

**BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC.  
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

# **BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE**

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## **Independent Auditors' Report**

To the Board of Directors  
Berkshire Taconic Community Foundation, Inc.  
Sheffield, Massachusetts

We have audited the accompanying consolidated financial statements of Berkshire Taconic Community Foundation, Inc. and Affiliate (collectively, the Foundation), which comprise the consolidated statement of financial position as of December 31, 2016 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited the Foundation's 2015 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated August 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## Change in Accounting Principle

As discussed in Note 2, during the year ended December 31, 2016, the Foundation elected early adoption of Accounting Standards Update No. 2015-07, *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment requires retrospective application. As a result, certain amounts related to investments have been reclassified as of and for the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
August 16, 2017

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

(With Summarized Comparative Information for 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,154,217	\$ 2,529,288
Investments	127,358,211	116,597,424
Contributions receivable, net	33,200	141,756
Split-interest agreements	1,214,823	1,737,413
Other assets	149,807	173,910
Property and equipment, net	<u>809,638</u>	<u>808,505</u>
<b>Total Assets</b>	<b><u>\$ 131,719,896</u></b>	<b><u>\$ 121,988,296</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 566,559	\$ 666,292
Agency funds	39,280,766	37,815,792
Liability under split-interest agreements	19,910	18,119
Loan payable	<u>300,049</u>	<u>322,794</u>
Total liabilities	<u>40,167,284</u>	<u>38,822,997</u>
<b>Net Assets</b>		
Unrestricted	22,881,324	21,098,979
Temporarily restricted	11,001,005	9,491,842
Permanently restricted	<u>57,670,283</u>	<u>52,574,478</u>
Total net assets	<u>91,552,612</u>	<u>83,165,299</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 131,719,896</u></b>	<b><u>\$ 121,988,296</u></b>

The accompanying notes are an integral part of the consolidated financial statements

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

(With Summarized Comparative Information for 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenues, Gains and Other Support</b>					
Gifts and bequests	\$ 6,038,743	\$ 1,245,029	\$ 4,590,937	\$ 11,874,709	\$ 12,026,006
Other contributions	22,258	32,040	25,236	79,534	93,516
Less contributions to agency funds	(1,755,614)	-	-	(1,755,614)	(49,249)
Net contributions	4,305,387	1,277,069	4,616,173	10,198,629	12,070,273
Investment gain (loss), net	1,361,819	4,515,321	-	5,877,140	(237,926)
Fund administration fees	254,530	-	-	254,530	264,826
Change in value of split-interest agreements	4,960	(17,652)	(53,717)	(66,409)	81,032
Net assets released from restrictions	4,288,610	(4,288,610)	-	-	-
Intrafund transactions and transfers, net	(556,384)	23,035	533,349	-	-
Total revenues, gains and other support	9,658,922	1,509,163	5,095,805	16,263,890	12,178,205
<b>Expenses</b>					
Program services:					
Grants and disbursements	8,952,473	-	-	8,952,473	7,873,206
Less grants from agency funds	(2,813,374)	-	-	(2,813,374)	(1,246,004)
Net grants	6,139,099	-	-	6,139,099	6,627,202
Program expense	872,644	-	-	872,644	798,843
Total program services	7,011,743	-	-	7,011,743	7,426,045
Supporting services:					
Fund administration	435,344	-	-	435,344	442,956
Fundraising	429,490	-	-	429,490	408,215
Total supporting services	864,834	-	-	864,834	851,171
Total expenses	7,876,577	-	-	7,876,577	8,277,216
<b>Change in Net Assets</b>	1,782,345	1,509,163	5,095,805	8,387,313	3,900,989
<b>Net Assets - Beginning of Year</b>	21,098,979	9,491,842	52,574,478	83,165,299	79,264,310
<b>Net Assets - End of Year</b>	\$ 22,881,324	\$ 11,001,005	\$ 57,670,283	\$ 91,552,612	\$ 83,165,299

The accompanying notes are an integral part of the consolidated financial statements

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

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

(With Summarized Comparative Information for 2015)

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 8,387,313	\$ 3,900,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,094	44,703
Loss on sale of equipment	(13,500)	-
Realized and unrealized (gain) loss on Foundation investments	(9,733,371)	873,513
(Increase) decrease in operating assets:		
Contributions receivable	108,556	106,116
Split-interest agreements	522,590	(75,481)
Other assets	24,103	(25,761)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(99,733)	155,856
Agency funds	1,464,974	(1,224,793)
Liability under split-interest agreements	1,791	(5,550)
Net cash provided by operating activities	<u>710,817</u>	<u>3,749,592</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	14,620,981	23,134,132
Purchases of investments	(15,684,124)	(24,909,838)
Net cash used in investing activities	<u>(1,063,143)</u>	<u>(1,775,706)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on note payable	-	(17,102)
Payments on loan payable	(22,745)	(22,602)
Net cash used in financing activities	<u>(22,745)</u>	<u>(39,704)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(375,071)	1,934,182
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>2,529,288</u>	<u>595,106</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 2,154,217</u>	<u>\$ 2,529,288</u>

The accompanying notes are an integral part of the consolidated financial statements

# **BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **NOTE 1 - ORGANIZATION**

Berkshire Taconic Community Foundation, Inc. (BTCF) builds stronger communities and improves the quality of life for all residents of northwest Litchfield County, Connecticut, Berkshire County, Massachusetts, and Columbia County and northeast Dutchess County, New York, acting as an agent for positive change in the region. Since 1987, BTCF has managed a growing collection of charitable funds created by individuals, families and businesses. Each year, BTCF distributes millions of dollars through grants and scholarships for programs in the arts and education, health and human services, and environmental protection, helping thousands of donors achieve their philanthropic goals and hundreds of nonprofits carry on their good work.

BTCF Resources, Inc. (Resources) is a supporting organization to Berkshire Taconic Community Foundation, Inc., formed to hold real estate that may be gifted to it for the charitable benefit of one or more charitable funds held by BTCF.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Summarized Comparative Information**

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Foundation's audited consolidated financial statements as of and for the year ended December 31, 2015, from which the summarized information was derived.

#### **Basis of Accounting and Presentation**

The financial statements are prepared on a consolidated basis to include the transactions of BTCF and Resources (collectively, the Foundation). All material intercompany balances and transactions have been eliminated from the consolidated financial statements. The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with GAAP. Net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

##### **Unrestricted Net Assets**

These net assets are defined as assets that are free of donor-imposed restrictions and include all investment income and appreciation not subject to donor-imposed restrictions.

##### **Temporarily Restricted Net Assets**

These net assets include contributions, unconditional promises to give and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation. This classification includes accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure. Also included in temporarily restricted net assets are charitable remainder trusts.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **Permanently Restricted Net Assets**

These net assets include the historic dollar value (fair market value at the time of the gift) of contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that the funds be held in perpetuity and that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Included in permanently restricted net assets are charitable remainder trusts and contributions receivable.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Cash and Cash Equivalents**

For the purposes of reporting cash flows, the Foundation considers all short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents, exclusive of money market funds, which are considered to be investments.

The Foundation maintains cash balances at a savings bank located in Connecticut. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

### **Investment Valuation and Income Recognition**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains include the Foundation's gains and losses on investments bought and sold as well as held during the year.

The Board of Directors determines the Foundation's valuation policies and procedures utilizing information provided by outside investment advisors who are overseen by the Board of Directors' Investment Committee.

### **Split-Interest Agreements**

Split-interest agreements consist of assets irrevocably transferred for the benefit of the Foundation and other beneficiaries. Unless BTCF is the trustee, revocable split-interest agreements are not recorded as contributions unless enforceable by law. Irrevocable split-interest agreements are recorded as contributions at fair value when the assets are received or when the Foundation is notified of the existence of the agreement. The accounting treatment varies depending upon the type of the agreement created and whether the Foundation or a third party is the trustee.

The Foundation is the beneficiary of various irrevocable charitable remainder trusts managed by unrelated trustees. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use.

# **BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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The trusts are carried at the fair value of the underlying investments. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recognized in the consolidated statement of activities as a temporarily restricted contribution in the period the trust is established or as a permanently restricted contribution if the trust is funding an endowed fund. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The liability is calculated using a discount rate of 2.2% and applicable mortality tables.

The Foundation has been named the trustee of a revocable charitable remainder trust for which the designation of remainder interest can be changed any time during the donor's lifetime. The trust requires the payout of stated amounts of income to named beneficiaries over their respective lifetimes or designated trust terms, at the end of which the Foundation is currently designated to receive the remainder interest. The fair value of the trust's assets has been included in the consolidated statement of financial position with a corresponding liability to reflect the revocable status of the trust.

### **Property and Equipment**

Property and equipment are stated at cost or market value for donated items and are depreciated using the straight-line method over their estimated useful lives, ranging from 3 to 40 years. The Foundation follows the practice of capitalizing all expenditures in excess of \$1,000 with a useful life of more than one year.

### **Agency Funds**

The Foundation receives and distributes assets for certain agency funds that have been established by a nonprofit organization from its own resources for the sole purpose of supporting that organization's operations.

### **Contributions**

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Foundation reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use, and as permanently restricted support if they are contributed to endowed funds. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

### **Income Taxes**

The Foundation is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. However, the Foundation is subject to unrelated business income taxes related to its alternative investments and such taxes are included in management and general expenses in the consolidated statement of activities.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Change in Accounting Principle

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy tables. The standard is effective for years beginning after December 15, 2016 and early adoption is permitted. The Foundation has elected to early adopt ASU 2015-07 for the year ended December 31, 2016.

### Subsequent Events

In preparing these consolidated financial statements, management has evaluated subsequent events through August 16, 2017, which represents the date the consolidated financial statements were available to be issued.

### NOTE 3 - FAIR VALUE

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

#### Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

#### Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

#### Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. When, as a practical expedient, an investment is measured at fair value on the basis of net asset value, its classification as Level 2 or 3 will be impacted by the ability to redeem the investment at net asset value at the measurement date. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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GAAP requires disclosure of the fair value of all the Foundation's financial instruments, including both assets and liabilities. The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 2016, for which it is practicable to estimate that value, as more fully discussed below:

### **Cash and Cash Equivalents**

The carrying amount reported in the consolidated statement of financial position approximates fair value because of the short maturity of those instruments.

### **Investments**

The fair value of investments in marketable equity and debt securities is based on quoted market prices. Nonmarketable debt securities are valued based on estimated discounted future cash flows; nonmarketable equity securities are carried at estimated current value if it is possible to determine this, otherwise at cost.

### **Contributions Receivable**

The fair value of contributions receivable is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

The following is a description of the valuation methodologies used for investment assets measured at fair value:

### **Global Public Equity**

This investment class includes domestic and international equities, or shares of publicly traded companies, both long and short positions, that seek to provide long-term capital appreciation. Equity managers are selected with the objective of building a portfolio that is diversified by geographic region, economic sector, industry and market capitalization. The objective in selecting managers is to generate average annual compounded returns that exceed the relevant broad market indices, net of fees, over full market cycles (5-10 years).

### **Global Private Equity**

This investment class consists of equity securities in operating companies that are not publicly traded on a stock exchange and seeks to provide long-term capital appreciation. Private equity managers provide capital to a target company to nurture expansion, new product development or restructuring of the company's operations, management or ownership. These investments are characterized by potential higher returns, greater investment risk and heightened illiquidity than public equity and offer another opportunity to reach investment targets. However, since distribution of returns is wide, managers are selected carefully.

### **Flexible Capital**

This investment class consists of hedge funds including absolute return, long/short equity, event-driven strategies and other opportunistic investments that seek to take advantage of dislocations in the markets and provide high returns with lower risk profiles. Hedge funds have the potential to reduce overall portfolio volatility in correlation to the general markets and provide better downside protection than in long-only equities.

### **Credit Strategies**

This investment class includes domestic and international fixed income securities and seeks to provide current income as well as a hedge against deflation and equity market risk. Various types of debt typically offer lower volatility and, despite their lower expected return, bonds generally offer low correlation to the general markets.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Inflation Hedging

This investment class provides exposure to oil, gas, timber, commodities and TIPS (Treasury Inflation-Protected Securities) in an effort to protect against short-term interest rate spikes and long-term inflation.

### Liquid Capital

This investment class includes cash and cash equivalents held for reinvestment purposes by the Foundation's investment managers. Due to the nature of these funds, they have been classified as long-term investments. This investment class also includes money market funds that are valued based upon readily-available pricing sources for comparable instruments.

### Split-Interest Agreements

Fair value inputs used for split-interest agreements are based on the estimated present value of the future payments to the Foundation, which is considered to be the fair value of the assets held in trust.

### Assets Measured at Fair Value on a Recurring Basis

The following is a summary of the source of fair value measurements for financial instruments that are measured at fair value on a recurring basis as of December 31, 2016:

Description	December 31, 2016	Assets Measured at Net Asset Value (a)	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Investments:					
Global public equity	\$ 64,018,508	\$ 20,737,390	\$ 43,281,118	\$ -	\$ -
Global private equity	7,982,778	7,982,778	-	-	-
Flexible capital	37,512,742	37,512,742	-	-	-
Credit strategies	9,784,380	-	9,784,380	-	-
Inflation hedging	1,319,266	-	1,319,266	-	-
Liquid capital	6,720,337	-	6,720,337	-	-
Nonearning assets	20,200	-	-	-	20,200
Total investments	127,358,211	66,232,910	61,105,101	-	20,200
Split-interest agreements	1,162,176	-	-	-	1,162,176
Total Assets Measured at Fair Value	\$ 128,520,387	\$ 66,232,910	\$ 61,105,101	\$ -	\$ 1,182,376

(a) Certain investments that are measured at fair value using the net asset value 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.

There were no transfers between levels of investments during the year ended December 31, 2016.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional information regarding investments that report fair value based on net asset value per share or unit as of December 31, 2016 is as follows:

<u>Description</u>	<u>Balance December 31, 2016</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Global public equity	\$ 20,737,390	\$ -	Daily to Quarterly	0-60 days written notice
Global private equity	7,982,778	10,817,103	Illiquid	Illiquid
Flexible capital	<u>37,512,742</u>	<u>-</u>	Quarterly to Annually	45-60 days written notice
Total	<u>\$ 66,232,910</u>	<u>\$ 10,817,103</u>		

### Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following is a summary of the changes in the balances of investments measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2016:

	<u>Nonearning Assets</u>	<u>Split- Interest Agreements</u>	<u>Total</u>
Balance - beginning of year	\$ 20,200	\$ 1,691,518	\$ 1,711,718
Change in value of split-interest agreements	-	(71,369)	(71,369)
Redemptions	<u>-</u>	<u>(457,973)</u>	<u>(457,973)</u>
Balance - End of Year	<u>\$ 20,200</u>	<u>\$ 1,162,176</u>	<u>\$ 1,182,376</u>

Investment gain for the year ended December 31, 2016 consisted of the following:

Realized and unrealized gains	\$ 5,120,614
Interest and dividends	996,910
	<u>6,117,524</u>
Less investment management fees	<u>(240,384)</u>
Net Investment Gain	<u>\$ 5,877,140</u>

The Foundation's investment portfolio generated investment gains net of fees of \$2,064,148 related to agency activity for the year ended December 31, 2016.

Total investment income is reported net of investment manager fees that totaled \$240,384 in 2016. These amounts do not reflect high water marks and other management fees that may be deducted directly from the investment prior to distribution of earnings.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2016 are expected to be collected as follows:

Receivable in less than one year	\$	12,770
Receivable in one to five years		21,695
Total contributions receivable		<u>34,465</u>
Less discounts to net present value		<u>(1,265)</u>
Net Contributions Receivable	\$	<u><u>33,200</u></u>

Contributions receivable in more than one year are discounted at 2%.

### NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2016:

	<u>BTCF</u>	<u>Resources</u>	<u>Total</u>
Buildings	\$ -	\$ 554,740	\$ 554,740
Building improvements	-	247,839	247,839
Equipment	117,557	15,899	133,456
Vehicles	26,815	-	26,815
Land	-	113,996	113,996
Land improvements	-	94,581	94,581
	<u>144,372</u>	<u>1,027,055</u>	<u>1,171,427</u>
Less accumulated depreciation	<u>95,266</u>	<u>266,523</u>	<u>361,789</u>
Property and Equipment, Net	<u>\$ 49,106</u>	<u>\$ 760,532</u>	<u>\$ 809,638</u>

Depreciation expense for the year ended December 31, 2016 was \$48,094.

### NOTE 6 - LINE OF CREDIT

The Foundation has a line of credit with Salisbury Bank in the amount of \$100,000. The variable interest rate on the line of credit is equal to the Prime Rate, which was 3.75% at December 31, 2016. There was no outstanding balance as of December 31, 2016.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 7 - AGENCY FUNDS

The following summarizes activity in agency funds during the year ended December 31, 2016:

Agency funds - beginning of year	\$ 37,815,792
Gifts received	1,755,614
Investment income and investment gains	2,764,963
Distributions	(2,813,374)
Administrative and investment management fees	<u>(242,229)</u>
Agency Funds - End of Year	\$ <u>39,280,766</u>

### NOTE 8 - NET ASSETS

Unrestricted net assets represent contributions, gifts, management fees and income from investments that can be used for the general purpose of the Foundation.

Unrestricted net assets at December 31, 2016 are comprised as follows:

Donor advised funds	\$ 21,643,426
General purpose	<u>1,237,898</u>
Total Unrestricted Net Assets	\$ <u>22,881,324</u>

Temporarily restricted net assets represent contributions with purpose restrictions or that are due over time. Temporarily restricted net assets are available for the following purposes at December 31, 2016:

Purpose restrictions:	
Field of interest funds	\$ 2,062,007
Scholarship funds	887,574
Designated funds	425,708
Charitable remainder trusts, nontrustee	321,006
Educational	308,472
Area funds	307,709
Community initiatives	274,387
Designated funds	<u>2,080</u>
Total purpose restrictions	<u>4,588,943</u>
Time restrictions:	
Accumulated gains and income available for appropriation by the Board of Directors:	
Further restricted by purpose	5,569,869
Without purpose restrictions	<u>842,193</u>
Total time restrictions	<u>6,412,062</u>
Total Temporarily Restricted Net Assets	\$ <u>11,001,005</u>

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Permanently restricted net assets represent donor-designated original principal for investing in perpetuity, the earnings of which can be used for specific purposes or general purposes, as stipulated by the donor. Permanently restricted net assets are comprised of the following as of December 31, 2016:

Area funds	\$ 14,671,792
Field of interest funds	12,487,512
Designated funds	9,314,147
Scholarship funds	8,987,174
Educational	6,783,580
General purpose	2,944,549
Donor-advised funds	1,640,359
Total donor-restricted endowment funds	<u>56,829,113</u>
Charitable remainder trusts, nontrustee	<u>841,170</u>
Total Permanently Restricted Net Assets	<u><u>\$ 57,670,283</u></u>

### NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by satisfying the following restrictions for the year ended December 31, 2016:

Purpose restrictions:	
Field of interest funds	\$ 1,337,302
Area funds	427,792
Scholarship	427,065
Education	363,094
Designated	291,002
Community initiatives	194,312
Total purpose restrictions	<u>3,040,567</u>
Time restrictions:	
Appropriation of endowment assets for expenditure	<u>1,248,043</u>
Total Net Assets Released from Restrictions	<u><u>\$ 4,288,610</u></u>

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 10 - ENDOWMENT

The Foundation's endowment consists of approximately 235 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Prudent Management of Institutional Funds Act (as adopted by Connecticut, Massachusetts and New York) (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- Where appropriate and circumstances would warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the organization
- The investment policies of the organization

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Endowment Net Assets

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 6,679,972	\$ 51,159,082	\$ 57,839,054
Investment return:			
Investment gains	3,705,541	-	3,705,541
Investment income	708,884	-	708,884
Total investment return	<u>4,414,425</u>	<u>-</u>	<u>4,414,425</u>
Contributions	<u>339,682</u>	<u>4,616,173</u>	<u>4,955,855</u>
Appropriation of endowment assets for expenditure	<u>(1,248,043)</u>	<u>-</u>	<u>(1,248,043)</u>
Appropriation of purpose-restricted endowment assets for expenditure	<u>(1,797,354)</u>	<u>-</u>	<u>(1,797,354)</u>
Other changes:			
Transfers and change in original restriction by donor	(447,607)	1,053,858	606,251
Investment management fees	(191,621)	-	(191,621)
Total other changes	<u>(639,228)</u>	<u>1,053,858</u>	<u>414,630</u>
Endowment Net Assets - End of Year	<u>\$ 7,749,454</u>	<u>\$ 56,829,113</u>	<u>\$ 64,578,567</u>

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$74,175 as of December 31, 2016. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets in an effort to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce, on average, over long-term horizons, returns that will offset spending plus inflation plus administrative fees.

# **BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Strategies Employed for Achieving Objectives**

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 risk constraints.

### **Spending Policy**

The Foundation has a policy of appropriating for distribution each year a percentage, established annually by its Board of Directors, of its endowment fund's average fair value over the prior 20 quarters through June 30th preceding the fiscal year in which the distribution is planned. For 2016, the percentage allocation was 4.5%. In establishing this policy, the Foundation considered the long-term expected return on its endowment and found that it is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

### **NOTE 11 - VARIANCE POWER**

The Articles of Incorporation of the Foundation give the Board of Directors the authority to modify any restriction or condition on the distribution of funds for any specified charitable purposes if such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. The Board of Directors has adopted a policy describing the criteria and limited circumstances under which the Foundation would exercise this power.

### **NOTE 12 - RELATED PARTY TRANSACTIONS**

The Foundation performs financial management and administrative functions for the Foundation for Community Health, Inc., a supporting organization of the Foundation, for a fee that is based on a graduated fee schedule, measured on total assets managed. As of December 31, 2016, the Foundation managed \$25,443,087 in assets for the Foundation for Community Health, Inc. This fee structure is similar in nature to administrative duties that the Foundation performs for others. Total fees earned for the year ended December 31, 2016 were \$133,946.

### **NOTE 13 - LOAN PAYABLE**

Loan payable consists of a mortgage with a bank for the administrative office space owned by Resources and leased to the Foundation. The mortgage has an interest rate of 4% and is amortized over 19 years, expiring January 1, 2031. The outstanding balance on the mortgage as of December 31, 2016 is \$300,049.

A lease agreement between BTCF and Resources for the administrative office space expires December 31, 2030. The terms of the agreement require BTCF to pay Resources monthly lease payments equal to the debt obligation of Resources, which is \$32,085 per year for the next five years.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Anticipated principal annual maturities of the mortgage payable for the next five years and thereafter are as follows:

### Year Ending December 31

2017	\$	18,622
2018		19,381
2019		20,171
2020		20,992
2021		21,848
Thereafter		<u>199,035</u>
	\$	<u><u>300,049</u></u>

Interest expense for the year ended December 31, 2016 was \$12,535.

### NOTE 14 - COMMITMENTS

#### Leases

The Foundation leases office equipment under a noncancelable operating lease that expires in 2018. Lease expense amounted to \$3,204 for the year ended December 31, 2016.

Future minimum lease payments required under these operating leases are as follows:

### Year Ending December 31

2017	\$	3,074
2018		<u>1,583</u>
	\$	<u><u>4,657</u></u>

#### Grants and Scholarships

As of December 31, 2016, the Foundation has conditional commitments to pay grants and scholarships of \$275,279.

# BERKSHIRE TACONIC COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 15 - EMPLOYEE BENEFITS

The Foundation sponsors a contributory employee benefit plan that covers substantially all employees. Employees are eligible to participate in the plan after 90 days of service. The Foundation contributed \$57,188 to this plan for the year ended December 31, 2016.

The Foundation has a deferred compensation arrangement with its president as approved by the Executive Committee and Board of Directors. The amount contributed was \$10,000 for the year ended December 31, 2016.

### NOTE 16 - OPERATING EXPENSES

Expenses by natural category for the year ended December 31, 2016 are as follows:

Grants	\$	6,139,099
Salary and benefits		1,101,462
Professional fees and contract services		262,406
Office and administrative		183,679
Marketing		40,059
Meetings, conferences and travel		63,758
Occupancy costs		49,081
Technology		<u>37,033</u>
Total Expenses	\$	<u>7,876,577</u>

### NOTE 17 - ADMINISTRATIVE FEES

The Foundation charges an annual administrative fee to all funds based on the funds' average daily balance each quarter to cover expenses for operations and leadership initiatives. Administrative fees of \$1,496,586 were charged to specific funds during 2016. Administrative fee income and the corresponding expense are netted on the statement of activities and are presented as fund administration fees.