



**FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Contents
December 31, 2022 and 2021

	<u>Pages</u>
Independent Auditor’s Report	1 - 1A
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3 - 4
Statements of Cash Flows	5
Statements of Functional Expenses	6 - 7
Notes to Financial Statements	8 - 18

Independent Auditor's Report

To the Board of Directors of
Greater Worcester Community Foundation, Inc.:

Opinion

We have audited the financial statements of Greater Worcester Community Foundation, Inc. (a Massachusetts nonprofit corporation) (the Foundation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Greater Worcester Community Foundation, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPA, Inc.

Westborough, Massachusetts
April 26, 2023

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Statements of Financial Position
December 31, 2022 and 2021

Assets	2022	2021
Assets:		
Cash - operations	\$ 373,563	\$ 1,591,598
Cash - investment	5,267,343	2,568,003
Pledges and grants receivable	87,831	10,106
Investments	168,650,900	193,891,448
Split-interest agreements (charitable gift annuities and pooled income funds)	947,458	1,185,976
Property and equipment, net	47,785	59,388
Other assets	120,698	1,169,733
Total assets	<u>\$ 175,495,578</u>	<u>\$ 200,476,252</u>
Liabilities and Net Assets		
Liabilities:		
Distributions payable	\$ 394,580	\$ 506,900
Accounts payable and accrued expenses	161,893	108,540
Split-interest obligations (charitable gift annuities and pooled income funds)	830,912	868,516
Funds held as agency endowments	38,245,031	40,454,397
Total liabilities	<u>39,632,416</u>	<u>41,938,353</u>
Net Assets:		
Without donor restrictions	6,684,901	2,227,442
With donor restrictions	129,178,261	156,310,457
Total net assets	<u>135,863,162</u>	<u>158,537,899</u>
Total liabilities and net assets	<u>\$ 175,495,578</u>	<u>\$ 200,476,252</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Total investment return, net	\$ (218,731)	\$ (26,572,340)	\$ (26,791,071)
Less - investment return for agency endowments	<u>-</u>	<u>3,736,348</u>	<u>3,736,348</u>
Net investment return	<u>(218,731)</u>	<u>(22,835,992)</u>	<u>(23,054,723)</u>
Gifts and donations	5,359,503	9,778,173	15,137,676
Worcester Together gifts and donations	-	40,486	40,486
Less - gifts and donations for agency endowments	<u>-</u>	<u>(5,118,414)</u>	<u>(5,118,414)</u>
Net gifts and donations	<u>5,359,503</u>	<u>4,700,245</u>	<u>10,059,748</u>
Fees on agency endowments and other earned income	290,074	-	290,074
Other support	165,720	3,660	169,380
Net assets released for operations	1,781,608	(1,781,608)	-
Net assets released for Worcester Together	62,500	(62,500)	-
Net assets released for distributions, net of agency funds	6,961,919	(6,961,919)	-
Change in value of split-interest agreements	<u>-</u>	<u>(207,315)</u>	<u>(207,315)</u>
Sub-total	<u>9,261,821</u>	<u>(9,009,682)</u>	<u>252,139</u>
Total revenues	<u>14,402,593</u>	<u>(27,145,429)</u>	<u>(12,742,836)</u>
Expenses:			
Total distributions	8,414,379	-	8,414,379
Less - distributions for agency funds	<u>(770,222)</u>	<u>-</u>	<u>(770,222)</u>
Net distributions	7,644,157	-	7,644,157
Operating expenses	<u>2,287,744</u>	<u>-</u>	<u>2,287,744</u>
Total expenses	<u>9,931,901</u>	<u>-</u>	<u>9,931,901</u>
Changes in net assets	4,470,692	(27,145,429)	(22,674,737)
Net Assets:			
Beginning of year	2,227,442	156,310,457	158,537,899
Reclassification	<u>(13,233)</u>	<u>13,233</u>	<u>-</u>
End of year	<u>\$ 6,684,901</u>	<u>\$ 129,178,261</u>	<u>\$ 135,863,162</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Total investment return, net	\$ 169,813	\$ 21,905,921	\$ 22,075,734
Less - investment return for agency endowments	-	(4,371,222)	(4,371,222)
Net investment return	<u>169,813</u>	<u>17,534,699</u>	<u>17,704,512</u>
Gifts and donations	182,015	10,667,927	10,849,942
Worcester Together gifts and donations	-	2,041,421	2,041,421
Less - gifts and donations for agency endowments	-	(5,574,718)	(5,574,718)
Net gifts and donations	<u>182,015</u>	<u>7,134,630</u>	<u>7,316,645</u>
Fees on agency endowments and other earned income	278,716	-	278,716
Other support	256,568	-	256,568
Net assets released for operations	2,024,756	(2,024,756)	-
Net assets released for Worcester Together	2,915,578	(2,915,578)	-
Net assets released for distributions, net of agency funds	6,094,638	(6,094,638)	-
Change in value of split-interest agreements	-	(133,757)	(133,757)
Sub-total	<u>11,570,256</u>	<u>(11,168,729)</u>	<u>401,527</u>
Total revenues	<u>11,922,084</u>	<u>13,500,600</u>	<u>25,422,684</u>
Expenses:			
Total distributions	12,313,682	-	12,313,682
Less - distributions for agency funds	(3,303,465)	-	(3,303,465)
Net distributions	9,010,217	-	9,010,217
Operating expenses	<u>2,297,851</u>	<u>-</u>	<u>2,297,851</u>
Total expenses	<u>11,308,068</u>	<u>-</u>	<u>11,308,068</u>
Changes in net assets	614,016	13,500,600	14,114,616
Net Assets:			
Beginning of year	1,469,273	142,954,010	144,423,283
Reclassification	<u>144,153</u>	<u>(144,153)</u>	<u>-</u>
End of year	<u>\$ 2,227,442</u>	<u>\$ 156,310,457</u>	<u>\$ 158,537,899</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (22,674,737)	\$ 14,114,616
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	16,444	56,630
Net investment (gains) losses	28,052,831	(16,537,125)
Change in value of split-interest agreements	200,914	105,572
Non-cash donations - securities	(189,744)	(3,748,067)
Donations to be held in perpetuity	(1,807,329)	(2,261,213)
Changes in operating assets and liabilities:		
Proceeds from sales and maturities of investments	30,037,409	23,049,909
Payments for purchases of investments	(32,659,948)	(24,803,075)
Pledges and grants receivable	(77,725)	4,249
Other assets	1,049,035	(1,015,602)
Distributions payable	(112,320)	(56,750)
Accounts payable and accrued expenses	53,353	(10,656)
Funds held as agency endowments	(2,209,366)	6,353,759
	<u>(321,183)</u>	<u>(4,747,753)</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(4,841)	-
Cash Flows from Financing Activities:		
Donations to be held in perpetuity	<u>1,807,329</u>	<u>2,261,213</u>
Net Change in Cash	1,481,305	(2,486,540)
Cash:		
Beginning of year	<u>4,159,601</u>	<u>6,646,141</u>
End of year	<u>\$ 5,640,906</u>	<u>\$ 4,159,601</u>
Supplemental Disclosure of Non-Cash Investing Transactions:		
Unrealized gains (losses) on investments	<u>\$ (25,920,999)</u>	<u>\$ 11,089,756</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2022

(With Summarized Comparative Totals for the Year Ended December 31, 2021)

	2022			2021	
	Grantmaking and Community Leadership	Donor Services and Development	General and Adminis- trative	Total	Total
Distributions	8,414,379	-	-	8,414,379	\$ 12,313,682
Personnel:					
Salaries and wages	500,103	227,096	229,909	957,108	1,141,570
Taxes and benefits	152,977	69,476	70,325	292,778	270,367
Total personnel	653,080	296,572	300,234	1,249,886	1,411,937
Other:					
Program consulting/professional fees	186,021	18,837	67,120	271,978	228,009
Temporary help	88,215	41,030	20,012	149,257	38,828
Legal fees	-	-	122,882	122,882	25,245
Public relations and advertising	39,296	78,592	-	117,888	169,510
Occupancy	50,365	22,873	23,153	96,391	94,178
Office expenses	39,160	17,785	18,002	74,947	105,741
Software licensing and support	31,508	14,310	14,484	60,302	65,974
Accounting and audit services	-	-	53,200	53,200	52,520
Meetings and events	8,629	10,174	7,857	26,660	31,762
Other expenses	15,906	6,000	2,400	24,306	-
Memberships and subscriptions	12,333	5,601	5,669	23,603	17,517
Depreciation	-	-	16,444	16,444	56,630
Total other	471,433	215,202	351,223	1,037,858	885,914
Total operating expenses	9,538,892	511,774	651,457	10,702,123	14,611,533
Less - distributions for agency funds	(770,222)	-	-	(770,222)	(3,303,465)
Total expenses	8,768,670	511,774	651,457	9,931,901	\$ 11,308,068

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2021

	<u>Grantmaking and Community Leadership</u>	<u>Donor Services and Development</u>	<u>General and Adminis- trative</u>	<u>Total</u>
Distributions	\$ 12,313,682	\$ -	\$ -	\$ 12,313,682
Personnel:				
Salaries and wages	508,962	402,840	229,768	1,141,570
Taxes and benefits	120,541	95,408	54,418	270,367
Total personnel	<u>629,503</u>	<u>498,248</u>	<u>284,186</u>	<u>1,411,937</u>
Other:				
Program consulting/professional fees	88,941	20,475	118,593	228,009
Temporary help	-	-	38,828	38,828
Legal fees	-	-	25,245	25,245
Public relations and advertising	93,494	76,016	-	169,510
Occupancy	41,989	33,234	18,955	94,178
Office expenses	47,144	37,314	21,283	105,741
Software licensing and support	29,414	23,281	13,279	65,974
Accounting and audit services	-	-	52,520	52,520
Meetings and events	3,601	-	28,161	31,762
Memberships and subscriptions	1,401	8,934	7,182	17,517
Depreciation	-	-	56,630	56,630
Total other	<u>305,984</u>	<u>199,254</u>	<u>380,676</u>	<u>885,914</u>
Total operating expenses	13,249,169	697,502	664,862	14,611,533
Less - distributions for agency funds	<u>(3,303,465)</u>	<u>-</u>	<u>-</u>	<u>(3,303,465)</u>
Total expenses	<u>\$ 9,945,704</u>	<u>\$ 697,502</u>	<u>\$ 664,862</u>	<u>\$ 11,308,068</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

1. OPERATIONS AND NONPROFIT STATUS

Greater Worcester Community Foundation, Inc. (the Foundation) is a not-for-profit organization that administers and distributes funds and property, which have been contributed by private donors, to worthy organizations throughout the greater Worcester community.

During 2020, the Foundation and the United Way of Central Massachusetts, in cooperation with the City of Worcester, launched Worcester Together: Central Mass COVID-19 Fund to raise funds to address urgent needs resulting from the impact of the Coronavirus public health crisis. The activity of the Worcester Together fund is separately reported in the accompanying statements of activities and changes in net assets. As of December 31, 2022 and 2021, the Foundation held approximately \$40,000 and \$103,000, respectively, of Worcester Together funds in net assets with donor restrictions.

The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

The Foundation prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

Investments

The Foundation has adopted an investment policy for endowment assets that includes those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the primary long-term financial objective is to preserve and grow the principal value of the endowment investment portfolio to provide a dependable source of revenue for charitable distribution and expenses.

To satisfy its investment objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes equities, alternative and fixed income within prudent risk constraints.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. The Foundation seeks to minimize market risk by diversifying its investment portfolio.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Investments in equity and fixed income securities are reported at fair value using quoted market prices. Alternative investments are also reported at fair value. Alternative investments are primarily made under agreements to participate in limited partnerships or limited liability companies and may be subject to certain withdrawal restrictions. In accordance with standards pertaining to FASB's Accounting Standards Update (ASU) No. 2015-07, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the Foundation uses each fund's net asset value per share to calculate and report the fair value of these investments.

Gains or losses on investments are reported in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

State law has been interpreted to require that, unless explicitly stated otherwise by the donor, realized and unrealized appreciation on net assets with donor restrictions should be classified in the net asset with donor restrictions classification until appropriated for use by the governing Board. Accordingly, based on the terms of the underlying gift instruments, net investment gains and losses on endowment funds of the Foundation are classified as donor restricted.

Endowment Spending Policy

The Foundation adopts a spending policy for grant distributions from donor restricted endowments that in 2022 and 2021 was 4.0% of market value, averaged over twenty trailing quarters. In addition, the Foundation draws an administrative fee that ranges from 0.75% to 1.95% (see Note 4). The Foundation's governing Board annually establishes a spending rate to support current operations, including distributions.

Agency Funds

The Foundation accepts contributions from a donor and agrees to transfer those assets, the return on investments of those assets, or both, to another entity that is specified by the donor. If a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, that community foundation must account for the transfer of such assets as a liability rather than as a contribution.

In accordance with U.S. GAAP, the Foundation accounts for agency funds as liabilities equal to the fair value of the assets. All agency endowment activity is segregated on the statements of activities and changes in net assets and is reflected in the funds held as agency endowments in the accompanying statements of financial position. Fees on agency endowments are recognized as they are earned.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments in excess of \$2,500 are capitalized as additions to property, while repairs and maintenance are expensed as incurred (see Note 6).

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation (Continued)

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	Life of lease
Furniture and fixtures	7 years
Office equipment	4 - 5 years
Website	3 years

Distributions

The Foundation recognizes distributions expense at the time the grant is approved, and any conditions are met. All grants are ratified by the Board. The Foundation awarded distributions totaling \$7,644,157 and \$9,010,217, net of agency distributions of \$770,222 and \$3,303,465, during the years ended December 31, 2022 and 2021, respectively. Distributions payable were \$394,580 and \$506,900 at December 31, 2022 and 2021, respectively. Distributions are payable as follows at December 31:

	<u>2022</u>	<u>2021</u>
2022	\$ -	\$ 211,900
2023	214,580	115,000
2024	115,000	115,000
2025	<u>65,000</u>	<u>65,000</u>
	<u>\$ 394,580</u>	<u>\$ 506,900</u>

Gifts and Donations

In accordance with FASB's ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, the Foundation must determine whether a grant or contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of the assets or a right of release of a promise to transfer assets exists (see Note 11). Indicators of a barrier include a measurable performance-related barrier or another measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Foundation should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Gifts and donations received or unconditionally pledged are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the nature and donor provisions of the gift or donation provided. Gifts and donations may include actual gifts or unconditional promises to give. Such donations are considered to be available for use without donor restrictions unless specifically restricted by the donor or grantor. Donations of assets other than cash are recorded at fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are reclassified to net assets without donor restrictions upon satisfaction of the donor restriction.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bequests

Bequests are recorded when there is an irrevocable right to the bequest and the proceeds are determinable.

Income Taxes

The Foundation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Foundation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2022 and 2021. The Foundation's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through April 26, 2023, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure.

Fair Value Measurements

The Foundation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Foundation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Foundation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Foundation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable, and which require significant judgment or estimation. Level 3 also includes investments with notice periods for redemption of more than ninety days.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Cash - Investment

Cash - investment includes all cash accounts held by investment managers which are valued using Level 1 inputs. Cash - investment is considered to be cash for statements of cash flow purposes.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by the Foundation and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

The Foundation's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by fund managers. In accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the Foundation uses each fund's NAV per share to calculate and report the fair value of these investments. Values for these alternative investment funds, which may invest in both marketable and non-marketable securities, are determined by the Foundation's management based on information provided by each partnership's general partner or limited liability corporation's (LLC) managing member and may be based on historical cost, appraisals, market values discounted for concentration of ownership, or other estimates. Because of the inherent uncertainty of valuing the investments in such partnerships and LLCs and uncertainty of the value of the underlying investments held by the partnerships and LLCs, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a readily available market value for the investments existed, and that difference may be material. If a valuation was not available from the general partner or managing member as of year-end, the financial statements report the most recent prior valuation updated by subsequent capital calls and distributions. The Foundation believes that the carrying amount of its limited liability partnership and LLC investments is a reasonable estimate of fair value as of December 31, 2022 and 2021.

A summary of inputs used in valuing the Foundation's investments as of December 31, 2022 and 2021, is included in Note 3.

Split-Interest Obligations

A liability for split-interest obligations (see Note 5) is recorded when the split-interest agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and is considered Level 1 in the fair value hierarchy.

Pledges and Grants Receivable

Pledges and grants receivables consist of gifts and donations committed but not yet received. At December 31, 2022, pledges and grants receivable were due from three donors and are expected to be collected in 2023. At December 31, 2021, pledges and grants receivable were due from three donors and were collected in 2022.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Notes to Financial Statements
December 31, 2022 and 2021**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Functional Expense Allocation**

The statements of functional expenses reflect costs attributable to program and supporting functions. Personnel costs are allocated based on staff functions. Non-personnel costs, such as occupancy, office expenses, human resource services, and software licensing and support are also distributed based on personnel allocations.

3. INVESTMENTS

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

<u>Description</u>	2022			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds:				
Fixed income	\$ 19,986,692	\$ -	\$ -	\$ 19,986,692
Domestic equities	<u>58,936,140</u>	<u>-</u>	<u>-</u>	<u>58,936,140</u>
Total mutual funds	<u>\$ 78,922,832</u>	<u>\$ -</u>	<u>\$ -</u>	78,922,832
Alternative investments:				
Hedged equity*				33,174,256
Domestic equities*				35,146,202
International equities*				13,176,260
Real asset funds*				<u>8,231,350</u>
Total investments at fair value				<u>\$ 168,650,900</u>
<u>Description</u>	2021			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds:				
Fixed income	\$ 24,855,456	\$ -	\$ -	\$ 24,855,456
Domestic equities	45,208,400	-	-	45,208,400
Asset allocation	130,783	-	-	130,783
International equities	<u>25,594,328</u>	<u>-</u>	<u>-</u>	<u>25,594,328</u>
Total mutual funds	<u>\$ 95,788,967</u>	<u>\$ -</u>	<u>\$ -</u>	95,788,967
Alternative investments:				
Hedged equity*				35,424,705
Domestic equities*				37,820,418
International equities*				15,212,724
Real asset funds*				<u>9,644,634</u>
Total investments at fair value				<u>\$ 193,891,448</u>

* In accordance with U.S. GAAP, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

3. INVESTMENTS (Continued)

Total investment return consists of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Unrealized gains (losses), net	\$ (30,340,206)	\$ 14,067,407
Realized gains, net	2,406,225	6,632,060
Interest and dividends	2,233,669	2,788,716
Investment fees	<u>(1,090,759)</u>	<u>(1,412,449)</u>
	<u>\$ (26,791,071)</u>	<u>\$ 22,075,734</u>

The Foundation's investment portfolio includes equity hedges and multiple strategy funds, which take the legal form of limited partnerships and trusts. These investments are classified as alternative investments. The fair values of the alternative investments have been estimated by management based on the information provided by the fund managers or the general partners. The information provided by the fund managers or general partners has been audited by other independent auditing firms in accordance with U.S. GAAP.

Certain alternative investments have limited liquidity with lock-up periods allowing withdrawals monthly, quarterly or annually, with some alternative investments requiring prior notice, as defined in the agreements. Certain managers of the Foundation's alternative investments reserve rights to alter lock-up periods with notice to the Foundation.

The Foundation does not have any unfunded commitments to the alternative investments as of December 31, 2022 and 2021.

4. NET ASSETS

Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Foundation.

With Donor Restrictions

Net assets with donor restrictions include resources accumulated through contributions and other inflows of assets with donor-imposed restrictions that either expire with the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those restrictions. Such resources will be without donor restrictions when the requirements of the donor have been satisfied through expenditure for the specific purpose or program or through the passage of time. When donor restrictions have been met, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities and changes in net assets as net assets released from restrictions. Net assets with donor restrictions also include assets which are intended to be held in perpetuity, and the related accumulated unspent appreciation and earnings on such restricted funds. Investment income earned on the restricted funds to be held in perpetuity may be recorded as either without donor restrictions or with donor restrictions when earned, determined according to the gift instruments.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Notes to Financial Statements
December 31, 2022 and 2021**4. NET ASSETS (Continued)****With Donor Restrictions (Continued)**

Net assets with donor restrictions are comprised of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Subject to expenditure with donor advice	\$ 18,361,306	\$ 21,422,413
Subject to the Foundation's endowment spending policy and appropriation:		
Investment in perpetuity	97,666,381	95,492,139
Accumulated unspent appreciation	13,034,028	39,078,445
Split-interest agreements	<u>116,546</u>	<u>317,460</u>
	<u>110,816,955</u>	<u>134,888,044</u>
	<u>\$ 129,178,261</u>	<u>\$ 156,310,457</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Grants and distributions	\$ 7,024,419	\$ 9,010,216
Administrative fees	<u>1,781,608</u>	<u>2,024,756</u>
	<u>\$ 8,806,027</u>	<u>\$ 11,034,972</u>

During 2022 and 2021, donors initiated the transfer of approximately \$13,000 and \$144,000, respectively, between net asset classes.

The Foundation follows the criteria of ASC Topics, *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 (UPMIFA)*, and *Enhanced Disclosures for All Endowments Funds*. Only a portion of the Foundation's investment portfolio is considered to be endowment assets.

Changes in endowment net assets by class are as follows:

	<u>2022</u>	<u>2021</u>
Endowment net assets , beginning of year	\$ 134,888,044	\$ 121,400,888
Total investment return (loss)	(19,398,078)	15,318,832
Gifts and donations	1,854,354	2,673,311
Change in value of split-interest agreements	(207,315)	(105,573)
Released from restriction for distributions and administrative fees	<u>(6,320,050)</u>	<u>(4,399,414)</u>
Endowment net assets , end of year	<u>\$ 110,816,955</u>	<u>\$ 134,888,044</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

4. NET ASSETS (Continued)

With Donor Restrictions (Continued)

From time-to-time, the fair market value of assets associated with individual donor-restricted endowment funds intended for perpetual duration may fall below the original gift value. Deficiencies of this nature are comprised of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Original gift value	\$ 24,015,081	\$ 3,659,315
Current fair value	<u>22,414,670</u>	<u>3,450,813</u>
Deficiency	<u>\$ (1,600,411)</u>	<u>\$ (208,502)</u>

Deficiencies of this nature exist in one hundred thirty-nine and thirty-five donor-restricted endowment funds for the years ended December 31, 2022 and 2021, respectively. The deficiencies resulted from unfavorable market conditions and continued appropriation for grant programs in accordance with donor intentions and the spending policies that were deemed prudent by the Board of Directors. The Foundation is guided by Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) in establishing spending rates.

5. SPLIT-INTEREST AGREEMENTS

Pooled Income Fund

The Foundation established a pooled income fund to which, under a gift agreement and beneficiary designation, each donor makes an irrevocable transfer of assets to State Street Global Advisors (trustee of the pooled income fund) on behalf of the Foundation. Until a donor's death, the donor (or the donor's designated beneficiary) receives the income earned on the contributed assets. Upon death of the donor or revocation of the interest in the investment income, all rights in the principal and income assets transfer to the Foundation.

The Foundation has recognized as net assets with donor restriction gift revenue at the fair value of the assets received, discounted for the estimated lifespan of each donor.

The Foundation has recorded an asset equal to the fair value of the contributed assets, less the amount of the discount for future interest, which is included in split-interest agreements and obligations in the accompanying statements of financial position. There were no gifts contributed to the pooled income fund in 2022 or 2021. Fair value of split-interest agreement assets and liabilities are measured using both Level 1 (assets) (market values of publicly traded investments) and Level 3 (liabilities) (projected investment returns, donor life expectancy and present value factors) inputs. There were no payouts from the pooled income fund during 2022. There was one payout from the pooled income fund of \$157,171 during 2021.

Charitable Gift Annuities

The Foundation established a charitable gift annuity fund to which, under a gift agreement and beneficiary designation, each donor makes an irrevocable transfer of assets to State Street Bank and Trust Company on behalf of the Foundation. Until a donor's death, the donor (or the donor's designated beneficiary) receives a fixed annual payment in accordance with the gift agreement. Upon the death of the donor, all rights in the principal and income assets transfer to the Foundation.

GREATER WORCESTER COMMUNITY FOUNDATION, INC.Notes to Financial Statements
December 31, 2022 and 2021**5. SPLIT-INTEREST AGREEMENTS (Continued)****Charitable Gift Annuities (Continued)**

The Foundation has recognized as net assets with donor restriction gift revenue at the fair value of the assets received, discounted for the estimated lifespan of each donor and the net present value of the liability.

The Foundation has recorded assets equal to the fair value of the contributed assets, less the amount of the discount for future fixed payments. The asset is valued using Level 1 inputs (market values of publicly traded investments) and the corresponding obligations are valued using Level 3 inputs (projected investment returns, donor life expectancy and present value factors).

Split-interest agreements are comprised of the following as of December 31:

<u>2022</u>	<u>Charitable Gift Annuities</u>	<u>Pooled Income Fund</u>	<u>Total</u>
Asset	\$ 856,003	\$ 91,455	\$ 947,458
Obligations	<u>812,086</u>	<u>18,826</u>	<u>830,912</u>
Total	<u>\$ 43,917</u>	<u>\$ 72,629</u>	<u>\$ 116,546</u>
<u>2021</u>	<u>Charitable Gift Annuities</u>	<u>Pooled Income Fund</u>	<u>Total</u>
Asset	\$ 1,084,551	\$ 101,425	\$ 1,185,976
Obligations	<u>845,389</u>	<u>23,127</u>	<u>868,516</u>
Total	<u>\$ 239,162</u>	<u>\$ 78,298</u>	<u>\$ 317,460</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Office equipment	\$ 109,514	\$ 104,673
Furniture and fixtures	211,410	211,410
Leasehold improvements	100,005	100,005
Website	<u>33,893</u>	<u>33,893</u>
	454,822	449,981
Less - accumulated depreciation	<u>407,037</u>	<u>390,593</u>
Property and equipment, net	<u>\$ 47,785</u>	<u>\$ 59,388</u>

GREATER WORCESTER COMMUNITY FOUNDATION, INC.

Notes to Financial Statements
December 31, 2022 and 2021

7. EMPLOYEE BENEFIT PLANS

The Foundation contributes an agreed-upon percentage of employees' compensation to a defined contribution retirement fund for eligible participants. Contributions are fully vested when contributed. Retirement plan expense was \$47,030 and \$56,479 in 2022 and 2021, respectively, which is included in taxes and benefits in the accompanying statements of functional expenses.

8. LEASE AGREEMENT

The Foundation leases its office space under a non-cancelable operating lease which expires on June 30, 2023. The lease requires additional common area maintenance fees and taxes. Rent and related expense under the agreement was \$95,886 and \$94,178 for the years ended December 31, 2022 and 2021, respectively, which is included in occupancy in the accompanying statements of functional expenses. Future minimum lease payments in 2023 for the remaining term of the lease is \$53,343.

9. CONCENTRATION OF CREDIT RISK

The Foundation maintains its operational cash balance in a Massachusetts bank. The Federal Deposit Insurance Corporation insures balances at a bank up to certain amounts. At certain times during the year, the cash balance exceeded the insured amount. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on its cash.

Investments are not insured and are subject to on-going market fluctuations.

10. OPERATING LIQUIDITY

Financial assets available for use by the Foundation within one year from the statements of financial position date are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Liquid capital:		
Cash without donor restrictions	\$ 373,563	\$ 1,591,598
Funds without donor restrictions, invested	<u>3,138,472</u>	<u>2,568,003</u>
Total	<u>\$ 3,512,035</u>	<u>\$ 4,159,601</u>

The Foundation reviews its cash position on a regular basis to ensure that adequate funds are on hand to meet expenses. In addition, the investment portfolio is comprised of funds with a variety of redemption terms (daily, monthly, or longer); approximately \$67 and \$77 million was available for immediate redemption if needed at December 31, 2022 and 2021, respectively.

11. CONDITIONAL GRANTS

During 2022, the Foundation received grants and contributions (including government contracts) totaling \$1,629,674 that contained donor-imposed conditions, incurring qualifying expenditures, that represent a barrier that must be overcome, as well as a right of return of assets or release from obligations. The Foundation recognizes these grants and contributions, including government contracts, when donor-imposed conditions are substantially met (see Note 2).