

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2016 AND 2015

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNITY FOUNDATION FOR NANTUCKET, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

Mission Statement

Our mission is to strengthen Nantucket now and for future generations through informed philanthropy and community leadership.

In pursuit of this mission we act as a:

Steward - by creating and managing funds to ensure a legacy for charitable solutions

Grant Maker - by awarding grants through the [Nantucket Fund™](#) and donor-directed funds that respond to pressing needs

Charitable Resource - by maintaining in-depth knowledge of the non-profit sector, and by providing resources for donors, non-profits, and the community

Catalyst - by mobilizing community leadership to affect collaborative solutions for Nantucket's most critical issues

Our Vision

We see a Nantucket where everyone - equally and inclusively –

- *has a place to call home,*
- *has support when coping with personal struggles,*
- *knows their children are safe and active during the work day, can rely on year-round, affordable public transportation,*
- *and may age gracefully with trust in the services they need and deserve.*

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015 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 11, 2017

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 1,963,843	\$ 1,555,854
Contributions Receivable	195,092	128,955
Prepaid Expenses	1,782	1,847
Total Current Assets	<u>2,160,717</u>	<u>1,686,656</u>
<u>NET PROPERTY AND EQUIPMENT</u>	<u>-</u>	<u>190</u>
<u>NON-CURRENT ASSETS:</u>		
Long-Term Investments	4,294,778	2,018,710
Contributions Receivable, Net of Discount	318,460	206,518
Total Non-Current Assets	<u>4,613,238</u>	<u>2,225,228</u>
<u>TOTAL ASSETS</u>	<u>\$ 6,773,955</u>	<u>\$ 3,912,074</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 14,233	\$ 21,274
Agency Funds Held For Others	288,266	278,622
Total Current Liabilities	<u>302,499</u>	<u>299,896</u>
<u>TOTAL LIABILITIES</u>	<u>302,499</u>	<u>299,896</u>
<u>NET ASSETS:</u>		
Unrestricted Net Assets:		
Donor-Advised Funds	2,824,047	773,513
Designated Funds	218,275	114,749
Special Project Funds	334,200	147,773
Partner Funds	966,660	911,686
Scholarship Funds	460,338	448,496
Nantucket Fund	877,051	357,066
Endowment Funds	-	331,756
Operating Funds	277,333	191,666
Total Unrestricted Net Assets	5,957,904	3,276,705
Temporarily Restricted Net Assets	513,552	335,473
Total Net Assets	<u>6,471,456</u>	<u>3,612,178</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 6,773,955</u>	<u>\$ 3,912,074</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

<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	\$ 5,051,408	\$ 269,277	\$ 5,320,685
Donated Facilities	36,000	-	36,000
<i>Other Revenues:</i>			
Investment Return	125,229	-	125,229
Other Revenue Received on Behalf of Funds	134,374	-	134,374
<i>Reclassification of Net Assets:</i>			
Satisfaction of Donor Restrictions	91,198	(91,198)	-
 <u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	 <u>5,438,209</u>	 <u>178,079</u>	 <u>5,616,288</u>
 <u>FUNCTIONAL EXPENSES:</u>			
Program Services	2,538,328	-	2,538,328
Administrative	137,701	-	137,701
Fund Raising	80,981	-	80,981
 <u>TOTAL FUNCTIONAL EXPENSES</u>	 <u>2,757,010</u>	 <u>-</u>	 <u>2,757,010</u>
 <u>CHANGE IN NET ASSETS</u>	 <u>2,681,199</u>	 <u>178,079</u>	 <u>2,859,278</u>
 <u>NET ASSETS - BEGINNING OF YEAR</u>	 <u>3,276,705</u>	 <u>335,473</u>	 <u>3,612,178</u>
 <u>NET ASSETS - END OF YEAR</u>	 <u>\$ 5,957,904</u>	 <u>\$ 513,552</u>	 <u>\$ 6,471,456</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	160,376	(160,376)	-
<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	36,271	-	36,271
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,554,895</u>	<u>-</u>	<u>1,554,895</u>
<u>CHANGE IN NET ASSETS</u>	<u>289,108</u>	<u>(17,999)</u>	<u>271,109</u>
<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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<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	\$ 798,922	\$ -	\$ -	\$ 798,922
Partner Funds	734,363	-	-	734,363
Nantucket Fund™	203,731	-	-	203,731
Designated Funds	3,626	-	-	3,626
Special Project Funds	15,517	-	-	15,517
Scholarship Funds	54,000	-	-	54,000
Less: Interfund Grants	<u>(59,737)</u>	<u>-</u>	<u>-</u>	<u>(59,737)</u>
Total Grants	<u>1,750,422</u>	<u>-</u>	<u>-</u>	<u>1,750,422</u>
Program Expenses on Behalf of Funds (Note 9)	<u>616,769</u>	<u>-</u>	<u>-</u>	<u>616,769</u>
<i>Operating Expenses:</i>				
Salaries and Wages	113,122	39,548	13,765	166,435
Payroll Taxes	9,624	2,076	1,249	12,949
Employee Benefits	9,265	1,544	1,544	12,353
Consultants and Professional Fees	-	12,850	42,992	55,842
Fiscal Administration and Technology Fees	-	33,733	-	33,733
Donated Facilities	24,468	8,554	2,978	36,000
Rent and Utilities	2,475	865	302	3,642
Insurance	1,069	1,213	131	2,413
Marketing and Promotional Expenses	-	17,459	17,459	34,918
Office Supplies and Expense	-	9,903	-	9,903
Website	1,305	218	218	1,741
Depreciation Expense	-	190	-	190
Dues and Subscriptions	-	4,169	-	4,169
Meetings and Conferences	2,055	343	343	2,741
Bank Fees and Miscellaneous	<u>7,754</u>	<u>5,036</u>	<u>-</u>	<u>12,790</u>
Total Operating Expenses	<u>171,137</u>	<u>137,701</u>	<u>80,981</u>	<u>389,819</u>
Total Functional Expenses	<u>\$ 2,538,328</u>	<u>\$ 137,701</u>	<u>\$ 80,981</u>	<u>\$ 2,757,010</u>
	<u>92%</u>	<u>5%</u>	<u>3%</u>	<u>100%</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
Partner Funds	443,307	-	-	443,307
Nantucket Fund™	153,505	-	-	153,505
Designated Funds	29,000	-	-	29,000
Special Project Funds	30,407	-	-	30,407
Scholarship Funds	48,000	-	-	48,000
Endowment Funds	9,008	-	-	9,008
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)	<u>426,646</u>	<u>-</u>	<u>-</u>	<u>426,646</u>
<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.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ <u>2,859,278</u>	\$ <u>271,109</u>
<i>Adjustments to Reconcile the Above to Net Cash Provided by Operating Activities:</i>		
Net Realized/Unrealized (Gain) Loss on Investments	(71,823)	44,764
Depreciation Expense	190	1,140
<i>(Increase) Decrease in Current Assets:</i>		
Contributions Receivable	(66,137)	(3,390)
Prepaid Expenses	65	-
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable	(7,041)	(1,743)
Grants Payable	-	(11,820)
Other Liabilities	-	(5,225)
Agency Funds Held for Others	9,644	97,973
<i>(Increase) Decrease in Non-Current Assets:</i>		
Contributions Receivable, Net of Discount	<u>(111,942)</u>	<u>21,389</u>
Net Adjustment	<u>(247,044)</u>	<u>143,088</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>2,612,234</u>	<u>414,197</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sale of Investments	681,507	261,432
Purchase of Investments	<u>(2,885,752)</u>	<u>(239,317)</u>
Net Cash Flows from Investing Activities	<u>(2,204,245)</u>	<u>22,115</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	<u>407,989</u>	<u>436,312</u>
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>1,555,854</u>	<u>1,119,542</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 1,963,843</u>	<u>\$ 1,555,854</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, Inc. 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 \$798,922 and \$236,070 for charitable purposes during 2016 and 2015, 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. As further discussed below, effective January 1, 2016, the Board of Trustees voted to merge the Board-Designated Endowment Funds into The Nantucket Fund™. The Nantucket Fund™ granted \$203,731 and \$153,505 to charitable organizations on Nantucket during 2016 and 2015, 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 \$734,363 and \$443,307 to their respective projects during 2016 and 2015, respectively.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(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 tax-exempt 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 \$180,402 and \$189,697 during 2016 and 2015, 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 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 2016 and 2015, the amounts awarded from scholarship funds totaled \$54,000 and \$48,000, respectively. During 2016 and 2015, scholarships were received by 23 and 20 Nantucket students, respectively.

Designated Funds:

The Foundation administers Designated Funds that benefit a specific charitable organization(s). Designated Funds distributed \$3,626 and \$29,000 to their respective areas of focus during 2016 and 2015, respectively. Designated Funds can only make grants to designated nonprofit organizations.

Board-Designated Endowment Funds:

Through December 31, 2015, the Foundation held Board-Designated Endowment Funds to support the operating budget of the Foundation. During the year ended December 31, 2015, the Foundation transferred \$100,000 from its Operating Fund to its Endowment Fund and \$9,008 was appropriated from its Endowment Funds for current operations, consistent with its endowment spending policy. Effective January 1, 2016, the Board voted to merge its Board-Designated Endowment Fund into The Nantucket Fund™.

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, 2016 AND 2015

(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, 2016 AND 2015

(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, investment return and other 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, through 2015, unrestricted net assets of the Foundation include funds designated as an endowment by the Board of Trustees. These funds were transferred to The Nantucket FundTM on January 1, 2016.

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 may include 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, 2016 AND 2015

(Continued)

NOTE 3 *(Continued)*

Endowment Funds:

As required by the FASB Accounting Standards Codification™, 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, during 2015, the Foundation held two Board-designated endowment funds. As of January 1, 2016, these two funds were merged into The Nantucket Fund™, which serves as the Foundation's discretionary grant-giving fund as well as an invested fund to supplement operations through a Board-approved spending policy. The primary long-term objective of the 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 Nantucket Fund™, is to annually appropriate 5% of the average trailing 12 months' market value of the fund to support current operations of the Foundation along with its significant annual discretionary grant giving.

Cash Equivalents:

For purposes of the Statements 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, 2016 and 2015, 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, 2016, all property and equipment held by the Foundation was fully depreciated. As of December 31, 2015, property and equipment consists of computer equipment and software with an original book value of \$3,421 and accumulated depreciation of \$3,231 (depreciated over a three-year estimated useful life).

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(Continued)

NOTE 3 *(Continued)*

Long-Term 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. Agency funds, although considered an exchange transaction under generally accepted accounting principles, are considered funds of the Foundation and fall under the same set of responsibilities and variance power provisions as all other funds of the Foundation.

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, 2016 AND 2015

(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 \$36,000 and \$34,260 for the years ended December 31, 2016 and 2015, respectively, as *Donated Facilities* in the 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, 2016 and 2015, all grants awarded during the year had been paid in full.

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, 2016 and 2015, *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>2016</u>	<u>2015</u>
Receivables Due in Less than One Year	\$195,092	\$128,955
Receivables Due in One to Five Years	<u>340,206</u>	<u>217,660</u>
Total Contributions Receivable	535,298	346,615
Less: Discount to Present Value	<u>(21,746)</u>	<u>(11,142)</u>
Net Contributions Receivable	<u>\$513,552</u>	<u>\$335,473</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(Continued)

NOTE 5 INVESTMENTS

As of December 31, 2016 and 2015, 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, 2016</u>			<u>Fair Value (Level 2)</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized (Losses)</u>	
GH – Equity Pool	\$2,261,133	\$214,597	\$ -	\$2,475,730
GH – Short-Term Fixed Income Pool	1,096,902	-	(5,466)	1,091,436
GH – Intermediate Fixed Income Pool	713,866	-	(2,596)	711,270
GH – Other	<u>16,342</u>	<u>-</u>	<u>-</u>	<u>16,342</u>
Total	<u>\$4,088,243</u>	<u>\$214,597</u>	<u>\$(8,062)</u>	<u>\$4,294,778</u>
<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>

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>2016</u>	<u>2015</u>
Long-Term Investments	\$4,294,778	\$1,686,954
Endowment Investments	<u>-</u>	<u>331,756</u>
Total Investments	<u>\$4,294,778</u>	<u>\$2,018,710</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(Continued)

NOTE 5 (Continued)

Investment activity for the years presented consists of the following:

<u>Components of Investment Return</u>	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 65,023	\$ 52,373
Investment Fees	(7,361)	(5,754)
Net Realized/Unrealized Gain (Loss) on Investments	<u>79,183</u>	<u>(48,223)</u>
Total Investment Return (Loss)	136,845	(1,604)
Less: Agency Allocation	<u>(11,616)</u>	<u>(179)</u>
Net Investment Return (Loss)	<u>\$125,229</u>	<u>\$ (1,783)</u>

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

Organizational transactions during the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Agency Funds Held for Others, January 1	\$278,622	\$180,649
Amounts Received on Behalf of Others	500	100,084
Earnings Allocated to Agency Accounts	11,648	646
CFN Management Fee	(2,472)	(2,290)
Investment Management Fees	<u>(32)</u>	<u>(467)</u>
Agency Funds Held for Others, December 31	<u>\$288,266</u>	<u>\$278,622</u>

NOTE 7 NET ASSETS

Activities by fund for the years ended December 31, 2016 and 2015 are as follows:

<u>Fund Type</u>	<u>January 1</u>	<u>Inflows*</u>	<u>Outflows*</u>	<u>December 31, 2016</u>	
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Donor-Advised Funds	\$ 773,513	\$2,870,099	\$ (819,565)	\$2,824,047	\$ -
Designated Funds	114,749	111,560	(8,034)	218,275	-
Special Project Funds	147,773	366,829	(180,402)	334,200	-
Partner Funds	911,686	1,273,736	(1,218,762)	966,660	-
Scholarship Funds	448,496	75,385	(63,543)	460,338	-
Nantucket Fund	841,345	557,106	(203,138)	877,051	318,262
Operating Funds	<u>374,616</u>	<u>442,451</u>	<u>(344,444)</u>	<u>277,333</u>	<u>195,290</u>
Total	3,612,178	5,697,166	(2,837,888)	5,957,904	513,552
Less: Interfund Transactions	<u>-</u>	<u>(116,876)</u>	<u>116,876</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,612,178</u>	<u>\$5,580,290</u>	<u>\$(2,721,012)</u>	<u>\$5,957,904</u>	<u>\$513,552</u>

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(Continued)

NOTE 7 (Continued)

<u>Nature of Restriction</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>

*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:

As discussed in Note 3, the Board of Trustees voted to merge the board-Designated Endowment Fund into the Nantucket Fund™ as of January 1, 2016. The following schedule summarizes the change in the Board-Designated Endowment Funds, which are reported as unrestricted net assets, for the year ended December 31, 2015:

Endowment Net Assets, January 1, 2015	\$247,422
Contributions*	100,000
Investment Return (Loss), Net	(2,063)
Administration Fee	(4,595)
Appropriation for Expenditures	<u>(9,008)</u>
Endowment Net Assets, December 31, 2015	<u>\$331,756</u>

*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 had not been recognized in the accompanying financial statements, as the conditions upon which the funding depends had not been met. During 2016, the Foundation received the required matching funds and the first \$50,000 was met on this commitment. The remaining unrecognized conditional amount as of December 31, 2016 was \$350,000.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(Continued)

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 Community Programs/Projects and Other Charitable Initiatives.

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.

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 on 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. Funds held by Greater Horizons are held in financial institutions in excess of federal insured limits of \$366,190 and \$193,518 as of December 31, 2016 and 2015, respectively; however, Greater Horizons and CFN management are constantly evaluating the financial stability of these institutions and believes the risk of loss is minimal. Management considers overall 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 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.

COMMUNITY FOUNDATION FOR NANTUCKET, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(Continued)

NOTE 12 *(Continued)*

Revenue:

For the year ended December 31, 2016, contributions to one Donor-Advised fund accounted for 33% of total support and revenue. There were no such concentrations for the year ended December 31, 2015.

Contributions Receivable:

As of December 31, 2016 and 2015, amounts due under multi-year commitments from one and two donors, respectively, accounted for 22% and 44% of total *Contributions Receivable*, respectively.

NOTE 13 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 11, 2017, the date which the financial statements were available for issue, and noted no material events which met the recognition criteria.