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**THE VERMONT COMMUNITY FOUNDATION, INC.,  
AND AFFILIATED SUPPORTING ORGANIZATIONS**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## CONTENTS

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Independent Auditors' Report	1-2
Consolidated Statements of Financial Position - December 31, 2017 and 2016	3
Consolidated Statements of Activities for the Years Ended December 31, 2017 and 2016	4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016	5
Notes to Consolidated Financial Statements	6-23
Independent Auditors' Report on Supplementary Information	24
Consolidating Statements of Activities - Supplemental Disclosure	25

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## Independent Auditors' Report

To the Board of Directors  
Vermont Community Foundation, Inc.,  
and Affiliated Supporting Organizations  
Middlebury, Vermont

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 Vermont Community Foundation, Inc., and Affiliated Supporting Organizations as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2018 on our consideration of The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations' internal control over financial reporting and compliance.

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

West Hartford, Connecticut  
November 7, 2018

**THE VERMONT COMMUNITY FOUNDATION, INC.,  
AND AFFILIATED SUPPORTING ORGANIZATIONS**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 12,961,217	\$ 11,169,925
Investments	283,049,082	222,804,627
Other investments	161,606	475,000
Contributions receivable, net	11,439,391	14,124,133
Receivables from trusts	395,001	447,020
Other assets	137,055	121,701
Property and equipment, net	<u>2,356,705</u>	<u>2,392,180</u>
<b>Total Assets</b>	<u>\$ 310,500,057</u>	<u>\$ 251,534,586</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 520,614	\$ 328,621
Grants payable, net	964,735	2,054,763
Liabilities under split-interest agreements	10,030,908	9,357,582
Nonprofit organization funds	<u>50,918,604</u>	<u>42,156,547</u>
Total liabilities	<u>62,434,861</u>	<u>53,897,513</u>
<b>Net Assets</b>		
Unrestricted	224,368,350	172,399,364
Temporarily restricted	<u>23,696,846</u>	<u>25,237,709</u>
Total net assets	<u>248,065,196</u>	<u>197,637,073</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 310,500,057</u>	<u>\$ 251,534,586</u>

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

**THE VERMONT COMMUNITY FOUNDATION, INC.,  
AND AFFILIATED SUPPORTING ORGANIZATIONS**

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue</b>						
Contributions	\$ 47,447,912	\$ 733,146	\$ 48,181,058	\$ 30,299,506	\$ 1,234,369	\$ 31,533,875
Federal and state grants	1,012,969	-	1,012,969	476,710	-	476,710
Total contributions and grants	48,460,881	733,146	49,194,027	30,776,216	1,234,369	32,010,585
Less contributions to nonprofit organization funds	(4,158,424)	-	(4,158,424)	(4,618,291)	-	(4,618,291)
Net contributions and grants	44,302,457	733,146	45,035,603	26,157,925	1,234,369	27,392,294
Net realized and unrealized gains (losses) on investments	24,616,102	2,857,786	27,473,888	10,433,546	1,145,511	11,579,057
Investment income	2,286,147	395,285	2,681,432	2,283,620	376,804	2,660,424
Change in value of split-interest agreements	-	(1,486,743)	(1,486,743)	-	(652,438)	(652,438)
Other income	504,861	-	504,861	442,840	-	442,840
Net assets released from restrictions	4,040,337	(4,040,337)	-	3,910,972	(3,910,972)	-
Net revenue	75,749,904	(1,540,863)	74,209,041	43,228,903	(1,806,726)	41,422,177
<b>Expenses</b>						
Program expenses:						
Grants approved, net	15,052,168	-	15,052,168	13,803,975	-	13,803,975
Less grants from nonprofit organization funds	(1,914,853)	-	(1,914,853)	(1,470,700)	-	(1,470,700)
Net grants	13,137,315	-	13,137,315	12,333,275	-	12,333,275
Grant administration and related program activities	5,266,761	-	5,266,761	4,571,480	-	4,571,480
Total program expenses	18,404,076	-	18,404,076	16,904,755	-	16,904,755
Supporting services:						
Management and general	4,295,100	-	4,295,100	3,673,494	-	3,673,494
Development	1,081,742	-	1,081,742	894,583	-	894,583
Total supporting services	5,376,842	-	5,376,842	4,568,077	-	4,568,077
Total expenses	23,780,918	-	23,780,918	21,472,832	-	21,472,832
<b>Increase (Decrease) in Net Assets</b>	51,968,986	(1,540,863)	50,428,123	21,756,071	(1,806,726)	19,949,345
<b>Net Assets - Beginning of Year</b>	172,399,364	25,237,709	197,637,073	150,643,293	27,044,435	177,687,728
<b>Net Assets - End of Year</b>	\$ 224,368,350	\$ 23,696,846	\$ 248,065,196	\$ 172,399,364	\$ 25,237,709	\$ 197,637,073

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

**THE VERMONT COMMUNITY FOUNDATION, INC.,  
AND AFFILIATED SUPPORTING ORGANIZATIONS**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 50,428,123	\$ 19,949,345
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	156,945	132,440
Contribution of securities and real estate	(36,513,224)	(6,959,493)
Proceeds from sales of donated securities	36,186,842	6,914,527
Net realized and unrealized gains on investments	(27,473,888)	(11,579,057)
Change in value of split-interest agreements	1,486,743	652,438
(Increase) decrease in operating assets:		
Contributions receivable	2,684,742	2,722,630
Receivables from trusts	52,019	557,290
Other assets	(15,354)	(20,304)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	191,993	60,363
Grants payable	(1,090,028)	51,424
Liabilities under split-interest agreements	(813,417)	1,453,282
Nonprofit organization funds	8,762,057	5,847,884
Net cash provided by operating activities	<u>34,043,553</u>	<u>19,782,769</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	124,694,634	74,409,920
Purchases of investments	(157,106,615)	(92,725,449)
Proceeds from sales of other investments	281,190	-
Purchase of other investments	-	(175,000)
Purchases of property and equipment	(121,470)	(437,784)
Net cash used in investing activities	<u>(32,252,261)</u>	<u>(18,928,313)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,791,292	854,456
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>11,169,925</u>	<u>10,315,469</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 12,961,217</u>	<u>\$ 11,169,925</u>

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

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

The Vermont Community Foundation, Inc. (the Community Foundation) was incorporated in 1986 with a mission to provide philanthropists with the knowledge, skills and means to make the most of their giving while ensuring that philanthropy promotes social, environmental and economic health and addresses the needs of Vermont through grantmaking, and to provide leadership on key community issues.

The consolidated financial statements include the accounts of the Community Foundation and the following affiliated supporting organizations (collectively, the Foundation):

- The J. Warren and Lois McClure Foundation, Inc., formed in 1994
- Permanent Fund for Vermont's Children, Inc., formed in 2000
- The High Meadows Fund, Inc., formed in 2004
- Addison Community Athletics Foundation, Inc., formed in 2012

The supporting organizations affiliated with the Community Foundation were established under the provisions of Section 509(a)(3) of the Internal Revenue Code (the Code) and are Type I supporting organizations. As defined by the IRS, a Type I supporting organization is controlled by the Community Foundation through operation, supervision or control by appointing the majority of the supporting organization's board members. As disclosed in Note 17, the Curtis Fund, Inc., filed a request on May 3, 2018 with the Internal Revenue Service (IRS) to become a supporting organization of the Community Foundation.

All material inter-organization balances and transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

#### Variance Power

The Foundation has two types of funds (collectively called Endowment Funds):

- Donor-restricted endowments funds - funds restricted by purpose or time by the donor
- Funds functioning as endowments - funds designated by the Board of Directors (Board) to function as endowments

Both the donor-restricted endowments and funds functioning as endowments are subject to variance power pursuant to Sections 1.170A-9(e)(11)(v)(B), (C) and (D) of the Code, which allows the Board of the Community Foundation unilateral power to redirect the use of a donor's contribution to a charitable purpose if conditions or circumstances are such or have so changed since a restriction by a donor as to purpose, manner of distribution, use or investment was imposed that such restriction or condition is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served. The Board has adopted a policy describing the criteria and limited circumstances under which the Community Foundation would exercise this power.



# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements for the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America.

The Foundation follows ASC 958-205, *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, and Enhanced Disclosures for All Endowment Funds*, which sets forth the net asset classifications of donor-restricted endowment funds in accordance with the State of Vermont's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This standard also requires additional disclosures concerning an organization's Endowment Funds whether or not the organization has funds that are subject to UPMIFA.

Based on the review of the Foundation's governing documents and consistent with the guidance as outlined in UPMIFA, the Board of Directors classifies the Endowment Funds based on whether or not the donor restricts the access to the principal. If these restrictions will be satisfied with the passage of time, the net assets are classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets. If these restrictions are not satisfied with the passage of time, or upon satisfaction of purpose restriction, the Foundation would classify the net assets as permanently restricted net assets. The Foundation does not have any Endowment Funds for which donor restrictions will not be satisfied with the passage of time. Therefore, the Foundation does not have any permanently restricted net assets.

Based on the review of the restrictions associated with the Endowment Funds, the accounts of the Foundation are reported in the following net asset categories:

#### **Unrestricted Net Assets**

Unrestricted net assets are net assets on which there are no donor-imposed restrictions for use or on which donor-imposed restrictions have expired. Included in this category are investment returns on unrestricted funds functioning as endowment funds, unrestricted gifts, including funds functioning as endowments and restricted gifts whose donor-imposed restrictions were met during the year.

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

Temporarily restricted net assets are assets subject to donor-imposed restrictions that will be met by actions of the Foundation or the passage of time. Included in this net asset category are gifts for which donor-imposed restrictions that have not been met, irrevocable charitable trusts, lead trusts, charitable gift annuities, pledge and contributions receivable and donor-restricted endowment funds where the principal may be expended upon the passage of a stated period of time.

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Investments and Spending Policy Guidance

The Foundation manages and invests the Endowment Funds in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. The Foundation considers the following factors as prescribed by UPMIFA in making a determination to appropriate or accumulate the Endowment Funds:

- The duration and preservation of a fund;
- The purpose of the organization and the donor designations thereto;
- General economic conditions;
- The possible effects of inflation and deflation;
- The expected total return of the charitable assets;
- Other resources of the organization;
- The investment policies.

The Foundation has adopted investment and spending policies for the Endowment Funds that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the Endowment Funds. The Endowment Funds are invested in a manner that is intended to produce results that exceed the Foundation's customized benchmark by 50 basis points (0.50%), net of investment management fees, while assuming a moderate level of investment risk. The Foundation expects its Endowment Funds, over time, to provide an annual average rate of return of at least the rate of inflation plus yearly spending but it also recognizes the need to adjust spending rates in order to respond to market performance and to balance immediate needs against those of future generations. Actual returns in any given year may vary from this amount.

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). In addition to the spending policy, costs associated with administering the Endowment Funds range from 0.95% to 2.15%. 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.

In establishing this policy, the Foundation considered the long-term expected return on its Endowment Funds. Accordingly, over the long term, the Foundation expects the current spending policy to allow its funds to grow at least at the annual rate of inflation plus yearly spending. This is consistent with the Foundation's objective to maintain the purchasing power of the Endowment Fund's assets held for a specified term as well as to provide additional real growth through new gifts and investment return.

The spending rates for the Endowment Funds range from 3.5% to 100% based on the nature of the fund type. Donor-advised funds, nonprofit organization reserve funds and supporting organizations comprise 55% of the Foundation's investment balance and are not subject to spending limitations as these funds can be advised by the fund representative to grant the full balance. Even so, the Foundation provides a spending guideline to these funds types to assist the fund representative if there is a desire to maintain the fund in perpetuity. The spending guideline provided in 2017 and 2016 was 3.5% of a 36-month average of invested assets as of December 31 for donor-advised funds and 5.0% of a 36-month average of invested assets as of December 31 for nonprofit organization reserve funds.

# **THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Discretionary, field of interest, designated and nonprofit organization endowment funds are subject to spending policy as these Endowment Fund types have been established to be maintained in perpetuity. The 2017 and 2016 spending amount is equal to 3.5% of a 36-month average of invested assets as of December 31 for field of interest and discretionary funds, while the spending amount for designated and nonprofit organization endowment funds is equal to 5.0% of a 36-month average of invested assets as of December 31. Funds subject to the spending policies made up 39% of the total funds held by the Foundation.

Charitable remainder trusts and charitable gift annuities administered by the Foundation do not have a spending rate and account for 6% of the total funds held by the Foundation.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents are defined as currency and highly liquid investments with original maturities of 90 days or less. The Foundation maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Foundation's deposits are held by high-quality financial institutions and are not subject to significant credit risk. In addition, the Foundation maintains a repurchase agreement for a portion of the funds held at the financial institution which sweeps the Foundation's bank account nightly and purchases U.S. Government Securities in the Foundation's name thus further reducing the Foundation's exposure to credit risk.

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

Investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between willing market participants at the measurement date. See Notes 2 and 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. Net realized and unrealized gains (losses) include the Foundation's gains and losses on investments bought and sold as well as held during the year. Management determines the Foundation's valuation policies and procedures utilizing information provided by investment advisors. Management reviews the valuation policies and procedures with the Foundation's Audit Committee, which reports key information to the Board on an ongoing basis.

### **Property and Equipment**

Property and equipment acquisitions and improvements thereon that exceed \$1,000 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Repairs and maintenance are charged to expense as incurred.

# **THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Nonprofit Organization Funds**

The Foundation receives and distributes assets for funds that have been established by unrelated nonprofit organizations from their own resources for the sole purpose of supporting their organization's operations.

The Foundation offers two types of nonprofit organization funds, reserve and endowment. The nonprofit organization reserve fund allows the nonprofit full access to the fund balance, while the nonprofit organization endowment fund permits access to the full fund balance only under certain circumstances. A distribution of the nonprofit organization endowment fund balance beyond spending policy and closing of the fund is made only after detailed due diligence occurs to ensure the purpose and restrictions, if any, for which the nonprofit fund was established, are being maintained. Further, the Board of the Community Foundation needs to approve any such request for distribution.

Amounts received and distributed under these relationships totaled \$4,158,424 and \$1,914,853, respectively, for the year ended December 31, 2017, and \$4,618,291 and \$1,470,700, respectively, for the year ended December 31, 2016.

The amounts received but not yet distributed totaled \$50,918,604 and \$42,156,547 at December 31, 2017 and 2016, respectively, and are included on the consolidated statements of financial position in investments.

The Foundation does not include the change in the value of the nonprofit organization funds' investments in the consolidated statements of activities and consolidated statements of cash flows.

### **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, if material.

The Foundation reports contributions and grants of cash and other assets as temporarily restricted if they are received with donor stipulations that limit their use. 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.

Contributed services are recognized in the consolidated financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition.

### **Functional Expenses and Allocation of Shared Costs**

Expenses are charged to development, program and/or management and general administration based on direct expenses incurred. Common costs, including occupancy and fringe benefits, are allocated to functional categories based upon related utilization.

# **THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Income Taxes**

The Foundation is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Code. However, the Foundation may be subject to unrelated business income taxes related to income generated from its alternative investments. Unrelated business income taxes, if any, are included in management and general expenses in the consolidated statements of activities.

### **Reclassification**

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the current year's presentation.

### **Subsequent Events**

In preparing these consolidated financial statements, management has evaluated subsequent events through November 7, 2018, which represents the date the consolidated financial statements were available to be issued.

## **NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts reflected in the accompanying statements of financial position for cash and cash equivalents, notes receivable and accounts payable approximate the respective fair values due to the short maturities of those instruments.

Grants payable beyond 12 months from the statement of financial position date are discounted to reflect fair market value using a risk-free interest rate.

The carrying amount of contributions receivable is based on the present value of expected cash flows, calculated using discount rates determined at the date of the gift. Management does not believe that the carrying amount differs materially from fair value.

## **NOTE 3 - INVESTMENTS**

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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Foundation classifies its investments into Level 1, which refers to investments traded in an active market; Level 2, which refers to investments not traded in an active market but for which observable market inputs are readily available (such as similar assets in active markets or inputs other than quoted market prices that are observable for the asset); and Level 3, which refers to investments not traded in an active market and for which no significant observable market inputs are available.

The asset'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. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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value of these investments is not included in the fair value hierarchy. Generally, investments are valued based on information provided by fund managers or general partners, including audited financial statements of the investment funds coupled with an understanding of the underlying valuation methodology used by the general partner. The levels relate to valuation only and do not necessarily indicate a measure of risk.

The following is a description of the valuation methodologies and investment strategies used for financial instruments measured at fair value:

### **Short-Term Investments**

Investments consist of short-term treasury securities, checking accounts and money market holdings with daily liquidity.

### **Fixed Income**

Fixed income investments consist of both domestic and foreign issuances of debt instruments and include both government and corporate holdings including Treasury Inflation Protection Securities (TIPS). Also included in the fixed income asset class are mission-related community investment promissory notes that reflect debt agreements with Vermont-based community development financial institutions (CDFIs), community banks and other nonprofits. Management uses a discounted cash flow analysis and evaluation of credit risk to determine the fair value of these notes.

### **Equities**

The Foundation accesses both domestic and international equities through mutual funds, commingled funds and separate accounts. Domestic and international equities, including international emerging market equities, accessed through mutual funds and separate accounts are listed securities traded on public exchanges, at various market capitalizations, and are priced daily by the underlying managers. Interests in both domestic and international equities, including international emerging markets, through commingled funds are valued using net asset value as determined by the investment manager of the fund.

### **Hedged Equity**

Hedged equity investments are valued using net asset values as determined by the investment manager of the fund. Hedged equity includes both multi-strategy and long/short equity approaches. Multi-strategy funds typically involve event-driven, stressed and distressed credit, and spread-based arbitrage investments. These strategies tend to be both flexible and opportunistic and incorporate differentiated drivers of return compared to traditional investment strategies. As a result, they are expected to produce returns that exhibit relatively low correlation to broad market indices over longer time horizons. Long/short equity managers typically make both long and short investments in publicly traded equity securities and produce returns that can be expected to correlate more closely with the performance of the equity markets than is expected from multi-strategy managers, though with lower volatility than traditional "long only" equity managers. Investments in hedged assets are generally subject to an initial lock-up of 12 to 36 months and, thereafter, investors can typically withdraw quarterly or annually with advance notice. The managers' underlying investments may themselves be less liquid, but the investment cycle is substantially shorter than for private equity. Over time, hedged equity investments are expected to generate equity-like returns with lower volatility than equity markets.

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Private Equity/Real Assets

Private equity/real assets investments are valued using net asset values as determined by the investment manager of the fund. This asset class invests in both funds of funds and direct fund structures whereby the underlying investments may not be quoted on a public exchange. Private equity/real estate investments are made through limited partnerships that make underlying investments in various forms of private assets, including mission-related investments, see Note 5. These investments are made with a long-term perspective and reflect diversification across managers, strategies, geographies and vintage years.

### Receivable from Trusts

Fair value inputs used for remainder interests in charitable trusts 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.

There have been no changes in the methodologies used at December 31, 2017 and 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2017 and 2016:

Description	2017				Investments Measured at Net Asset Value (1)	Total	% of Total
	Level 1	Level 2	Level 3				
Short-term investments	\$ 14,210,412	\$ -	\$ -	\$ -	\$ 14,210,412	5.0%	
Fixed income	34,964,644	2,400,868	4,884,192	36,206,890	78,456,594	27.7	
Equities:							
Domestic	32,481,822	-	-	27,811,858	60,293,680	21.3	
Global	21,831,333	-	-	72,537,180	94,368,513	33.4	
Alternatives:							
Hedged equity	-	-	-	23,723,492	23,723,492	8.4	
Private equity/real assets	-	-	769,718	11,226,673	11,996,391	4.2	
Total investments	103,488,211	2,400,868	5,653,910	171,506,093	283,049,082	100.0%	
Receivable from trusts	-	-	395,001	-	395,001		
Total Assets at Fair Value	\$ 103,488,211	\$ 2,400,868	\$ 6,048,911	\$ 171,506,093	\$ 283,444,083		

**THE VERMONT COMMUNITY FOUNDATION, INC.,  
AND AFFILIATED SUPPORTING ORGANIZATIONS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Description	2016					
	Level 1	Level 2	Level 3	Investments Measured at Net Asset Value (1)	Total	% of Total
Short-term investments	\$ 11,922,463	\$ -	\$ -	\$ -	\$ 11,922,463	5.4%
Fixed income	28,247,778	2,577,297	4,042,352	21,903,276	56,770,703	25.5
Equities:						
Domestic	37,753,732	-	-	22,625,101	60,378,833	27.0
Global	18,500,047	-	-	48,416,200	66,916,247	30.0
Alternatives:						
Hedged equity	-	-	-	15,324,465	15,324,465	6.9
Private equity/real assets	-	-	820,629	10,671,287	11,491,916	5.2
Total investments	96,424,020	2,577,297	4,862,981	118,940,329	222,804,627	100.0%
Receivable from trusts	-	-	447,020	-	447,020	
Total Assets at Fair Value	\$ 96,424,020	\$ 2,577,297	\$ 5,310,001	\$ 118,940,329	\$ 223,251,647	

(1) 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 these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.



# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table discloses certain additional information as of December 31, 2017 related to the Foundation's investments as described above that use net asset value per share and are not traded in an active market:

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Fixed income	\$ 36,206,890	\$ -	Monthly	5- to 30-day written notice or as of date set by investment manager
Domestic equity	27,811,858	-	Monthly to quarterly	6- to 60-day written notice or as of date set by investment manager
Global equity	72,537,180	-	Monthly to more than three years	6- to 180-day written notice or as of date set by investment manager
Hedged equity	23,723,492	-	Monthly to annually with lockup terms of full to partial redemption available on 12/31/2017 for some funds	30- to 100-day written notice or as of date set by investment manager
Private equity/ real assets	<u>11,226,673</u>	<u>8,097,994</u>	Illiquid	Illiquid
Total	\$ <u>171,506,093</u>	\$ <u>8,097,994</u>		

In addition to the unfunded commitments related to assets using net asset value per share, the Foundation also has \$775,000 in unfunded commitments as of December 31, 2017 related to two mission-related community investment promissory notes.

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 assets) for the years ended December 31, 2017 and 2016:

	<u>Fixed Income</u>	<u>Private Equity/Real Assets</u>	<u>Receivable from Trusts</u>	<u>Total</u>
Beginning balance - January 1, 2016	\$ 4,364,684	\$ 789,180	\$ 1,004,310	\$ 6,158,174
Total gains (losses) (realized/unrealized)	86,055	(35,325)	-	50,730
Total interest income	93,933	10,000	-	103,933
Change in value of split-interest agreements	-	-	66,133	66,133
Purchases/issuances	100,000	56,774	-	156,774
Settlements	(602,320)	-	(49,757)	(652,077)
Transfers out of Level 3	-	-	(573,666)	(573,666)
Ending balance - December 31, 2016	<u>4,042,352</u>	<u>820,629</u>	<u>447,020</u>	<u>5,310,001</u>
Total losses (realized/unrealized)	(67,771)	-	-	(67,771)
Total interest income	115,278	10,000	-	125,278
Change in value of split-interest agreements	-	-	(2,262)	(2,262)
Purchases/issuances	1,197,465	-	-	1,197,465
Settlements	(403,132)	(60,911)	(49,757)	(513,800)
Ending Balance - December 31, 2017	<u>\$ 4,884,192</u>	<u>\$ 769,718</u>	<u>\$ 395,001</u>	<u>\$ 6,048,911</u>

The transfer out of Level 3 during the year ended December 31, 2016 related to a change in trustee status which reclassified the assets to Level 1.

Realized and unrealized gains and losses on these investments are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

The Foundation invests in several commingled funds and limited partnerships. A portion of these funds and partnerships report income net of fees, and the Foundation follows the same practice. As a result, some of the fees paid to investment managers are reflected as a reduction of investment return and are not included in management and general expenses. Total investment management fees included in management and general expenses were \$1,258,069 in 2017 and \$950,582 in 2016.

The Foundation has contracted with a leading independent investment consulting firm to provide guidance on the investment strategy, investment managers and asset allocation. The fee paid to the investment consultant is based on invested assets of the Foundation. Total investment consulting fees included in management and general expenses were \$107,785 in 2017 and \$103,803 in 2016.

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 4 - OTHER INVESTMENTS

Other investments are comprised of investments the Foundation owns between 20% - 50% ownership and which the equity method is used to account for the financial interests in the following companies:

	<u>2017</u>	<u>2016</u>
Taproot Capital Fund, L3C	\$ 161,606	\$ 175,000
Evergreen Conservation Partners, L3C	<u>-</u>	<u>300,000</u>
Total	<u>\$ 161,606</u>	<u>\$ 475,000</u>

The High Meadows Fund, Inc., is a 50% partner of Taproot Capital Fund, L3C, which is a low-profit limited liability corporation with a mission to significantly further the charitable, educational and other exempt purposes of its tax-exempt members. The High Meadows Fund, Inc., has \$825,000 in unfunded commitments to Taproot Capital Fund, L3C, as of December 31, 2017.

In addition, the High Meadows Fund, Inc., was a 30% partner of Evergreen Conservation Fund as of December 31, 2016, which is a low-profit limited liability corporation with a mission to significantly further the charitable, educational and other exempt purposes of its tax-exempt members. This investment was liquidated in 2017.

### NOTE 5 - MISSION-RELATED INVESTMENTS

Since 2001, the Community Foundation's board has allocated 5% of the pooled investments to Vermont-based mission-related investments (MRIs) that focus on fostering positive social, economic or environmental change. The MRIs are structured in the form of equity, quasi-equity and debt and are deployed through intermediaries such as Community Development Financial Institutions (CDFIs), mutual funds and venture capital firms, or directly to local nonprofits or private companies.

The Foundation has traditionally focused its MRIs on affordable housing, job creation, environment, agriculture, childcare centers and community-based investments. In 2017, the Community Foundation launched a revised programmatic strategy focused on closing the opportunity gap faced by many Vermont children and families and Vermont communities. The new opportunity gap strategy will be incorporated into the MRI structure to provide investments along with the VCF grants and programmatic work.

Investment returns generated from the MRIs are both market rate and below market rate returns. The following is a summary of the MRIs by asset allocation for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 877,944	\$ 378,876
Fixed income	7,642,099	6,709,067
Private equity/real assets	<u>2,020,040</u>	<u>2,487,373</u>
Total Mission-Related Investments	<u>\$ 10,540,083</u>	<u>\$ 9,575,316</u>

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6 - CONTRIBUTIONS RECEIVABLE

The Foundation recognizes unconditional contributions and pledges when the written promise is made. The following is a summary of unconditional contributions receivable at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
To be received in less than one year	\$ 2,317,478	\$ 2,390,075
To be received in one to five years	8,009,333	8,957,907
To be received in over five years	1,998,451	3,998,451
	<u>12,325,262</u>	<u>15,346,433</u>
Less unamortized discount	<u>(885,871)</u>	<u>(1,222,300)</u>
Net Unconditional Contributions Receivable	<u>\$ 11,439,391</u>	<u>\$ 14,124,133</u>

Contributions receivable are discounted at rates ranging from 2% to 2.2% for the years ended December 31, 2017 and 2016.

### NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and building	\$ 2,818,584	\$ 2,708,945
Leasehold improvements	111,484	111,484
Office furniture and equipment	802,526	751,961
Vehicle	21,222	21,222
Construction in progress	-	48,769
	<u>3,753,816</u>	<u>3,642,381</u>
Less accumulated depreciation	<u>(1,397,111)</u>	<u>(1,250,201)</u>
Net Property and Equipment	<u>\$ 2,356,705</u>	<u>\$ 2,392,180</u>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$156,945 and \$132,440, respectively.

Construction in progress as of December 31, 2016 related to the installation of a new air ventilation system. This project was completed in 2017 with an additional \$20,867 in costs.

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 8 - SPLIT-INTEREST AGREEMENTS

#### Charitable Remainder and Lead Trusts

The Foundation is the beneficiary of various charitable remainder trusts for which the Foundation is the trustee. A charitable remainder trust provides for the payment of distributions to the donor 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. The trust is 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 year the trust is established. 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 ranging from 2.0% to 8.2% and applicable mortality tables.

The Foundation is also the beneficiary of several charitable lead trusts held by a third party. The present value of these receivables is reported as receivables from trusts on the consolidated statements of financial position.

#### Charitable Gift Annuity

The Foundation is the beneficiary of numerous charitable gift annuity agreements whereby assets were contributed to the Foundation; in exchange, the Foundation agrees to pay a stated dollar amount annually to the designated beneficiary. Upon the death of the beneficiary, the remaining assets are directed to a component fund held by the Community Foundation for the purpose directed by the charitable gift annuity agreement. The portion of the assets transferred that is 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 of the transfer. 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 ranging from 1.2% to 8.0% and applicable mortality tables. Annually, the Foundation reviews the actuarial assumptions and corresponding assets for each contract and maintains a reserve to address potential shortfalls. The Foundation maintained a reserve in 2017 and 2016 of \$62,475 and \$62,456, respectively.

The Foundation recognized contribution revenue of \$69,982 in 2017 and \$655,600 in 2016, in connection with establishing new split-interest agreements. The consolidated statements of financial position include the following amounts as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Charitable Remainder Trusts and Charitable Gift Annuities Included in Cash and Investments	\$ <u>16,581,421</u>	\$ <u>15,261,538</u>
Charitable Lead Trusts	\$ <u>395,001</u>	\$ <u>447,020</u>
Amounts Included in Temporarily Restricted Net Assets	\$ <u>6,945,514</u>	\$ <u>6,350,976</u>

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Foundation has also entered into certain other gift annuity agreements with donors under which the obligation to the donors has been satisfied through the purchase of commercial annuities from a qualified insurance company. The Foundation remains contingently liable for these obligations in the event of default by the insurance company.

### NOTE 9 - GRANTS

Grants authorized but unpaid as of year end are reported as liabilities. The following is a summary of grants authorized and payable at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
To be paid in less than one year	\$ 651,341	\$ 1,751,312
To be paid in one to five years	<u>320,000</u>	<u>314,000</u>
	971,341	2,065,312
Less discount	<u>(6,606)</u>	<u>(10,549)</u>
Net Unconditional Grants Payable	\$ <u>964,735</u>	\$ <u>2,054,763</u>

Grants payable are discounted at a rate of 2.11% and 2.07% as of December 31, 2017 and 2016, respectively.

### NOTE 10 - GRANT AND PROGRAM ADMINISTRATION

The Foundation administers grant decisions made by Foundation staff and as recommended by fund advisors, nonprofit organization fund advisors and the Foundation's supporting organizations. The costs associated with the administration of the grants are included in grant administration and related program activities in the consolidated statements of activities. Also included are program expenses related to the work of the Foundation's Supporting Organizations and such programs as the Vermont Women's Fund.

### NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions, gifts and income from investments that have time restrictions specified by the donor. At December 31, 2017 and 2016, temporarily restricted net assets are comprised of the following:

	<u>2017</u>	<u>2016</u>
Contributions receivable	\$ 11,439,391	\$ 14,124,133
Accumulated earnings on Endowment Funds subject to a time restriction	5,311,941	4,762,600
Split-interest agreements	<u>6,945,514</u>	<u>6,350,976</u>
	\$ <u>23,696,846</u>	\$ <u>25,237,709</u>

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from restrictions by satisfying the following time restrictions for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accumulated earnings on Endowment Funds subject to a time restriction	\$ 253,768	\$ 382,982
Split-interest agreements	440,253	365,855
Contributions receivable	<u>3,346,316</u>	<u>3,162,135</u>
	<u>\$ 4,040,337</u>	<u>\$ 3,910,972</u>

# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 13 - ENDOWMENT

The Foundation's Endowment includes both donor-restricted endowment funds and funds functioning as endowments (collectively called Endowment Funds). As described more fully in Note 1, net assets associated with Endowment Funds are classified and reported based on the existence or absence of donor or time restrictions.

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2016	\$ 150,643,293	\$ 27,044,435	\$ 177,687,728
Investment return:			
Investment income	2,283,620	376,804	2,660,424
Investment gains	10,433,546	1,145,511	11,579,057
Total investment return	<u>12,717,166</u>	<u>1,522,315</u>	<u>14,239,481</u>
Contributions	<u>26,157,925</u>	<u>1,234,369</u>	<u>27,392,294</u>
Appropriation for expenditure	<u>(17,561,860)</u>	<u>(3,910,972)</u>	<u>(21,472,832)</u>
Other changes:			
Change in split-interest agreements	-	(652,438)	(652,438)
Other income	442,840	-	442,840
Total other changes	<u>442,840</u>	<u>(652,438)</u>	<u>(209,598)</u>
Endowment net assets - December 31, 2016	<u>172,399,364</u>	<u>25,237,709</u>	<u>197,637,073</u>
Investment return:			
Investment income	2,286,147	395,285	2,681,432
Investment gains	24,616,102	2,857,786	27,473,888
Total investment return	<u>26,902,249</u>	<u>3,253,071</u>	<u>30,155,320</u>
Contributions	<u>44,302,457</u>	<u>733,146</u>	<u>45,035,603</u>
Appropriation for expenditure	<u>(19,740,581)</u>	<u>(4,040,337)</u>	<u>(23,780,918)</u>
Other changes:			
Change in split-interest agreements	-	(1,486,743)	(1,486,743)
Other income	504,861	-	504,861
Total other changes	<u>504,861</u>	<u>(1,486,743)</u>	<u>(981,882)</u>
Endowment Net Assets - December 31, 2017	<u>\$ 224,368,350</u>	<u>\$ 23,696,846</u>	<u>\$ 248,065,196</u>



# THE VERMONT COMMUNITY FOUNDATION, INC., AND AFFILIATED SUPPORTING ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 14 - SUPPORTING ORGANIZATIONS

Net assets of the supporting organizations are included in unrestricted net assets as follows as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
The High Meadows Fund, Inc.	\$ 19,957,535	\$ 17,455,248
The J. Warren and Lois McClure Foundation, Inc.	8,563,282	7,648,266
Permanent Fund for Vermont's Children, Inc.	15,149,298	17,344,119
Addison Community Athletics Foundation, Inc.	<u>1,312,092</u>	<u>1,194,483</u>
Total Supporting Organizations Net Assets	<u>\$ 44,982,207</u>	<u>\$ 43,642,116</u>

### NOTE 15 - MAJOR DONORS

In 2017, the Foundation received a substantial portion of its contributions from one donor. Contributions for the year ended December 31, 2017 from this donor were \$29,521,458 (60.0% of total contributions). There were no amounts due from this donor at December 31, 2017.

In 2016, the Foundation received a substantial portion of its contributions from one donor. Contributions for the year ended December 31, 2016 from this donor were \$10,500,000 (32.8% of total contributions). There were no amounts due from this donor at December 31, 2016.

### NOTE 16 - RETIREMENT PLANS

The Foundation has a 403(b)(7) retirement plan covering all employees electing to participate. The Foundation matches dollar for dollar employee contributions up to 3% of their W-2 wages. Contributions to the plan charged to operations totaled \$114,549 in 2017 and \$97,135 in 2016.

The Foundation has a 457(b) deferred compensation plan covering the Chief Executive Officer. The purpose of the plan is to retain a key employee by offering benefits comparable with similar organizations. Annual contributions to the plan are approved each year by the Board of Directors. The plan was not funded as of December 31, 2017 or December 31, 2016.

### NOTE 17 - SUBSEQUENT EVENT

On May 3, 2018, The Curtis Fund, Inc., previously known as the General Educational Fund Inc., founded by Emma Eliza Curtis, filed a request to terminate private foundation status with the IRS and to transition to a Type I supporting organization public charity by satisfying the requirements of Section 509(a)(3) as a supporting organization of the Community Foundation. The advanced ruling approving the change in status is expected in 2018. Upon receipt of approval from the IRS, The Curtis Fund, Inc., will be included in the consolidated financial statements, consistent with the Community Foundation's other Type I supporting organizations as outlined in Note 1. The estimated balance to be consolidated into the financial statements is approximately \$27,000,000.

# BlumShapiro

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## Independent Auditors' Report on Supplementary Information

To the Board of Directors  
Vermont Community Foundation, Inc.,  
and Affiliated Supporting Organizations  
Middlebury, Vermont

We have audited the consolidated financial statements of Vermont Community Foundation, Inc., and Affiliated Supporting Organizations as of and for the years ended December 31, 2017 and 2016, and our report thereon dated November 7, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of activities - supplemental disclosure are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

West Hartford, Connecticut  
November 7, 2018

**THE VERMONT COMMUNITY FOUNDATION, INC.,  
AND AFFILIATED SUPPORTING ORGANIZATIONS**

**CONSOLIDATING STATEMENTS OF ACTIVITIES - SUPPLEMENTAL DISCLOSURE  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017				2016			
	Vermont Community Foundation	Supporting Organizations	Adjustments and Eliminations (1)	Total	Vermont Community Foundation	Supporting Organizations	Adjustments and Eliminations (1)	Total
<b>Revenue</b>								
Contributions	\$ 45,071,308	\$ 3,952,763	\$ (843,013)	\$ 48,181,058	\$ 28,663,184	\$ 4,387,888	\$ (1,517,197)	\$ 31,533,875
Federal and state grants	-	1,012,969	-	1,012,969	-	476,710	-	476,710
Total contributions	45,071,308	4,965,732	(843,013)	49,194,027	28,663,184	4,864,598	(1,517,197)	32,010,585
Less contributions to nonprofit organization funds	(4,158,424)	-	-	(4,158,424)	(4,618,291)	-	-	(4,618,291)
Net contributions	40,912,884	4,965,732	(843,013)	45,035,603	24,044,893	4,864,598	(1,517,197)	27,392,294
Net realized and unrealized gains (losses) on investments	23,322,506	4,151,382	-	27,473,888	9,894,586	1,684,471	-	11,579,057
Investment income	2,118,532	562,900	-	2,681,432	2,119,039	541,384	-	2,660,423
Change in value of split-interest agreements	(1,486,743)	-	-	(1,486,743)	(652,438)	-	-	(652,438)
Other income	877,294	131,975	(504,408)	504,861	779,405	117,466	(454,030)	442,841
Net revenue	65,744,473	9,811,989	(1,347,421)	74,209,041	36,185,485	7,207,919	(1,971,227)	41,422,177
<b>Expenses</b>								
Program expenses:								
Grants approved, net	13,692,927	2,202,254	(843,013)	15,052,168	12,975,958	2,345,214	(1,517,197)	13,803,975
Less grants from nonprofit organization funds	(1,914,853)	-	-	(1,914,853)	(1,470,700)	-	-	(1,470,700)
Net grants	11,778,074	2,202,254	(843,013)	13,137,315	11,505,258	2,345,214	(1,517,197)	12,333,275
Grant administration and related program activities	849,595	4,417,166	-	5,266,761	757,524	3,813,956	-	4,571,480
Total program expenses	12,627,669	6,619,420	(843,013)	18,404,076	12,262,782	6,159,170	(1,517,197)	16,904,755
Supporting services:								
Management and general	3,284,121	1,515,387	(504,408)	4,295,100	2,632,639	1,494,885	(454,030)	3,673,494
Development	744,651	337,091	-	1,081,742	698,304	196,279	-	894,583
Total supporting services	4,028,772	1,852,478	(504,408)	5,376,842	3,330,943	1,691,164	(454,030)	4,568,077
Total expenses	16,656,441	8,471,898	(1,347,421)	23,780,918	15,593,725	7,850,334	(1,971,227)	21,472,832
<b>Increase (Decrease) in Net Assets</b>	49,088,032	1,340,091	-	50,428,123	20,591,760	(642,415)	-	19,949,345
<b>Net Assets - Beginning of Year</b>	153,994,957	43,642,116	-	197,637,073	133,403,197	44,284,531	-	177,687,728
<b>Net Assets - End of Year</b>	\$ 203,082,989	\$ 44,982,207	\$ -	\$ 248,065,196	\$ 153,994,957	\$ 43,642,116	\$ -	\$ 197,637,073

(1) Adjustments and Eliminations include intercompany transactions that are eliminated for consolidation purposes.