

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2015 AND 2014

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

80 Flanders Road, Suite 200  Westborough, Massachusetts 01581
Tel: 508.871.7178 Fax: 508.871.7179 www.ssbcpa.com

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Mission Statement

To connect people who care with causes that matter by providing simple, powerful and creative ways to give back to the community to help ensure Nantucket's vitality now and forever.

Our Vision

Our vision is to be a driving force in sustaining and improving the overall health and spirit of our community. By connecting donors with the community – and the community with our donors – we will build a collaboration that benefits both.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Community Foundation for Nantucket, Inc.
Nantucket, Massachusetts

We have audited the accompanying financial statements of Community Foundation for Nantucket, Inc. (a Massachusetts nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation for Nantucket, Inc. as of December 31, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
May 19, 2016

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2015 AND 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 1,555,854	\$ 1,119,542
Contributions Receivable	128,955	125,565
Prepaid Expenses	1,847	1,847
Total Current Assets	<u>1,686,656</u>	<u>1,246,954</u>
<u>NET PROPERTY AND EQUIPMENT</u>	<u>190</u>	<u>1,330</u>
<u>NON-CURRENT ASSETS:</u>		
Long-Term Investments	1,686,954	1,838,167
Endowment Investments	331,756	247,422
Contributions Receivable, Net of Discount	206,518	227,907
Total Non-Current Assets	<u>2,225,228</u>	<u>2,313,496</u>
<u>TOTAL ASSETS</u>	<u>\$ 3,912,074</u>	<u>\$ 3,561,780</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 21,274	\$ 23,017
Grants Payable	-	11,820
Other Liabilities	-	5,225
Agency Funds Held For Others	278,622	180,649
Total Current Liabilities	<u>299,896</u>	<u>220,711</u>
<u>TOTAL LIABILITIES</u>	<u>299,896</u>	<u>220,711</u>
<u>NET ASSETS:</u>		
Unrestricted Net Assets:		
Donor-Advised Funds	773,513	719,053
Designated Funds	114,749	89,352
Special Project Funds	147,773	181,984
Partner Funds	911,686	961,424
Scholarship Funds	448,496	491,418
Nantucket Fund	357,066	69,720
Endowment Funds	331,756	247,422
Operating Funds	191,666	227,224
Total Unrestricted Net Assets	3,276,705	2,987,597
Temporarily Restricted Net Assets	335,473	353,472
Total Net Assets	<u>3,612,178</u>	<u>3,341,069</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 3,912,074</u>	<u>\$ 3,561,780</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u>
<i>Gifts, Grants and Contributions:</i>			
Grants and Contributions	\$ 1,626,128	\$ 142,377	\$ 1,768,505
Donated Facilities	34,260	-	34,260
<i>Other Revenues:</i>			
Investment Return (Loss)	(1,783)	-	(1,783)
Other Revenue Received on Behalf of Funds	25,022	-	25,022
<i>Reclassification of Net Assets:</i>			
Satisfaction of Donor Restrictions	<u>160,376</u>	<u>(160,376)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>1,844,003</u>	<u>(17,999)</u>	<u>1,826,004</u>
<u>FUNCTIONAL EXPENSES:</u>			
Program Services	1,410,329	-	1,410,329
Administrative	108,295	-	108,295
Fund Raising	<u>36,271</u>	<u>-</u>	<u>36,271</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,554,895</u>	<u>-</u>	<u>1,554,895</u>
<u>TOTAL CHANGE IN NET ASSETS</u>	289,108	(17,999)	271,109
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>2,987,597</u>	<u>353,472</u>	<u>3,341,069</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 3,276,705</u>	<u>\$ 335,473</u>	<u>\$ 3,612,178</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL ACTIVITIES</u>
<i>Gifts, Grants and Contributions:</i>			
Grants and Contributions	\$ 2,216,326	\$ 215,760	\$ 2,432,086
<i>Other Revenues:</i>			
Investment Return	110,105	-	110,105
Other Revenue Received on Behalf of Funds	164,631	-	164,631
<i>Reclassification of Net Assets:</i>			
Satisfaction of Donor Restrictions	<u>86,050</u>	<u>(86,050)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>2,577,112</u>	<u>129,710</u>	<u>2,706,822</u>
<u>FUNCTIONAL EXPENSES:</u>			
Program Services	1,893,162	-	1,893,162
Administrative	86,716	-	86,716
Fund Raising	<u>29,483</u>	<u>-</u>	<u>29,483</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>2,009,361</u>	<u>-</u>	<u>2,009,361</u>
<u>TOTAL CHANGE IN NET ASSETS</u>	567,751	129,710	697,461
<u>NET ASSETS - BEGINNING OF YEAR, AS RESTATED</u> (Note 13)	<u>2,419,846</u>	<u>223,762</u>	<u>2,643,608</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 2,987,597</u>	<u>\$ 353,472</u>	<u>\$ 3,341,069</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>PROGRAM</u> <u>EXPENSES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
<i>Grants :</i>				
Donor-Advised Funds	\$ 236,070	\$ -	\$ -	\$ 236,070
Designated Funds	29,000	-	-	29,000
Special Project Funds	30,407	-	-	30,407
Partner Funds	443,307	-	-	443,307
Scholarship Funds	48,000	-	-	48,000
Endowment Funds	9,008	-	-	9,008
Nantucket Fund™	153,505	-	-	153,505
Less: Interfund Grants	<u>(107,613)</u>	<u>-</u>	<u>-</u>	<u>(107,613)</u>
Total Grants	<u>841,684</u>	<u>-</u>	<u>-</u>	<u>841,684</u>
Program Expenses on Behalf of Funds (Note 9)	426,646	-	-	426,646
<i>Operating Expenses :</i>				
Salaries and Wages	82,890	17,883	10,756	111,529
Payroll Taxes	6,680	1,441	867	8,988
Employee Benefits	8,874	1,479	1,480	11,833
Consultants and Professional Fees	9,469	17,735	4,735	31,939
Fiscal Administration and Technology Fees	-	33,079	-	33,079
Donated Facilities	25,463	5,493	3,304	34,260
Rent and Utilities	3,884	838	504	5,226
Insurance	809	1,223	404	2,436
Marketing and Promotional Expenses	-	12,800	12,800	25,600
Office Supplies and Expense	-	9,676	-	9,676
Website	1,799	300	300	2,399
Depreciation Expense	855	142	143	1,140
Dues and Subscriptions	-	1,134	-	1,134
Meetings and Conferences	1,276	979	978	3,233
Bank Fees and Miscellaneous	<u>-</u>	<u>4,093</u>	<u>-</u>	<u>4,093</u>
Total Operating Expenses	<u>141,999</u>	<u>108,295</u>	<u>36,271</u>	<u>286,565</u>
Total Functional Expenses	<u>\$ 1,410,329</u>	<u>\$ 108,295</u>	<u>\$ 36,271</u>	<u>\$ 1,554,895</u>
	<u>91%</u>	<u>7%</u>	<u>2%</u>	<u>100%</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>PROGRAM</u> <u>EXPENSES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
<i>Grants :</i>				
Donor-Advised Funds	\$ 158,282	\$ -	\$ -	\$ 158,282
Designated Funds	16,000	-	-	16,000
Special Project Funds	39,415	-	-	39,415
Partner Funds	152,508	-	-	152,508
Scholarship Funds	42,042	-	-	42,042
Endowment Funds	7,686	-	-	7,686
Nantucket Fund TM	116,885	-	-	116,885
Less: Interfund Grants	<u>(112,713)</u>	<u>-</u>	<u>-</u>	<u>(112,713)</u>
Total Grants	<u>420,105</u>	<u>-</u>	<u>-</u>	<u>420,105</u>
Program Expenses on Behalf of Funds <i>(Note 9)</i>	1,358,823	-	-	1,358,823
<i>Operating Expenses :</i>				
Salaries and Wages	78,372	13,062	13,062	104,496
Payroll Taxes	5,477	913	913	7,303
Employee Benefits	7,227	903	903	9,033
Consultants and Professional Fees	-	13,755	-	13,755
Fiscal Administration and Technology Fees	-	32,576	-	32,576
Rent and Utilities	4,377	730	730	5,837
Insurance	-	2,686	-	2,686
Marketing and Promotional Expenses	11,303	-	11,303	22,606
Office Supplies and Expense	-	7,076	-	7,076
Website	7,478	935	935	9,348
Depreciation Expense	-	1,141	-	1,141
Dues and Subscriptions	-	1,223	-	1,223
Meetings and Conferences	-	1,637	1,637	3,274
Bank Fees and Miscellaneous	<u>-</u>	<u>10,079</u>	<u>-</u>	<u>10,079</u>
Total Operating Expenses	<u>114,234</u>	<u>86,716</u>	<u>29,483</u>	<u>230,433</u>
Total Functional Expenses	<u>\$ 1,893,162</u>	<u>\$ 86,716</u>	<u>\$ 29,483</u>	<u>\$ 2,009,361</u>
	<u>94%</u>	<u>4%</u>	<u>2%</u>	<u>100%</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 271,109	\$ 697,461
<i>Adjustments to Reconcile the Above to Net Cash Provided by Operating Activities:</i>		
Net Realized/Unrealized (Gain) Loss on Investments	44,764	(74,193)
Depreciation Expense	1,140	1,141
<i>(Increase) Decrease in Current Assets:</i>		
Contributions Receivable	(3,390)	(45,890)
Prepaid Expenses	-	(44)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable	(1,743)	10,130
Grants Payable	(11,820)	1,305
Other Liabilities	(5,225)	(5,795)
Agency Funds Held for Others	97,973	8,448
<i>(Increase) Decrease in Non-Current Assets:</i>		
Contributions Receivable, Net of Discount	21,389	(83,820)
Net Adjustment	<u>143,088</u>	<u>(188,718)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>414,197</u>	<u>508,743</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sale of Investments	261,432	388,820
Purchase of Investments	<u>(239,317)</u>	<u>(559,720)</u>
Net Cash Flows from Investing Activities	<u>22,115</u>	<u>(170,900)</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	436,312	337,843
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>1,119,542</u>	<u>781,699</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 1,555,854</u>	<u>\$ 1,119,542</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION

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

NOTE 2 NATURE OF FUNDS

The Community Foundation for Nantucket is primarily funded through contributions and pledges from the general public. Contributions are made to various types of funds. The Foundation held and made grants from the following types of funds for the years presented:

Donor-Advised Funds:

The Foundation offers several types of funds that enable donors to identify funding opportunities aligned with their values and charitable interests. Donor-Advised Funds allow donors to recommend grant recipients, subject to the Foundation’s diligence and approval. Collectively, these funds granted \$236,070 and \$158,282 for charitable purposes during 2015 and 2014, respectively, including grants to other funds at the Foundation.

Nantucket Fund:

Through the Nantucket Fund™, donors can contribute funds to address community needs. This fund primarily serves as a permanent charitable resource for Nantucket. It grows through community support and provides much-needed funding for local programs and services. It allows the Foundation to act strategically to improve the community by addressing the most urgent needs. The Nantucket Fund™ granted \$153,505 and \$116,885 to charitable organizations on Nantucket during 2015 and 2014, respectively.

Field of Interest Funds:

Overall, Field of Interest Funds enable donors to support a broad charitable purpose or a category of interest (e.g., mental health, animal welfare, arts, education, human services) and/or target populations (e.g., youth, immigrants, senior citizens). Field of Interest funds fall into three sub-categories:

General Field of Interest Funds: Like the Nantucket Fund, provides funding for local programs and services, but only makes grants to charitable organizations aligned with the purpose or category of interest fund. CFN had no General Field of Interest Funds during the years presented.

Foundation Partners: When the Trustees believe there is a long-term need to maintain a fund with a specific purpose or category of interest and there is a group in the local community that will maintain a leadership role, they will designate the fund a “Foundation Partner” fund. Examples include the Behavioral Health Task Force Fund. Foundation Partner Funds distributed \$443,307 and \$152,508 to their respective projects during 2015 and 2014, respectively.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 2 *(Continued)*

Project Funds: Additionally, certain special project funds are categorized as Field of Interest Funds. Although the primary purpose of the Foundation is to build endowment funds to secure the future of charitable giving on Nantucket, the Trustees are aware that there is sometimes a short-term need for funding to carry out a project (e.g., a bike path, landscape beautification) that will be a long-term benefit to Nantucket. In other cases, a worthy organization is in the process of filing for charitable status and needs to receive donations and process costs associated with their program while their 501(c)(3) application is pending. In such cases, the Foundation has the ability to establish a special project Field of Interest Fund as a service to the community. This type of Field of Interest Fund leaves the sponsoring group free to concentrate on fundraising and completing the project and the Foundation handles the administration. Together, the special project Field of Interest Funds distributed \$189,697 and \$1,195,158 during 2015 and 2014, respectively, to their respective projects through a combination of grants and *Program Expenses on Behalf of Funds*. Examples of special project Field of Interest Funds include the Nantucket Book Festival, the Nantucket Music Festival and White Heron Theatre. The expenses associated with these projects and programs are not a part of the operating expense of the Foundation, but the expenses are paid from the funds received that were specifically donated to the special project Field of Interest Fund.

Scholarship Funds:

The Foundation administers 12 scholarship programs, all of which are designated for residents of Nantucket. During 2015 and 2014, the amounts awarded from scholarship funds totaled \$48,000 and \$42,042, respectively. During 2015, scholarships were received by 20 Nantucket students and during 2014, \$32,000 was awarded to 15 students and \$10,042 was awarded to support a program at Nantucket High School.

Designated Funds:

The Foundation administers Designated Funds that benefit a specific charitable organization(s). Designated Funds distributed \$29,000 and \$16,000 to their respective areas of focus during 2015 and 2014, respectively. Designated Funds can only make grants to designated nonprofit organizations.

Board-Designated Endowment Funds:

The Foundation's Endowment Funds have been established to support the operating budget of the Foundation. As discussed in Note 3, the Board of Trustees has made a commitment to build an endowment to secure the Foundation's future. During the year ended December 31, 2015, the Foundation transferred \$100,000 from its Operating Fund to its Endowment Fund. For the years ended December 31, 2015 and 2014, the Board appropriated \$9,008 and \$7,686, respectively, from its Endowment Funds for current operations, consistent with its endowment spending policy.

Operating Funds:

The Foundation operates with a full-time Executive Director and a part-time staff. Additional services related to investment management, accounting, administration and information technology are provided under an agreement with Greater Horizons, a subsidiary of the Greater Kansas City Community Foundation. Funds for administration and the Foundation's community leadership activities are sourced from administrative fees, contributions to the Foundation's Operating Fund and contributions from the Foundation's Endowment Funds (in accordance with its annual spending policy).

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting:

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

Fair Value of Financial Instruments:

The Foundation reports required types of financial instruments in accordance with fair value accounting standards. 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. These standards require an entity to maximize the use of observable inputs (such as quote prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting, depending on lock-up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 3 *(Continued)*

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The primary use of fair value measures in the Foundation's financial statements are the recurring measurement of the Foundation's investments. There have been no changes to this valuation methodology.

Financial Statement Presentation:

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

Unrestricted Net Assets - consists of assets, public support and program revenues which are available and used for operations, grant-giving and program expenses on behalf of non-agency funds. Unrestricted net assets represents the portion of net assets of the Foundation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Generally accepted accounting principles provide that if the governing body of an organization has the unilateral power to redirect the use of donor contributions to another beneficiary, such contributions should be classified as unrestricted net assets. The Foundation's governing documents and fund agreements give the Foundation's Board of Trustees variance power to modify donor instructions that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of this variance power, most contributions are classified as unrestricted net assets for financial statement purposes. In addition, unrestricted net assets of the Foundation include funds designated as an endowment by the Board of Trustees.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Foundation. Resources of this nature originate from gifts, grants, bequests, and investment income earned on restricted funds. The Foundation's temporarily restricted net assets are comprised of amounts due under multi-year pledge commitments. These assets are classified as temporarily restricted due to time restrictions, as the assets will not become available for the Foundation's use until the time a stated event occurs. Once the event occurs (the time which the pledge becomes due), these assets are subject to the same variance power as those aforementioned and are reclassified to unrestricted net assets.

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Foundation to expend part or all of the income derived from the donated assets. For the years presented, the Foundation did not have any assets of this nature.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 3 *(Continued)*

Endowment Funds:

As required by the FASB Accounting Standards CodificationTM, the Foundation follows the guidance on the net asset classification of donor-restricted endowment funds for nonprofits that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Commonwealth of Massachusetts UPMIFA establishes law for the management of investment of donor-restricted endowment funds. For the years presented, the Foundation did not hold any donor-restricted Endowment Funds; however, the Foundation has designated by action of the Board of Trustees certain funds to function as Endowment Funds. The primary long-term objective of the Endowment Investment portfolio is to seek competitive market returns so as to preserve and grow the capital of funds, provide cash flows to fund distributions and to preserve the purchasing power of the funds to meet charitable needs of the Foundation now and those in the future. The current spending policy from the Endowment Fund(s) to the Foundation is to annually appropriate 4% of the average trailing 36 months' market value of the fund(s) to support current operations of the Foundation.

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Contributions Receivable:

Contributions Receivable represents multi-year promises to give. Receivables are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year. Management periodically reviews specific promises to give and agreements to determine if any balances are uncollectible. Management believes that all receivables are collectible; therefore, no allowance for doubtful amounts has been established. If balances due are determined to be uncollectible in subsequent periods, an allowance will be established at that time. For the years ended December 31, 2015 and 2014, there were no losses on uncollectible receivables.

Property and Equipment:

Property, equipment, furnishing and improvement purchases in excess of \$1,000 are capitalized at cost, if purchased, or if donated, at fair value on the date of receipt. Expenditures for maintenance repairs and renewals are charged to expense as incurred, whereas, major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged against income over the estimated useful lives of the assets as expressed in terms of years. As of December 31, 2015 and 2014, property and equipment consists of computer equipment and software with an original book value of \$3,421 and accumulated depreciation of \$3,231 and \$2,091, respectively (depreciated over a three-year estimated useful life).

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 3 *(Continued)*

Long-Term and Endowment Investments:

The Foundation maintains its investments in pooled investment portfolios with Greater Horizons, a subsidiary of the Greater Kansas City Community Foundation. Amounts held in these pooled funds are valued at net asset value which approximates fair value. Investment earnings, unrealized and realized gains/losses and investment expenses are allocated monthly on a pro rata basis representative of the Foundation's percentage of ownership in each pooled fund, as adjusted for additions to or deductions from the account. As the intent is to hold these funds for long-term purposes, the Foundation reports its investments in the pooled funds as non-current.

Agency Funds Held for Others ("Organizational Funds"):

As required under generally accepted accounting principles, if a nonprofit organization establishes with its own funds, a fund at the Foundation for its own benefit, the transfer of assets to the Foundation is not considered contribution revenue to the Foundation and is accounted for as a liability. Contributions to agency funds and income, expenses, realized and unrealized gains/losses on those funds are not included in the Statement of Activities. Organizational Funds are held on behalf of Nantucket nonprofit organizations in order to allow them to access the Foundation's pooled investment services.

Contributions, Gifts and Grants:

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

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

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material. The Foundation updates its discount rate to the year-end Treasury Yield annually. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets. Based on the variance power held by the Foundation, for the years presented, all contributions, gifts and grants are considered unrestricted with the exception of the inherent time restriction on multi-year pledges.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 3 *(Continued)*

Donated Goods, Facilities and Services:

As required by the *FASB Accounting Standards Codification*TM, the Community Foundation of Nantucket, Inc. maintains a policy whereby the value of the donated goods, facilities and services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recognized as revenue on the Statements of Activities and are reported as expenses on the Statements of Functional Expenses. During 2015, the Foundation rented office space below market rates. Management has determined that the fair value of its office space rent is approximately \$3,000 per month (\$36,000 annually) and the Foundation paid \$1,740 in rent during 2015. Accordingly, the Foundation has recognized the rent differential of \$34,260 as *Donated Facilities* in its accompanying financial statements.

Grants Expense and Grants Payable:

The Foundation recognizes grants expense at the time the Board of Trustees approves awards and all significant conditions are met. As of December 31, 2015, all grants awarded during the year had been paid in full and all *Grants Payable* as of December 31, 2014 were paid in 2015.

Functional Expenses:

Community Foundation for Nantucket, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated based on space and time usage. Supporting services are those related to operating and managing CFN and its programs on a day-to-day basis.

Supporting services have been sub-classified as follows:

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

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of donated funds.

NOTE 4 CONTRIBUTIONS RECEIVABLE

As of December 31, 2015 and 2014, *Contributions Receivable* were discounted to present value at effective annual interest rates ranging from 1.65% to 1.76% and were due for collections as follows:

	<u>2015</u>	<u>2014</u>
Receivables Due in Less than One Year	\$128,955	\$125,565
Receivables Due in One to Five Years	<u>217,660</u>	<u>240,635</u>
Total Contributions Receivable	346,615	366,200
Less: Discount to Present Value	<u>(11,142)</u>	<u>(12,728)</u>
Net Contributions Receivable	<u>\$335,473</u>	<u>\$353,472</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 5 INVESTMENTS

As of December 31, 2015 and 2014, investment costs and unrealized gains and losses for the Foundation's pooled investment funds held at Greater Horizons were as follows:

<u>Fund Type</u>	<u>December 31, 2015</u>			<u>Fair Value (Level 2)</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized (Losses)</u>	
GH – Equity Pool	\$1,046,336	\$24,797	\$ -	\$1,071,133
GH – Short-Term Fixed Income Pool	564,984	-	(3,431)	561,553
GH – Intermediate Fixed Income Pool	373,339	684	-	374,023
GH – Other	<u>12,165</u>	<u>-</u>	<u>(164)</u>	<u>12,001</u>
Total	<u>\$1,996,824</u>	<u>\$25,481</u>	<u>\$(3,595)</u>	<u>\$2,018,710</u>

<u>Fund Type</u>	<u>December 31, 2014</u>			<u>Fair Value (Level 2)</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized (Losses)</u>	
GH – Equity Pool	\$1,033,765	\$63,710	\$ -	\$1,097,475
GH – Short-Term Fixed Income Pool	578,759	1,862	-	580,621
GH – Intermediate Fixed Income Pool	376,125	8,450	-	384,575
GH – Alternative Investment Pool	8,510	4,550	-	13,060
GH – Other	<u>9,858</u>	<u>-</u>	<u>-</u>	<u>9,858</u>
Total	<u>\$2,007,017</u>	<u>\$78,572</u>	<u>\$ -</u>	<u>\$2,085,589</u>

The value of the Foundation's investment in the pooled fund is determined using net asset value ("NAV") as a "practical expedient". The practical expedient allows net asset value per share to represent fair value for financial reporting purposes when the criteria for using this method are met. Assets valued with the NAV practical expedient are Level 2 or 3 depending on the Foundation's ability to redeem the investment at or close to the measurement date. The Foundation has the ability to redeem the pooled investments at any time and has therefore categorized these investments as Level 2 investments within the fair value hierarchy.

Investments are classified as follows for the years presented:

<u>Financial Statement Classification</u>	<u>2015</u>	<u>2014</u>
Long-Term Investments	\$1,686,954	\$1,838,167
Investment Fees	<u>331,756</u>	<u>247,422</u>
Total Investments	<u>\$2,018,710</u>	<u>\$2,085,589</u>

Investment activity for the years presented consists of the following:

<u>Components of Investment Return</u>	<u>2015</u>	<u>2014</u>
Interest and Dividends	\$ 48,268	\$ 40,598
Investment Fees	(5,287)	(4,686)
Net Realized/Unrealized Gain (Loss) on Investments	<u>(44,764)</u>	<u>74,193</u>
Investment Return (Loss)	<u>\$ (1,783)</u>	<u>\$110,105</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 6 AGENCY FUNDS HELD FOR OTHERS (“ORGANIZATIONAL FUNDS”)

Organizational transactions during the year ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Organizational Funds Held for Others, January 1	\$180,649	\$172,201
Amounts Received on Behalf of Others	100,084	425
Earnings Allocated to Agency Accounts	646	10,280
CFN Management Fee	(2,290)	(1,910)
Investment Management Fees	<u>(467)</u>	<u>(347)</u>
Organizational Funds Held for Others, December 31	<u>\$278,622</u>	<u>\$180,649</u>

NOTE 7 NET ASSETS

Activities by fund for the year ended December 31, 2015 and 2014 are as follows:

<u>Fund Type</u>	<u>January 1</u>	<u>Inflows*</u>	<u>Outflows*</u>	<u>December 31, 2015</u>	
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Donor-Advised Funds	\$ 719,053	\$ 306,161	\$ (251,701)	\$ 773,513	\$ -
Designated Funds	89,352	57,746	(32,349)	114,749	-
Special Project Funds	181,984	155,486	(189,697)	147,773	-
Partner Funds	961,424	678,841	(728,579)	911,686	-
Scholarship Funds	491,418	15,805	(58,727)	448,496	-
Nantucket Fund	200,456	467,471	(158,338)	357,066	152,523
Endowment Funds	247,422	98,523	(14,189)	331,756	-
Operating Funds	<u>449,960</u>	<u>273,921</u>	<u>(349,265)</u>	<u>191,666</u>	<u>182,950</u>
Total	3,341,069	2,053,954	(1,782,845)	3,276,705	335,473
Less: Interfund Transactions	<u>-</u>	<u>(207,529)</u>	<u>207,529</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,341,069</u>	<u>\$1,846,425</u>	<u>\$(1,575,316)</u>	<u>\$3,276,705</u>	<u>\$335,473</u>
<u>December 31, 2014</u>					
<u>Nature of Restriction</u>	<u>January 1</u>	<u>Inflows*</u>	<u>Outflows*</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Donor-Advised Funds	\$ 557,503	\$ 334,371	\$ (172,821)	\$ 719,053	\$ -
Designated Funds	95,645	11,792	(18,085)	89,352	-
Special Project Funds	112,279	1,264,863	(1,195,158)	181,984	-
Partner Funds	806,942	522,878	(368,396)	961,424	-
Scholarship Funds	470,941	73,273	(52,796)	491,418	-
Nantucket Fund	6,439	318,097	(124,080)	69,720	130,736
Endowment Funds	239,424	23,289	(15,291)	247,422	-
Operating Funds	<u>354,435</u>	<u>319,177</u>	<u>(223,652)</u>	<u>227,224</u>	<u>222,736</u>
Total	2,643,608	2,867,740	(2,170,279)	2,987,597	353,472
Less: Interfund Transactions	<u>-</u>	<u>(160,918)</u>	<u>160,918</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,643,608</u>	<u>\$2,706,822</u>	<u>\$(2,009,361)</u>	<u>\$2,987,597</u>	<u>\$353,472</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 7 *(Continued)*

*Inflows include contributions, investment returns and other revenue received on behalf of the funds. Outflows include grants awarded, program expenditures paid on behalf of funds and administrative fees.

Endowment Funds:

The following schedule summarizes the change in the Board-Designated Endowment Funds, which are reported as unrestricted net assets, for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Endowment Net Assets, January 1	\$247,422	\$239,424
Contributions*	100,000	7,450
Investment Return (Loss), Net	(2,063)	15,349
Administration Fee	(4,595)	(3,705)
Other Adjustments	-	(3,410)
Appropriation for Expenditures	<u>(9,008)</u>	<u>(7,686)</u>
Endowment Net Assets, December 31	<u>\$331,756</u>	<u>\$247,422</u>

*2015 contributions represent an interfund gift from the Foundation's Operating Fund.

NOTE 8 CONDITIONAL COMMITMENTS

During 2015, a generous donor made a challenge grant of \$150,000 over three years towards operations, contingent upon the Foundation receiving \$200,000 annually from additional donors to cover operating costs. In addition, this donor made a capstone pledge of \$250,000 that will be paid to the Foundation when it reaches the \$4,750,000 mark for the Nantucket Fund™. As of December 31, 2015, aggregate conditional commitments totaling \$400,000 have not been recognized in the accompanying financial statements, as the conditions upon which the funding depends had not been met.

NOTE 9 PROGRAM EXPENSES ON BEHALF OF FUNDS

Under certain fund agreements, the Foundation will pay expenses directly on behalf of the fund in accordance with the charitable purpose for which the fund was established. For the years presented, program expenses were paid on behalf of funds for the following projects and purposes:

	<u>2015</u>	<u>2014</u>
Community Festivals and Events	\$ -	\$1,068,245
Community Programs/Projects and Other Charitable Initiatives	<u>426,646</u>	<u>290,578</u>
Total Program Expenses on Behalf of Funds	<u>\$426,646</u>	<u>\$1,358,823</u>

NOTE 10 MANAGEMENT CONSULTING AGREEMENT

The Foundation is a party to a contractual agreement with Greater Horizons to provide various management services. The agreement is reviewed annually on or before January 1. If necessary, any mutually agreed-upon changes to services and fees will result in an amendment to the contract at that time. Either party may terminate this agreement, with or without cause, upon 60 days advance written notice to the other party.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 10 *(Continued)*

Fees paid to Greater Horizons for these services are reported as *Fiscal Administration and Technology Fees* in the accompanying Statements of Functional Expenses.

NOTE 11 LEASE AGREEMENT

The Foundation was a party to a lease agreement for a cottage located in Nantucket. The lease term was October 1, 2014 through June 1, 2015 and included a monthly rent payment of \$500. The Foundation was able to terminate this lease prior to its expiration and entered into a new lease effective May 1, 2015. The lease is a month-to-month tenancy-at-will with nominal amounts due. As discussed in Note 3, the Foundation has reflected the fair value of its office space in excess of amounts paid as *Donated Facilities* in the accompanying financial statements.

NOTE 12 CONCENTRATIONS

Cash and Cash Equivalents:

Cash balances are held in three high-quality local banks in checking and money market accounts. Cash deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per institution. These financial institutions are also members of the Depositors Insurance Fund, which covers in full deposits in excess of FDIC limits. Management considers credit risk on cash to be low.

Investments:

The Foundation’s investments in the Greater Horizon Investment Pools are held in professionally managed money market, equity and fixed-income mutual funds and alternative investment funds (during 2014) that contain various types of marketable securities. The Foundation's investments are exposed to various risks, such as fluctuations in market value, and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances. The Foundation’s investment performance is reviewed by the Board of Trustees on a periodic basis.

Revenue and Program Expenses on Behalf of Funds:

For the year ended December 31, 2014, grants and contributions received on behalf of one Field of Interest Project Fund accounted for 36% of total support and revenue. Additionally, expenses paid on behalf of this fund accounted for approximately 49% of total expenses for the year. There were no such concentrations for the year ended December 31, 2015.

Contributions Receivable:

As of December 31, 2015 and 2014, amounts due under multi-year commitments from two donors accounted for 44% and 43% of total *Contributions Receivable*, respectively.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(Continued)

NOTE 13 RESTATEMENT OF OPENING NET ASSETS

Management restated its opening net assets as of January 1, 2014 to properly report the balance due on multi-year commitments as temporarily restricted net assets as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Net Assets</u>
Net Assets as of January 1, 2014	\$2,643,608	\$ -	\$2,643,608
Restatement of Time-Restricted Net Assets	<u>(223,762)</u>	<u>223,762</u>	<u>-</u>
*Net Assets as of January 1, 2014 (as Restated)	<u>\$2,419,846</u>	<u>\$223,762</u>	<u>\$2,643,608</u>

*The restatement of opening net assets has no effect on total net assets as of January 1, 2014.

NOTE 14 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through May 19, 2016, the date which the financial statements were available for issue, and noted no material events which met the recognition criteria.