u>7,161,629</u>	<u>(6,939,142)</u>	<u>222,487</u>
Total revenues	<u>7,330,311</u>	<u>2,753,018</u>	<u>10,083,329</u>
Expenses:			
Total distributions	6,614,110	-	6,614,110
Less - distributions for agency funds	<u>(874,315)</u>	-	<u>(874,315)</u>
Net distributions	5,739,795	-	5,739,795
Operating expenses	<u>1,661,035</u>	-	<u>1,661,035</u>
Total expenses	<u>7,400,830</u>	-	<u>7,400,830</u>
Changes in net assets	(70,519)	2,753,018	2,682,499
Net Assets:			
Beginning of year	236,534	118,475,383	118,711,917
Reclassification due to adoption of accounting standard	<u>1,003,987</u>	<u>(1,003,987)</u>	<u>-</u>
End of year	<u>\$ 1,170,002</u>	<u>\$ 120,224,414</u>	<u>\$ 121,394,416</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 12,091,611	\$ 2,682,499
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	20,033	16,914
Net investment gains	(21,100,693)	(7,022,817)
Change in value of split-interest agreements, net	(52,942)	(75,711)
Non-cash donations - securities	408,423	(203,460)
Donations to be held in perpetuity	(682,503)	(2,471,124)
Changes in operating assets and liabilities:		
Proceeds from sales and maturities of investments	3,999,329	11,911,348
Payments for purchases of investments	(1,000,000)	(10,271,900)
Pledge receivable	(435,000)	-
Other assets	(46,544)	(33,463)
Distributions payable	337,967	(33,250)
Accounts payable and accrued expenses	(42,319)	52,652
Funds held as agency endowments	4,303,115	1,944,666
Net cash used in operating activities	<u>(2,199,523)</u>	<u>(3,503,646)</u>
Cash Flows from Investing Activities:		
Proceeds from split-interest agreements	-	139,021
Purchases of property and equipment	-	(5,470)
Net cash provided by investing activities	<u>-</u>	<u>133,551</u>
Cash Flows from Financing Activities:		
Donations to be held in perpetuity	<u>682,503</u>	<u>2,471,124</u>
Net Change in Cash	(1,517,020)	(898,971)
Cash:		
Beginning of year	<u>3,635,840</u>	<u>4,534,811</u>
End of year	<u>\$ 2,118,820</u>	<u>\$ 3,635,840</u>
Supplemental Disclosure of Non-Cash Investing Transactions:		
Unrealized gains on investments	<u>\$ 10,007,288</u>	<u>\$ 10,007,294</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2017

(With Summarized Comparative Totals for the Year Ended December 31, 2016)

	2017				2016
	Grantmaking and Community Leadership	Donor Services and Development	General and Administrative	Total	
Personnel:					
Salaries and wages	\$ 455,389	\$ 213,179	\$ 149,318	\$ 817,886	\$ 844,455
Taxes, insurance and retirement	107,278	50,219	35,176	192,673	198,954
Staff training, travel and parking	16,186	7,577	5,307	29,069	30,155
Total personnel	<u>578,853</u>	<u>270,975</u>	<u>189,801</u>	<u>1,039,629</u>	<u>1,073,564</u>
Other:					
Occupancy	73,102	26,186	20,730	120,018	118,295
Meetings, travel and events	30,615	24,207	13,400	68,222	63,547
Software licensing and support	30,259	6,806	27,225	64,290	66,730
Program consulting	61,016	-	-	61,016	30,688
Publications and web services	11,395	34,327	11,755	57,477	54,128
Office expenses	27,805	20,535	8,961	57,301	49,565
Public relations and advertising	34,225	18,332	989	53,546	66,275
Accounting and audit services	-	-	43,568	43,568	48,724
Memberships and subscriptions	4,245	245	33,982	38,472	36,395
Human resource services	21,469	7,690	6,088	35,247	36,210
Depreciation	-	-	20,033	20,033	16,914
Total other	<u>294,131</u>	<u>138,328</u>	<u>186,731</u>	<u>619,190</u>	<u>587,471</u>
Total operating expenses	<u>\$ 872,984</u>	<u>\$ 409,303</u>	<u>\$ 376,532</u>	<u>\$ 1,658,819</u>	<u>\$ 1,661,035</u>

The accompanying notes are an integral part of these statements.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

Greater Worcester Community Foundation, Inc. (the Foundation) is a nonprofit organization that administers and distributes funds and property, which have been contributed by private donors, to worthy organizations throughout the greater Worcester community.

The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

The Foundation prepares its financial statements in accordance with generally accepted accounting standards (U.S. GAAP) and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Adoption of New Accounting Standards

During fiscal year 2017, the Foundation early adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected the Foundation's financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets.
- 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 issued a statement of functional expenses. In addition, an explanation of the methods used to allocate costs among program and supporting (general and administrative and fundraising) functions.
- The Foundation reported underwater endowments within one "net assets with donor restrictions" class of net assets. The Foundation also disclosed the spending policy on spending from underwater endowment funds and other information on these funds.

The Foundation has applied a modified retrospective adoption of the above standard, and as a result, is not presenting a statement of functional expenses or a liquidity disclosure for the year ended December 31, 2016. The adoption of this ASU resulted in reclassification between net assets with donor restrictions and without donor restrictions of \$1,003,987.

Investments

Investments in equity and debt securities are reported at fair value using quoted market prices. Alternative investments are also reported at fair value. Alternative investments are primarily made under agreements to participate in limited partnerships or limited liability companies and may be subject to certain withdrawal restrictions. In accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the Foundation uses each fund's net asset value per share to calculate and report the fair value of these investments. Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. The Foundation seeks to minimize market risk by diversifying its investment portfolio.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Gains or losses on investments are reported in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

State law has been interpreted to require that, unless explicitly stated otherwise by the donor, realized and unrealized appreciation on net assets with donor restrictions should be classified in the net asset with donor restriction classification until appropriated for use by the governing Board. Accordingly, based on the terms of the underlying gift instruments, net investment gains and losses on endowment funds of the Foundation are classified as donor restricted. The Foundation's governing board annually establishes a spending rate to support current operations, including distributions.

The Foundation adopts a spending policy for grant distributions from donor restricted endowments that in 2017 and 2016 were 3.9% of market value, averaged over twenty trailing quarters. In addition, the Foundation draws an operating fee that ranges from 0.50% to 1.95% (see Note 4).

The Foundation has adopted an investment policy for endowment assets that include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the primary long-term financial objective is to preserve and grow the principal value of the endowment investment portfolio to provide a dependable source of revenue for charitable distribution and expenses.

To satisfy its investment objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes equities, alternative, fixed income, and real property investments within prudent risk constraints.

Agency Endowment Funds

The Foundation follows the U.S. GAAP standards for accounting for funds established by other not-for-profit organizations in which those organizations name themselves as the beneficiaries (agency endowments). The Foundation accounts for these funds as liabilities equal to the fair value of the assets in accordance with U.S. GAAP. All agency endowment activity is segregated on the statements of activities and changes in net assets and is reflected in the funds held as agency endowments in the accompanying statements of financial position.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments in excess of \$1,000 are capitalized as additions to property, while repairs and maintenance are expensed as they are incurred (see Note 6). Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	Life of lease
Furniture and fixtures	7 years
Office equipment	4 - 5 years
Website	3 years

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Distributions

The Foundation recognizes distributions expense at the time the grant is approved and any conditions are met. All grants are ratified by the Board. The Foundation awarded distributions totaling \$6,600,673 and \$5,739,794, net of agency distributions of \$1,799,682 and \$874,315, during the years ended December 31, 2017 and 2016, respectively. Distributions payable were \$352,117 and \$14,150 at December 31, 2017 and 2016, respectively. The amount payable at December 31, 2017, includes one grant of \$350,000 due in \$50,000 installments over seven years.

Gifts and Donations

Gifts and donations received or unconditionally pledged are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the nature and donor provisions of the gift or donation provided. Gifts and donations may include actual gifts or promises to give. Such donations are considered to be available for use without donor restrictions unless specifically restricted by the donor or grantor. Donations of assets other than cash are recorded at their fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are reclassified to net assets without donor restriction upon satisfaction of the donor restriction.

Bequests

Bequests are recorded when there is an irrevocable right to the bequest and the proceeds are determinable.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

Income Taxes

The Foundation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Foundation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2017 and 2016. The Foundation's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through March 29, 2018, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Foundation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Foundation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Foundation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Foundation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation. Level 3 also includes investments with notice periods for redemption of more than ninety days.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Cash - Investment

Cash - investment includes all cash accounts held by investment managers which are valued using Level 1 inputs.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by the Foundation and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

The Foundation's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by fund managers. In accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the Foundation uses each fund's NAV per share to calculate and report the fair value of these investments. Values for these alternative investment funds, which may invest in both marketable and non-marketable securities, are determined by the Foundation's management based on information provided by each partnership's general partner or limited liability corporation's (LLC) managing member and may be based on historical cost, appraisals, market values discounted for concentration of ownership, or other estimates. Because of the inherent uncertainty of valuing the investments in such partnerships and LLCs and uncertainty of the value of the underlying investments held by the partnerships and LLCs, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a readily available market value for the investments existed, and that difference may be material. If a valuation was not available from the general partner or managing member as of year-end, the financial statements report the most recent prior valuation updated by subsequent capital calls and distributions. The Foundation believes that the carrying amount of its limited liquidity partnership and LLC investments is a reasonable estimate of fair value as of December 31, 2017 and 2016.

A summary of inputs used in valuing the Foundation's investments as of December 31, 2017 and 2016, is included in Note 3.

Split-Interest Obligations

A liability for split-interest obligations is recorded when the split-interest agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Pledges Receivable

Pledges receivable consist of gifts and donations committed but not yet received. At December 31, 2017, pledges receivable are expected to be paid in 2018 and are due from two donors.

Functional Expense Allocation

The statement of functional expenses reflects costs attributable to program and supporting functions. Personnel costs are allocated based on staff functions. Non-personnel costs are charged directly to specific functions where possible, or are distributed based on personnel allocations.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

3. INVESTMENTS

The following tables set forth, by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31:

<u>Description</u>	2017			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds:				
Domestic equities	\$ 11,255,923	\$ -	\$ -	\$ 11,255,923
International equities	7,624,546	-	-	7,624,546
Fixed income	15,154,037	-	-	15,154,037
Real asset funds	4,241,895	-	-	4,241,895
Asset allocation	<u>9,917,916</u>	<u>-</u>	<u>-</u>	<u>9,917,916</u>
Total mutual funds	<u>\$ 48,194,317</u>	<u>\$ -</u>	<u>\$ -</u>	48,194,317
Alternative Investments:				
Domestic equities*				18,980,195
International equities*				19,884,243
Hedged equity*				59,886,739
Real asset funds*				<u>5,880,465</u>
Total investments at fair value				<u>\$ 152,825,959</u>

<u>Description</u>	2016			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds:				
Domestic equities	\$ 11,469,293	\$ -	\$ -	\$ 11,469,293
International equities	6,252,449	-	-	6,252,449
Fixed income	13,842,064	-	-	13,842,064
Real asset funds	4,114,696	-	-	4,114,696
Asset allocation	<u>8,367,008</u>	<u>-</u>	<u>-</u>	<u>8,367,008</u>
Total mutual funds	<u>\$ 44,045,510</u>	<u>\$ -</u>	<u>\$ -</u>	44,045,510
Alternative Investments:				
Domestic equities*				15,355,000
International equities*				16,361,167
Hedged equity*				33,313,061
Fixed income*				4,824,140
Multiple strategy*				15,114,471
Real asset funds*				<u>6,119,669</u>
Total investments at fair value				<u>\$ 135,133,018</u>

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

3. INVESTMENTS (Continued)

Total investment return consists of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Unrealized gains	\$ 19,840,612	\$ 10,007,294
Interest and dividends	835,849	1,325,074
Realized gains (losses)	1,260,080	(2,984,477)
Investment fees	<u>(1,406,820)</u>	<u>(1,287,385)</u>
	<u>\$ 20,529,721</u>	<u>\$ 7,060,506</u>

The Foundation's investment portfolio includes equity hedges and multiple strategy funds, which take the legal form of limited partnerships and trusts. These investments are classified as alternative investments. The fair values of the alternative investments have been estimated by management based on the information provided by the fund managers or the general partners. The information provided by the fund managers or general partners has been audited by other independent auditing firms in accordance with U.S. GAAP.

Certain alternative investments have limited liquidity with lock-up periods allowing withdrawals monthly, quarterly or annually, with some alternative investments requiring prior notice, as defined in the agreements. Certain managers of the Foundation's alternative investments reserve rights to alter lock-up periods with notice to the Foundation.

The Foundation does not have any unfunded commitments to the alternative investments as of December 31, 2017.

4. NET ASSETS

Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Foundation.

With Donor Restrictions

Net assets with donor restrictions include resources accumulated through contributions and other inflows of assets with donor-imposed restrictions that either expire with the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those restrictions. Such resources will be without donor restriction when the requirements of the donor have been satisfied through expenditure for the specific purpose or program or through the passage of time. When donor restrictions have been met, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities and changes in net assets as net assets released from restrictions. Net assets with donor restrictions also include assets which are intended to be held in perpetuity, and the related accumulated unspent appreciation and earnings on such restricted funds. Investment income earned on the restricted funds to be held in perpetuity may be either without donor restriction or with donor restriction when earned, determined according to the gift instruments.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Notes to Financial Statements
December 31, 2017 and 2016

4. NET ASSETS (Continued)**With Donor Restrictions (Continued)**

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

	<u>2017</u>	<u>2016</u>
Subject to expenditure with donor advice	\$ 18,073,358	\$ 16,595,427
Subject to the Foundation's endowment spending policy and appropriation:		
Investment in perpetuity	90,605,910	89,844,073
Accumulated unspent appreciation	23,010,550	13,261,061
Split-interest agreements	<u>437,774</u>	<u>523,853</u>
	<u>114,054,234</u>	<u>103,628,987</u>
	<u>\$ 132,127,592</u>	<u>\$ 120,224,414</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Administrative fees	\$ 1,424,424	\$ 1,302,579
Grants and distributions	<u>6,600,673</u>	<u>5,739,794</u>
	<u>\$ 8,025,097</u>	<u>\$ 7,042,373</u>

The Foundation follows the criteria for *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowments Funds*. Only a portion of the Foundation's investment portfolio is considered to be endowment assets.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
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4. NET ASSETS (Continued)

Changes in endowment net assets by class are as follows:

Endowment net assets, December 31, 2015	\$ 100,926,677
Total investment return	5,366,410
Gifts and donations	2,471,124
Change in value of split-interest agreements	75,711
Inter-fund contributions	1,500
Released from restriction for distributions and administrative fees	<u>(5,212,435)</u>
Endowment net assets, December 31, 2016	103,628,987
Total investment return	15,381,678
Gifts and donations	682,503
Change in value of split-interest agreements	2,994
Released from restriction for distributions and administrative fees	<u>(5,641,928)</u>
Endowment net assets, December 31, 2017	<u>\$ 114,054,234</u>

From time-to-time, the fair market value of assets associated with individual donor-restricted endowment funds intended for perpetual duration may fall below the original gift value. The reclassification noted above is a result of certain classifications and donor initiated transfers (see Note 13).

Deficiencies of this nature are comprised of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Original gift value	\$ 5,227,503	\$ 16,538,914
Current fair market value	<u>4,989,369</u>	<u>15,542,220</u>
Deficiency	<u>\$ (238,134)</u>	<u>\$ (996,694)</u>

Deficiencies of this nature exist in 49 and 102 donor-restricted endowment funds for the years ended 2017 and 2016, respectively. The deficiencies resulted from unfavorable market conditions and continued appropriation for grant programs in accordance with donor intentions and the spending policies that were deemed prudent by the Board of Directors. The Foundation is guided by Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) in establishing spending rates.

5. SPLIT-INTEREST AGREEMENTS

Net Investment in Pooled Income Fund

The Foundation established a pooled income fund to which, under a gift agreement and beneficiary designation, each donor makes an irrevocable transfer of assets to State Street Global Advisors (trustee of the pooled income fund) on behalf of the Foundation. Until a donor's death, the donor (or the donor's designated beneficiary) receives the income earned on the contributed assets. Upon death of the donor or revocation of the interest in the investment income, all rights in the principal and income assets transfer to the Foundation.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Notes to Financial Statements
December 31, 2017 and 2016**5. SPLIT-INTEREST AGREEMENTS (Continued)****Net Investment in Pooled Income Fund (Continued)**

The Foundation has recognized as net assets with donor restriction gift revenue at the fair value of the assets received, discounted for the estimated lifespan of each donor.

The Foundation has recorded an asset equal to the fair value of the contributed assets, less the amount of the discount for future interest, which is included in split-interest agreements and obligations in the accompanying statements of financial position. There were no gifts contributed to the pooled income fund in 2017 or 2016. Fair value is measured using both Level 1 (market values of publicly traded investments) and Level 3 (projected investment returns, donor life expectancy and present value factors) inputs. There were no pay-outs from the pooled income fund during 2017. There was a payout of \$10,404 upon donor's deaths in 2016.

Net Interest in Charitable Gift Annuities

The Foundation established a charitable gift annuity fund to which, under a gift agreement and beneficiary designation, each donor makes an irrevocable transfer of assets to State Street Bank and Trust Company on behalf of the Foundation. Until a donor's death, the donor (or the donor's designated beneficiary) receives a fixed annual payment in accordance with the gift agreement. Upon the death of the donor, all rights in the principal and income assets transfer to the Foundation.

The Foundation has recognized as net assets with donor restriction gift revenue at the fair value of the assets received, discounted for the estimated lifespan of each donor.

The Foundation has recorded assets equal to the fair value of the contributed assets, less the amount of the discount for future fixed payments. The asset is valued using Level 1 inputs (market values of publicly traded investments) and the corresponding obligations are valued using Level 3 inputs (projected investment returns, donor life expectancy and present value factors).

Split-interest agreements are comprised of the following as of December 31:

<u>2017</u>	<u>Charitable Gift Annuities</u>	<u>Pooled Income Fund</u>	<u>Total</u>
Asset	\$ 1,185,901	\$ 243,804	\$ 1,429,705
Obligations	<u>921,565</u>	<u>70,366</u>	<u>991,931</u>
Total	<u>\$ 264,336</u>	<u>\$ 173,438</u>	<u>\$ 437,774</u>
<u>2016</u>	<u>Charitable Gift Annuities</u>	<u>Pooled Income Fund</u>	<u>Total</u>
Asset	\$ 979,758	\$ 222,320	\$ 1,202,078
Obligations	<u>753,169</u>	<u>64,077</u>	<u>817,246</u>
Total	<u>\$ 226,589</u>	<u>\$ 158,243</u>	<u>\$ 384,832</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2017 and 2016

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Office equipment	\$ 104,673	\$ 104,673
Furniture and fixtures	78,120	78,120
Leasehold improvements	55,684	55,684
Website	<u>33,893</u>	<u>33,893</u>
	272,370	272,370
Less - accumulated depreciation	<u>243,320</u>	<u>223,287</u>
Net property and equipment	<u>\$ 29,050</u>	<u>\$ 49,083</u>

Depreciation expense was \$20,033 and \$16,914 for the years ended December 31, 2017 and 2016, respectively.

7. EMPLOYEE BENEFIT PLANS

The Foundation contributes an agreed-upon percentage of employees' compensation to a defined contribution retirement fund for eligible participants. Retirement plan expense was \$28,937 and \$32,165 in 2017 and 2016, respectively, which is included in taxes, insurance and retirement on the accompanying statement of functional expenses. The Foundation also offers a voluntary tax deferred plan to all employees under the provisions of Section 403(b) of the IRC.

8. LEASE AGREEMENTS

The Foundation leases its office facilities under a non-cancelable operating lease expiring on June 30, 2019, which also requires additional common area maintenance fees. Rent and related expense under this agreement was \$111,673 and \$108,410 for the years ended December 31, 2017 and 2016, respectively, which is included in occupancy for on the accompanying statement of functional expenses.

The Foundation also has various equipment leases with quarterly payments of \$342 and monthly payments of \$740 and expiring through January and June 2020, respectively.

Future minimum lease payments over the remaining life of the leases are as follows:

	<u>Facility</u>	<u>Equipment</u>
2018	\$ 111,673	\$ 10,247
2019	\$ 55,836	\$ 10,247
2020	\$ -	\$ 4,553

9. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balance in a Massachusetts bank. The Federal Deposit Insurance Corporation insures balances at each bank up to certain amounts. At certain times during the year, the cash balance exceeded the insured amount. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on its cash.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
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10. RELATED PARTY TRANSACTION

A member of the Board of Directors is a partner at a law firm that provided legal and trust management services to the Foundation during 2017 and 2016. Total fees paid for these services were \$51,452 and \$42,745 for the years ended December 31, 2017 and 2016, respectively. These transactions were executed in accordance with the Foundation's conflict of interest policy.

11. OPERATING EXPENSES BY FUNCTION

The Foundation's operating expenses by function are as follows for the year ended December 31, 2016:

Grantmaking and community leadership	\$ 1,099,303
Donor services and development	278,824
General and administrative	<u>282,908</u>
Total operating expenses	<u>\$ 1,661,035</u>

12. OPERATING LIQUIDITY

Financial assets available for use by the Foundation within one year from the statement of financial position date (December 31, 2017) are as follows:

Liquid capital at year end (December 31, 2017):	
Unrestricted cash	\$ 282,520
Unrestricted funds, invested	<u>974,086</u>
Total	<u>\$ 1,256,606</u>

The Foundation reviews its cash position on a regular basis to ensure that adequate funds are on hand to meet expenses. In addition, the investment portfolio is comprised of funds with a variety of redemption terms (daily, monthly, or longer); at December 31, 2017, approximately \$32 million was available for immediate redemption if needed.

13. RECLASSIFICATION

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation in relation to the adoption of ASU 2016-14 (see Note 2).

During 2017, donors initiated transfers of approximately \$37,000 from funds with donor restrictions to agency funds.