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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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

CONTENTS

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2015, the Vermont Community Foundation, Inc. and Affiliated Supporting Organizations elected early adoption of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment requires retrospective application. As a result, investment disclosures have been restated as of December 31, 2014. Our opinion is not modified with respect to this matter.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
July 27, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Assets		
Cash and cash equivalents	$ 10,315,469	$ 7,128,470
Investments	193,165,075	185,594,048
Contributions receivable, net	16,846,763	19,629,051
Receivables from trusts	1,004,310	334,181
Other assets	101,397	66,076
Property and equipment, net	2,086,836	2,043,897
Total Assets	$ 223,519,850	$ 214,795,723
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 268,258	$ 295,447
Grants payable, net	2,003,339	1,800,090
Liabilities under split-interest agreements	7,251,862	7,735,309
Nonprofit organization funds	36,308,663	29,283,607
Total liabilities	45,832,122	39,114,453
Net Assets		
Unrestricted	150,643,293	145,343,654
Temporarily restricted	27,044,435	30,337,616
Total net assets	177,687,728	175,681,270
Total Liabilities and Net Assets	$ 223,519,850	$ 214,795,723

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Contributions	$ 35,170,654	$ 1,938,942	$ 37,109,596	$ 15,126,260	$ 20,171,455	$ 35,297,715
Less contributions to nonprofit organization funds	(8,892,605)	-	(8,892,605)	(1,116,243)	-	(1,116,243)
Net contributions	26,278,049	1,938,942	28,216,991	14,010,017	20,171,455	34,181,472
Net realized and unrealized gains (losses) on investments	(3,548,868)	(564,236)	(4,113,104)	5,597,006	933,403	6,530,409
Investment income	1,804,492	370,653	2,175,145	1,797,930	415,951	2,213,881
Change in value of split-interest agreements	-	(470,657)	(470,657)	-	(507,313)	(507,313)
Other income	380,117	-	380,117	273,406	-	273,406
Net assets released from restrictions	4,567,883	(4,567,883)	-	2,070,798	(2,070,798)	-
Net revenue	29,481,673	(3,293,181)	26,188,492	23,749,157	18,942,698	42,691,855
Expenses						
Program expenses:						
Grants approved, net	16,844,290	-	16,844,290	15,722,250	-	15,722,250
Less grants from nonprofit organization funds	(1,262,220)	-	(1,262,220)	(1,162,134)	-	(1,162,134)
Net grants	15,582,070	-	15,582,070	14,560,116	-	14,560,116
Grant administration and related program activities	4,144,641	-	4,144,641	2,996,798	-	2,996,798
Total program expenses	19,726,711	-	19,726,711	17,556,914	-	17,556,914
Supporting services:						
Management and general	3,677,577	-	3,677,577	3,251,289	-	3,251,289
Development	777,746	-	777,746	701,272	-	701,272
Total supporting services	4,455,323	-	4,455,323	3,952,561	-	3,952,561
Total expenses	24,182,034	-	24,182,034	21,509,475	-	21,509,475
Increase (Decrease) in Net Assets	5,299,639	(3,293,181)	2,006,458	2,239,682	18,942,698	21,182,380
Net Assets - Beginning of Year	145,343,654	30,337,616	175,681,270	143,103,972	11,394,918	154,498,890
Net Assets - End of Year	$ 150,643,293	$ 27,044,435	$ 177,687,728	$ 145,343,654	$ 30,337,616	$ 175,681,270

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

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

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

	2015	2014
Cash Flows from Operating Activities		
Increase in net assets	$ 2,006,458	$ 21,182,380
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	106,048	80,992
Contribution of securities and real estate	(6,854,961)	(5,696,166)
Net realized and unrealized (gains) losses on investments	4,113,104	(6,530,409)
Change in value of split-interest agreements	470,657	507,313
(Increase) decrease in operating assets:		
Contributions receivable	2,782,288	(19,451,816)
Receivables from trusts	(670,129)	49,757
Other assets	(35,321)	(15,257)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(27,189)	70,822
Grants payable	203,249	(358,044)
Liabilities under split-interest agreements	(954,104)	(146,303)
Nonprofit organization funds	7,025,056	1,279,118
Net cash provided by (used in) operating activities	8,165,156	(9,027,613)
Cash Flows from Investing Activities		
Proceeds from sales of investments	131,878,799	99,219,272
Purchases of investments	(136,707,969)	(89,818,400)
Purchases of property and equipment	(148,987)	(85,199)
Net cash provided by (used in) investing activities	(4,978,157)	9,315,673
Net Increase in Cash and Cash Equivalents	3,186,999	288,060
Cash and Cash Equivalents - Beginning of Year	7,128,470	6,840,410
Cash and Cash Equivalents - End of Year	$ 10,315,469	$ 7,128,470

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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

The supporting organizations affiliated with the Community Foundation were established under the provisions of Section 509(a)(3) of the Internal Revenue Code (the Code) and are Type I supporting organizations. As defined by the IRS, a Type I supporting organization is controlled by the Community Foundation through operation, supervision or control by appointing the majority of the supporting organization's board members.

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

Variance Power

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

- Donor-restricted endowments funds - funds restricted by purpose or time by the donor

- Funds functioning as endowments - funds designated by the Board of Directors (Board) to function as endowments

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

Basis of Accounting and Presentation

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

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

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

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

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

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

Permanently Restricted Net Assets
Permanently restricted net assets are net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation. The Foundation has determined that it does not have any permanently restricted net assets.

Investments and Spending Policy Guidance

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

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

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

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). In addition to the spending policy, costs associated with administering the Endowment Funds range from 0.95% to 2.15%. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

In establishing this policy, the Foundation considered the long-term expected return on its Endowment Funds. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its funds to grow at least at the annual rate of inflation plus yearly spending. This is consistent with the Foundation's objective to maintain the purchasing power of the Endowment Fund's assets held for a specified term as well as to provide additional real growth through new gifts and investment return. The current long-term investment return objective is to return 8.3% net of investment fees for the Long-Term Pool.

The spending rates for the Endowment Funds range from 3.5% to 100% based on the nature of the fund type. Donor-advised funds, nonprofit organization reserve funds and supporting organizations comprise 52% of the Foundation's investment balance are not subject to spending limitations as these funds can be advised by the fund representative to grant the full balance. Even so, the Foundation provides a spending guideline to these funds types to assist the fund representative if there is a desire to maintain the fund in perpetuity. The spending guideline provided in 2015 and 2014 was 3.5% of a 36-month average of invested assets as of December 31 for donor-advised funds and 5.0% of a 36-month average of invested assets as of December 31 for nonprofit organization reserve funds.

Discretionary, field of interest, designated and nonprofit organization endowment funds are subject to spending policy as these Endowment Fund types have been established to be maintained in perpetuity. The 2015 and 2014 spending amount is equal to 3.5% of a 36-month average of invested assets as of December 31 for field of interest and discretionary funds, while the spending amount for designated and nonprofit organization endowment funds is equal to 5.0% of a 36-month average of invested assets as of December 31. Funds subject to the spending policies made up 42% of the total funds held by the Foundation.

Charitable Remainder Trusts and Charitable Gift Annuities administered by the Foundation do not have a spending rate and account for 6% of the total funds held by the Foundation.

Use of Estimates

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

Cash and Cash Equivalents

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

Investment Valuation and Income Recognition

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

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) include the Foundation's gains and losses on investments bought and sold as well as held during the year. Management determines the Foundation's valuation policies and procedures utilizing information provided by investment advisors. Management reviews the valuation policies and procedures with the Foundation's Audit Committee, which reports key information to the Board on an ongoing basis.

Property and Equipment

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

Nonprofit Organization Funds

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

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

Amounts received and distributed under these relationships totaled $8,892,605 and $1,262,220, respectively, for the year ended December 31, 2015, and $1,116,243 and $1,162,134, respectively, for the year ended December 31, 2014.

The amounts received but not yet distributed totaled $36,308,663 and $29,283,607 at December 31, 2015 and 2014, respectively, and are included on the consolidated statements of financial position in investments.

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

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value, if material.

The Foundation reports contributions and grants of cash and other assets as temporarily restricted if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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

Functional Expenses and Allocation of Shared Costs

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

Income Taxes

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

Reclassification

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the current year's presentation.

Change in Accounting Principles

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

Subsequent Events

In preparing these consolidated financial statements, management has evaluated subsequent events through July 27, 2016, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation's major financial instruments consist of cash and cash equivalents, contributions receivable, notes receivable, split-interest agreements, investments, accounts and grants payable, and nonprofit organization funds.

The fair values of cash and cash equivalents and accounts payable approximate their carrying values due to the short-term nature of these items. Investments are carried at fair value in the consolidated financial statements.

The carrying value of contributions receivable expected to be received beyond one year, split-interest agreements and grants payable expected to be paid beyond one year, approximate their fair values because discount or interest rates used approximate current market rates.

The fair values of financial instruments were determined as follows:

- Contributions receivable - if collection is expected to be more than one year, contribution receivables are discounted to their present value.

- Split-interest agreements - based on the net present value of estimated cash flows and expected donor or beneficiary mortality using the Annuity 2000 mortality table.

- Investments and nonprofit organization funds - based on values provided by external investment managers, or discounted cash flows as determined by management, as discussed more fully in Note 3.

- Grants payable - if payment is expected to be more than one year, grants payable are discounted to their present value.

NOTE 3 - INVESTMENTS

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

The Foundation classifies its investments into Level 1, which refers to investments traded in an active market; Level 2, which refers to investments not traded in an active market but for which observable market inputs are readily available (such as similar assets in active markets or inputs other than quoted market prices that are observable for the asset); and Level 3, which refers to investments not traded in an active market and for which no significant observable market inputs are available. Generally, investments are valued based on information provided by fund managers or general partners, including audited financial statements of the investment funds coupled with an understanding of the underlying valuation methodology used by the general partner. The levels relate to valuation only and do not necessarily indicate a measure of risk.

The asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investment are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

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

Short-Term Investments

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

Fixed Income

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

Equities

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

Hedged Equity

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

Private Equity/Real Assets

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

Receivable from Trusts

Fair value inputs used for remainder interests in charitable trusts are based on the estimated present value of the future payments to the Foundation, which is considered to be the fair value of the assets held in trust.

There have been no changes in the methodologies used at December 31, 2015 and 2014.

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

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2015 and 2014:

	2015					
Description	**Level 1**	**Level 2**	**Level 3**	**Investments Measured at Net Asset Value (1)**	**Total**	**% of Total**
Short-term investments	$ 13,733,796	$ -	$ -	$ -	$ 13,733,796	7.1%
Fixed income	24,484,349	2,872,643	4,364,684	19,578,757	51,300,433	26.6
Equities:						
Domestic	27,071,437	-	-	20,496,993	47,568,430	24.6
Global	16,334,595	-	-	36,956,458	53,291,053	27.6
Alternatives:						
Hedged equity	-	-	-	16,551,224	16,551,224	8.6
Private equity/real assets	-	-	789,180	9,930,959	10,720,139	5.5
Total investments	81,624,177	2,872,643	5,153,864	103,514,391	193,165,075	100.0%
Receivable from trusts	-	-	1,004,310	-	1,004,310	
Total Assets at Fair Value	$ 81,624,177	$ 2,872,643	$ 6,158,174	$ 103,514,391	$ 194,169,385	

	2014					
Description	**Level 1**	**Level 2**	**Level 3**	**Investments Measured at Net Asset Value (1)**	**Total**	**% of Total**
Short-term investments	$ 7,449,248	$ -	$ -	$ -	$ 7,449,248	4.0%
Fixed income	22,352,260	327,791	3,369,325	17,054,699	43,104,075	23.2
Equities:						
Domestic	34,429,291	-	-	23,640,981	58,070,272	31.3
Global	6,906,075	-	-	32,564,634	39,470,709	21.3
Alternatives:						
Hedged equity	-	-	-	27,044,319	27,044,319	14.6
Private equity/real assets	-	-	1,022,595	9,432,830	10,455,425	5.6
Total investments	71,136,874	327,791	4,391,920	109,737,463	185,594,048	100.0%
Receivable from trusts	-	-	334,181	-	334,181	
Total Assets at Fair Value	$ 71,136,874	$ 327,791	$ 4,726,101	$ 109,737,463	$ 185,928,229	

1. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

The following table discloses certain additional information as of December 31, 2015 related to the Foundation's investments as described above that use net asset value per share and are not traded in an active market:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Fixed income	$ 19,578,757	$ -	Monthly	5- to 30-day written notice or as of date set by investment manager
Domestic equity	20,496,993	-	Monthly to quarterly	6- to 60-day written notice or as of date set by investment manager
Global equity	36,956,458	-	Monthly to more than three years	6- to 180-day written notice or as of date set by investment manager
Hedged equity	16,551,224	-	Monthly to annually with lockup terms of full to partial redemption available on 12/31/2015 for some funds	30- to 100-day written notice or as of date set by investment manager
Private equity/ real assets	9,930,959	5,261,994	Illiquid	Illiquid
Total	$ 103,514,391	$ 5,261,994		

In addition to the unfunded commitments related to assets using net asset value per share, the Foundation also has $250,000 in unfunded commitments as of December 31, 2015 related to two mission-related community investment promissory notes.

The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 assets) for the years ended December 31, 2015 and 2014:

	Fixed Income	Private Equity/Real Assets	Receivable from Trusts	Total
Beginning balance - January 1, 2014	$ 3,091,519	$ 203,595	$ 383,938	$ 3,679,052
Total gains or losses (realized/unrealized)	(171,634)	598,370	-	426,736
Total interest income	71,239	20,630	-	91,869
Purchases/issuances	950,000	200,000	-	1,150,000
Settlements	(571,799)	-	(49,757)	(621,556)
Ending balance - December 31, 2014	3,369,325	1,022,595	334,181	4,726,101
Total losses (realized/unrealized)	(306,451)	(4,500)	-	(310,951)
Total interest income	71,402	45,282	-	116,684
Change in value of split-interest agreements	-	-	(113,469)	(113,469)
Purchases/issuances	1,300,000	-	620,864	1,920,864
Settlements	(69,592)	(274,197)	(49,757)	(393,546)
Transfers into Level 3	-	-	212,491	212,491
Ending Balance - December 31, 2015	$ 4,364,684	$ 789,180	$ 1,004,310	$ 6,158,174

The transfer into level 3 during the year ended December 31, 2015 related to a change in trustee status which was classified as a level 1 in the prior year. There were no transfers between levels of investments during the year ended December 31, 2014.

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

The Foundation invests in several commingled funds and limited partnerships. A portion of these funds and partnerships report income net of fees, and the Foundation follows the same practice. As a result, some of the fees paid to investment managers are reflected as a reduction of investment return and are not included in management and general expenses. Total investment management fees included in management and general expenses were $952,369 in 2015 and $1,009,635 in 2014.

The Foundation has contracted with a leading independent investment consulting firm to provide guidance on the investment strategy, investment managers and asset allocation. The fee paid to the investment consultant is based on invested assets of the Foundation. Total investment consulting fees included in management and general expenses were $102,016 in 2015 and $111,654 in 2014.

NOTE 4 - MISSION-RELATED INVESTMENTS

Since 2001, the Foundation has been investing 5% of the pooled investments in mission-related investments (MRIs) that focus on fostering positive social, economic or environmental change in the State of Vermont. The MRIs are structured in the form of equity, quasi-equity and debt and are deployed through intermediaries such as Community Development Financial Institutions (CDFIs), mutual funds and venture capital firms, or directly to local nonprofits or private companies. The Foundation has focused its MRIs on affordable housing, job creation, environment, agriculture, childcare centers and community-based investments. Investment returns generated from the MRIs are both market rate and below market rate returns. The following is a summary of the MRIs by asset allocation for the years ended December 31, 2015 and 2014:

	2015	2014
Short-term investments	$ 132,310	$ 269,775
Fixed income	7,135,309	6,697,480
Private equity/real assets	2,000,394	2,140,123
Total Mission-Related Investments	$ 9,268,013	$ 9,107,378

NOTE 5 - CONTRIBUTIONS RECEIVABLE

The Foundation recognizes unconditional contributions and pledges when the written promise is made. The following is a summary of unconditional contributions receivable at December 31, 2015 and 2014:

	2015	2014
To be received in less than one year	$ 2,968,628	$ 3,635,255
To be received in one to five years	9,484,493	10,019,493
To be received in over five years	5,998,451	7,998,450
	18,451,572	21,653,198
Less unamortized discount	(1,604,809)	(2,024,147)
Net Unconditional Contributions Receivable	$ 16,846,763	$ 19,629,051

Contributions receivable are discounted at rates ranging from 2% to 2.2% for the years ended December 31, 2015 and 2014.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2015 and 2014:

	2015	2014
Land and building	$ 2,495,073	$ 2,457,313
Leasehold improvements	9,455	-
Office furniture and equipment	678,848	598,298
Vehicle	21,222	-
	3,204,598	3,055,611
Less accumulated depreciation	1,117,762	1,011,714
Net Property and Equipment	$ 2,086,836	$ 2,043,897

Depreciation expense for the years ended December 31, 2015 and 2014, was $106,048 and $80,992, respectively.

NOTE 7 - SPLIT-INTEREST AGREEMENTS

Charitable Remainder and Lead Trusts

The Foundation is the beneficiary of various charitable remainder trusts for which the Foundation is the trustee. A charitable remainder trust provides for the payment of distributions to the donor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The trust is carried at the fair value of the underlying investments. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recognized in the consolidated statement of activities as a temporarily restricted contribution in the year the trust is established. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The liability is calculated using a discount rate ranging from 2.2% to 8.2% and applicable mortality tables.

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

Charitable Gift Annuity

The Foundation is the beneficiary of numerous charitable gift annuity agreements whereby assets were contributed to the Foundation; in exchange, the Foundation agrees to pay a stated dollar amount annually to the designated beneficiary. Upon the death of the beneficiary, the remaining assets are directed to a component fund held by the Community Foundation for the purpose directed by the charitable gift annuity agreement. The portion of the assets transferred that is attributable to the present value of the future benefits to be received by the Foundation is recognized in the consolidated statement of activities as a temporarily restricted contribution in the period of the transfer. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The liability is calculated using a discount rate ranging from 1.2% to 8.0% and applicable mortality tables. Annually the Foundation reviews the actuarial assumptions and corresponding assets for each contract and maintains a reserve to address potential shortfalls. The Foundation maintained a reserve in 2015 and 2014 of $62,437 and $3,883, respectively.

The Foundation recognized contribution revenue of $1,170,385 in 2015 and $525,837 in 2014, in connection with establishing new split-interest agreements. The consolidated statements of financial position include the following amounts as of December 31, 2015 and 2014:

	2015	2014
Charitable Remainder Trusts and Charitable Gift Annuities Included in Cash and Investments	$ 11,845,132	$ 12,803,520
Charitable Lead Trusts	$ 1,004,310	$ 334,181
Amounts Included in Temporarily Restricted Net Assets	$ 5,597,580	$ 5,402,392

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

NOTE 8 - GRANTS

Grants authorized but unpaid as of year end are reported as liabilities. The following is a summary of grants authorized and payable at December 31, 2015 and 2014:

	2015	2014
To be paid in less than one year	$ 1,359,325	$ 1,215,973
To be paid in one to five years	625,753	542,822
To be paid in over five years	25,000	50,000
	2,010,078	1,808,795
Less discount	(6,739)	(8,705)
Net Unconditional Grants Payable	$ 2,003,339	$ 1,800,090

NOTE 9 - GRANT AND PROGRAM ADMINISTRATION

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

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions, gifts and income from investments that have time restrictions specified by the donor. At December 31, 2015 and 2014, temporarily restricted net assets are comprised of the following:

	2015	2014
Contributions receivable	$ 16,846,763	$ 19,629,051
Less receivables from nonprofit organization funds	(117,064)	-
Less receivable from endowment funds subject to time restriction	(200)	-
Contributions receivable, net	16,729,499	19,629,051
Accumulated earnings on Endowment Funds subject to a time restriction	4,717,356	5,306,173
Split-interest agreements	5,597,580	5,402,392
	$ 27,044,435	$ 30,337,616

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from restrictions by satisfying the following time restrictions for the years ended December 31, 2015 and 2014:

	2015	2014
Accumulated earnings on Endowment Funds subject to a time restriction	$ 586,786	$ 319,376
Split-interest agreements	320,692	1,574,687
Contributions receivable	3,660,405	176,735
	$ 4,567,883	$ 2,070,798

NOTE 12 - ENDOWMENT

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

Endowment Net Assets

Endowment net asset composition by type of fund is as follows as of December 31, 2015 and 2014:

	2015		
	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowments	$ -	$ 27,044,435	$ 27,044,435
Funds functioning as endowment	150,643,293	-	150,643,293
Total	$ 150,643,293	$ 27,044,435	$ 177,687,728

	2014		
	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowments	$ -	$ 30,337,616	$ 30,337,616
Funds functioning as endowment	145,343,654	-	145,343,654
Total	$ 145,343,654	$ 30,337,616	$ 175,681,270

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in endowment net assets for the years ended December 31, 2015 and 2014, are as follows:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets - January 1, 2014	$ 143,103,972	$ 11,394,918	$ 154,498,890
Investment return:			
Investment income	1,797,930	415,951	2,213,881
Investment gains	5,597,006	933,403	6,530,409
Total investment return	7,394,936	1,349,354	8,744,290
Contributions	14,010,017	20,171,455	34,181,472
Appropriation of Endowment assets for expenditure	(19,438,677)	(2,070,798)	(21,509,475)
Other changes:			
Change in split-interest agreements	-	(507,313)	(507,313)
Other income	273,406	-	273,406
Total other changes	273,406	(507,313)	(233,907)
Endowment net assets - December 31, 2014	145,343,654	30,337,616	175,681,270
Investment loss:			
Investment income	1,804,492	370,653	2,175,145
Investment losses	(3,548,868)	(564,236)	(4,113,104)
Total investment loss	(1,744,376)	(193,583)	(1,937,959)
Contributions	26,278,049	1,938,942	28,216,991
Appropriation of Endowment assets for expenditure	(19,614,151)	(4,567,883)	(24,182,034)
Other changes:			
Change in split-interest agreements	-	(470,657)	(470,657)
Other income	380,117	-	380,117
Total other changes	380,117	(470,657)	(90,540)
Endowment Net Assets - December 31, 2015	$ 150,643,293	$ 27,044,435	$ 177,687,728

NOTE 13 - SUPPORTING ORGANIZATIONS

Net assets of the supporting organizations are as follows as of December 31, 2015 and 2014:

	2015	2014
The High Meadows Fund, Inc.	$ 16,837,259	$ 18,511,815
The J. Warren and Lois McClure Foundation, Inc.	7,429,453	7,887,267
Permanent Fund for Vermont's Children, Inc.	18,868,888	20,507,441
Addison Community Athletics Foundation, Inc.	1,148,931	1,106,706
Total Supporting Organizations Net Assets	$ 44,284,531	$ 48,013,229

NOTE 14 - MAJOR DONORS

In 2015, the Foundation received a substantial portion of its contributions from one donor. Contributions for the year ended December 31, 2015 from this donor were $7,000,000 (18.9% of total contributions). There were no amounts due from this donor at December 31, 2015.

In 2014, the Foundation received a substantial portion of its contributions from one donor. Contributions for the year ended December 31, 2014 from this donor were $18,092,397 (51.3% of total contributions). There is $14,470,826 and $17,092,397 due from this donor at December 31, 2015 and 2014, respectively.

NOTE 15 - RETIREMENT PLAN

The Foundation has a 403(b)(7) retirement plan covering all employees electing to participate. The Foundation matches dollar for dollar employee contributions up to 3% of their W-2 wages. Contributions to the plans charged to operations totaled $86,741 in 2015 and $61,421 in 2014.

The Foundation has a 457(b) deferred compensation plan covering the Chief Executive Officer. The purpose of the plan is to retain a key employee by offering benefits comparable with similar organizations. Annual contributions to the plan are approved each year by the Board of Directors. The plan called for annual contributions of $15,888 and $12,000 in 2015 and 2014, respectively. The total cost charged to operations amounted to $12,934 and $11,903 in 2015 and 2014, respectively, in accordance with the vesting schedule in place at the time of the contribution. At December 31, 2015 and 2014, $37,034 and $24,000, respectively, was accrued for this obligation.