

*COMMUNITY FOUNDATION
OF WESTERN MASSACHUSETTS*

FINANCIAL STATEMENTS

*MARCH 31, 2011 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED MARCH 31, 2010*



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Community Foundation of Western Massachusetts

We have audited the statement of financial position of Community Foundation of Western Massachusetts (the "Foundation") as of March 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated June 16, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of Western Massachusetts as of March 31, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Meyers Brothers Kalicka, P.C.

Holyoke, Massachusetts
June 28, 2011

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Statements of Financial Position

March 31, 2011 and 2010

ASSETS

	2011	2010
Cash and money market funds	\$ 2,108,973	\$ 3,215,197
Investments	85,360,997	77,865,388
Assets held under charitable trusts	3,656,522	4,367,272
Contributions receivable, net	245,473	340,609
Note receivable	543,501	543,501
Loans receivable, net	2,723,346	2,695,418
Prepaid expenses	29,453	28,243
Property and equipment, net	15,222	19,843
TOTAL ASSETS	\$ 94,683,487	\$ 89,075,471

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 28,631	\$ 40,534
Liability under unitrust agreements	2,771,777	2,709,293
Agency funds	5,465,367	5,030,876
Total Liabilities	8,265,775	7,780,703

NET ASSETS

Unrestricted	25,946,772	24,860,931
Temporarily restricted	55,780,011	51,742,908
Permanently restricted	4,690,929	4,690,929
Total Net Assets	86,417,712	81,294,768

TOTAL LIABILITIES AND NET ASSETS

\$ 94,683,487	\$ 89,075,471
----------------------	----------------------

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Statement of Activities

for the year ended March 31, 2011
with comparative totals for the year ended March 31, 2010

SUPPORT AND REVENUES	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Contributions	\$ 4,213,943	\$ 747,064		\$ 4,961,007	\$ 6,478,013
Administrative revenue	297,060			297,060	294,160
Interest and dividend income	455,221	1,097,666		1,552,887	1,468,016
Realized and unrealized gains on investments	2,267,014	5,747,485		8,014,499	17,591,133
Change in split interest agreements		(378,845)		(378,845)	21,299
Net assets released from restrictions	3,176,267	(3,176,267)		-	-
TOTAL SUPPORT AND REVENUES	10,409,505	4,037,103	-	14,446,608	25,852,621
EXPENSES					
Disbursements for grants and scholarships	7,847,328			7,847,328	6,947,245
Investment management fees	144,975			144,975	137,922
Salaries and benefits	963,975			963,975	914,891
Professional services	76,510			76,510	83,371
Office operations	138,946			138,946	153,301
Occupancy costs	109,666			109,666	116,919
Publications	27,149			27,149	32,011
General marketing	15,115			15,115	17,032
TOTAL EXPENSES	9,323,664	-	-	9,323,664	8,402,692
 Changes in Net Assets	 1,085,841	 4,037,103	 -	 5,122,944	 17,449,929
 Net Assets, beginning of year	 24,860,931	 51,742,908	 4,690,929	 81,294,768	 63,844,839
 Net Assets, end of year	 <u>\$ 25,946,772</u>	 <u>\$ 55,780,011</u>	 <u>\$ 4,690,929</u>	 <u>\$ 86,417,712</u>	 <u>\$ 81,294,768</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Statements of Cash Flows

for the years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,122,944	\$ 17,449,929
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	10,493	14,269
Net realized and unrealized (gains) on investments	(8,014,499)	(17,591,133)
Permanently restricted contributions	-	(525)
Net changes in operating assets and liabilities:		
Contributions receivable	95,136	849,751
Prepaid expenses	(1,210)	(1,570)
Accounts payable and accrued expenses	(11,903)	(4,840)
Liability under unitrust agreements	62,484	681,807
Agency funds	434,491	1,307,845
Net cash (used) provided by operating activities	<u>(2,302,064)</u>	<u>2,705,533</u>
Cash flows from investing activities:		
Purchases of investments	(15,210,451)	(18,998,850)
Purchases of property and equipment	(5,872)	(17,180)
Proceeds from the sales and maturities of investments	16,440,091	16,210,784
Net advances on loans and notes receivable	(27,928)	(45,934)
Net cash provided (used) in investment activities	<u>1,195,840</u>	<u>(2,851,180)</u>
Cash flows from financing activities:		
Permanently restricted contributions	-	525
Net cash provided by financing activities	<u>-</u>	<u>525</u>
Net (decrease) in cash and money market funds	(1,106,224)	(145,122)
Cash and money market funds, beginning of year	<u>3,215,197</u>	<u>3,360,319</u>
Cash and money market funds, end of year	<u>\$ 2,108,973</u>	<u>\$ 3,215,197</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements March 31, 2011 and 2010

Note 1: Foundation

The Community Foundation of Western Massachusetts (the "Foundation") was established by a trust instrument effective November 15, 1990. The Foundation is a nonprofit Foundation which administers and distributes funds or property to worthy Foundations and causes.

Note 2: Grant Administration

The Distribution Committee of the Foundation makes recommendations to the Bank of America Charitable Trusts (Eugene A. Dexter Charitable Fund, Nan and Matilda Heydt Fund, and The Valley Charitable Trust Fund) as to which projects should be funded. The Foundation serves as a centralized clearinghouse for grant applications, notification of awards, distribution of funds and monitoring and evaluation of grants. For the grants administration service, the Foundation received grants from the aforementioned trusts totaling \$229,021 and \$226,705 for the years ended March 31, 2011 and 2010 respectively, which have been recorded as administrative fees.

Note 3: Summary of Significant Accounting Policies

A. Comparative Information

The financial statements include certain prior-year summarized comparative information shown in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended March 31, 2010, from which the summarized information was derived.

B. Accounting 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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

C. Method of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when the Foundation obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

D. Financial Statement Presentation

The Foundation presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Foundation may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or by the passage of time. This category includes those funds which allow the Foundation to adhere to its current spending policy.

Permanently Restricted - Resources accumulated through donations or grants that are subject to the restriction that the corpus be maintained permanently. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments. The Foundation utilizes a total return concept for payout as described in the investment policies and procedures.

E. Liquidity

A statement of position that sequences assets and liabilities based upon their relative liquidity is presented.

F. Cash and Money Market Funds

The Foundation considers all short-term investments with an original maturity date of 90 days or less to be cash and money market funds.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements March 31, 2011 and 2010

Note 3: Summary of Significant Accounting Policies (continued)

G. Loans Receivable

The Foundation awards student loans each year. These loans are recorded at amortized cost less a reserve for uncollectible accounts. Payments on these loans begin ninety days after the student has graduated, at which time regular payments are made for up to five years. These loans are non-interest bearing. An allowance for doubtful accounts is recorded based upon prior collection and bad debt experience. The Foundation considers any account which has stopped regular payment as past due and is written off only after all methods of collection have been exhausted.

H. Investments Including Endowments

Investments are stated at fair value using methodologies discussed in Fair Value Measurements and Note 5. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains and losses resulting from sales or maturities are calculated on a specific identification basis. Dividend and interest income are accrued when earned and reported net of investment advisory fees of \$140,912 and \$135,550 for the years ended March 31, 2011 and 2010, respectively. Investment activity is reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments and related activity reported on the financial statements.

The Foundation's investments also include limited partnership interests in private equity hedge funds and certain other funds ("Funds") whose underlying investments are comprised of other funds and partnerships. These Funds invest in both funds and/or securities that include both publicly traded investments as well as other investments that do not have readily ascertainable market values. Certain interests may be subject to withdrawal restrictions. The underlying investments within these funds primarily include private equity, venture capital, mezzanine debt, long/short equity positions, distressed companies, oil and gas, timber and real estate.

The general partners of the Funds that hold certain non-marketable investments initially value these investments at cost. They require that changes in value be established by meaningful third party transaction or a significant development in the financial condition or operating performance of the issuer. To the extent that the Funds hold marketable securities in the underlying partnerships or funds, the general partners of the Funds value the investments in these funds based upon the quoted market values as provided by the general partners or fund managers of the underlying funds. The Foundation values its investments in such Funds in accordance with valuations provided by the general partners of the Funds. The Foundation's management may, in addition, consider other factors in assessing the fair value of these investments.

The Foundation's investments consist of donor restricted endowment funds and funds functioning as quasi-endowment funds (Note 5). Donor restricted endowments consist of gifts received with a donor stipulation that require the funds to be invested in perpetuity. Funds functioning as endowment funds consist of board designated, donor restricted purpose funds and donor advised funds. Board designated funds consist of monies internally designated. Donor restricted purpose funds consist of gifts received with a donor stipulation to be used for a particular purpose, but with no requirement for the funds to be invested in perpetuity and for which a fund was established to function as an endowment.

Professional and accounting literature provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 ("UPMIFA") which serves as a model act for states to modernize their laws governing donor restricted endowment funds. This standard also requires additional disclosures about endowments (both donor restricted funds and quasi-endowment funds).

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements March 31, 2011 and 2010

Note 3: Summary of Significant Accounting Policies (continued)

The Foundation operated under the Massachusetts General Law, Chapter 180A - Uniform Management of Institutional Funds ("UMIFA") up until July 1, 2009. UPMIFA legislation was enacted in the Commonwealth of Massachusetts ("Commonwealth") on July 2, 2009. UMIFA focuses on the prudent spending of the net appreciation of a donor restricted endowment fund; UPMIFA focuses on the prudent spending of the entirety of a donor-restricted endowment fund. UPMIFA also abolishes the historic value limitation on the Foundation's ability to expend its total return and therefore utilize its total return in years when certain donor-restricted funds may be underwater.

The Trustees of the Foundation has interpreted UPMIFA as requiring unrealized and realized gains and losses ("total return") of donor restricted endowment funds to be classified as temporarily restricted, absent explicit donor stipulations to the contrary, until appropriated by the Trustees and expended. Under this interpretation, the historic dollar value of the original gift that establishes a donor restricted endowment fund (and any subsequent gifts) is classified as permanently restricted.

UPMIFA allows prudent appropriation of the total return on donor restricted endowment funds taking into consideration the Foundation's long and short-term needs, present and anticipated financial requirements, expected future total return on its investments, price level trends and general economic conditions. The Trustees have authorized a spending policy based on 4.5% of a thirteen quarter rolling market value of these funds. This policy is designed to preserve the value of donor restricted endowment funds in real terms (after inflation) and provide a predictable flow of funds to support operations. Although not required by state law, the same spending policy is followed for the donor restricted purpose funds. The amount available to spend on grants under this policy was approximately \$2,092,000 and \$2,101,000 for the years ended March 31, 2011 and 2010, respectively.

I. Fair Value Measurements

Professional standards establish a fair value hierarchy that prioritizes the inputs used to measure fair value. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no changes in the valuation techniques during 2011.

J. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets ranging from 3-7 years. Maintenance and repairs are charged to expense as incurred.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements March 31, 2011 and 2010

Note 3: Summary of Significant Accounting Policies (continued)

K. Liability Under Unitrust Agreements

Accounting standards require that assets held in charitable trusts and charitable gift annuities be recorded as follows:

Charitable trusts – the Foundation serves as trustee for various charitable remainder trusts. Under the terms of these agreements, the Foundation makes distributions to income beneficiaries for a given term or the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the Foundation. The Foundation records the assets held in these trusts at their fair value based on current quoted market values and records a liability for the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries based on Internal Revenue Service group annuity tables. The present value of payments to beneficiaries under these agreements is calculated using discount rates representing risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in the value of split interest agreements are recorded in the statement of activities.

Charitable gift annuities – Donors have contributed assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by and the liability is an obligation of the Foundation. The present value of payments to beneficiaries under these agreements is calculated using discount rates representing risk-free rates in existence at the date of the gift.

L. Agency Endowment Funds

Professional standards establish standards for transactions in which a Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. Professional standards specifically requires that, if a not-for-profit Foundation 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. The Foundation refers to such funds as agency endowments.

M. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include gifts of cash or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Gifts or promises restricted as to use or passage of time are required to be reported as temporarily restricted support in the period received and are then reclassified as unrestricted support upon satisfaction of the donor restriction.

N. Administrative Revenue

The Foundation charges administrative fees on the funds it holds for charitable purposes. Administrative fee revenue is recorded as earned. The Trustees of the Foundation are responsible for the adoption and implementation of the administrative revenue policy.

O. Grants Paid

Grants are not recorded as expense until distributed since the Foundation reserves the right to rescind any unpaid grants.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements March 31, 2011 and 2010

Note 3: Summary of Significant Accounting Policies (continued)

P. Income Taxes

The Foundation is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. The Foundation monitors its activities and it considers the potential for income taxes if any activities are not related to its exempt purpose.

Q. Uncertain Tax Positions

Professional accounting standards provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. They require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. A tax position is deemed to include such things as the Foundation's tax exempt status.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition. The Foundation's tax returns are subject to examination by taxing authorities for all years ended on or after March 31, 2008.

R. Contributed Services

The Foundation pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific programs, gift solicitations, and various committee assignments. The value of this contributed time and service is not reflected in these statements since it is not susceptible to objective measurement or valuation. The time is not deemed to be significant.

Note 4: Charitable Lead Trusts

The Foundation Trustees serving from time to time have been named as trustees and the Foundation was named as term beneficiary for two charitable lead trusts. The terms of the trusts provide for periodic payments to the Foundation and upon termination of the trusts, the assets will be remitted to non-charitable beneficiaries. As beneficiary of these trusts, the Foundation receives income based on the market value of the trusts annually for ten and fifteen years respectively. At March 31, 2011 and 2010 respectively, receivables of \$106,920 and \$138,604 are included in contributions receivable. These receivables represent the present value of estimated future receipts using a discount rate of 6%.

In fiscal 1998, the Foundation was named as the beneficiary of a charitable lead annuity trust. As beneficiary of this trust, the Foundation receives \$75,572 of discretionary income annually for fifteen years. At March 31, 2011 and 2010 receivables of \$138,553 and \$202,005, respectively, are included in contributions receivable. These receivables represent the present value of future receipts using a discount rate of 6%.

Note 5: Investments and Assets Held Under Charitable Trusts including Endowments

The Foundation Trustees, as the governing Board, is responsible for oversight of the Foundation's investments. Implementation of investment policy, including the selection of investment managers, has been delegated by the Foundation Trustees to its Investment Committee. Investments authorized by the Investment Committee include high quality, readily marketable equity and fixed income securities; other types of investments may be made with the prior approval of the Foundation Trustees.

The Foundation's investment portfolio consists of a number of investment pools in which a large number of individual funds (donor restricted endowment funds and funds functioning as endowment funds) participate in order to benefit from the diversification and economies of scale. The primary investment objective of the long term investment portfolios is growth of principal sufficient to preserve purchasing power and to provide income to support current and future activities of the Foundation. Long term the total return of these portfolios should equal the rate of inflation, plus the payout rate which is used to support current activities, plus an amount reinvested to support future activities. The Foundation expects these long term investment portfolios, over time, to provide an average rate of return of approximately 8.5% annually. Actual returns in any given year may vary from this amount.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements March 31, 2011 and 2010

Note 5: Investments and Assets Held Under Charitable Trusts including Endowments (continued)

The Trustees have authorized a spending policy based on 4.5% as discussed in Note 3.

From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UMIFA/UPMIFA requires to be retained for perpetual funds. In accordance with GAAP and UMIFA/UPMIFA, the historic gift value of donor restricted endowment funds cannot be reduced for any excess losses. Any excess losses shall reduce temporarily restricted net assets to the extent there is net appreciation on the related funds. Any remaining excess losses shall reduce unrestricted net assets. There are no underwater funds at March 31, 2011 and 2010.

Investment securities including assets held under charitable trusts at March 31 are as follows:

	2011	2010
	<u>Fair Value</u>	<u>Fair Value</u>
Mutual funds	\$ 66,100,970	\$ 71,330,876
U.S. Government obligations	98,686	202,576
Corporate bonds	137,711	206,731
Common stocks	1,350,747	1,490,206
Limited partnerships and other	21,329,405	9,002,271
Total investments	<u>\$ 89,017,519</u>	<u>\$ 82,232,660</u>

At March 31, 2011 and 2010, approximately 76% and 79%, respectively, of investments are reported at fair value based on quoted market prices. The remaining investments are reported at estimated fair value as determined by management based upon various valuation techniques developed by the general partners or investment managers. Because these investments are not readily marketable, their reported values are subject to additional uncertainty, and therefore values realized upon disposition may vary, even significantly, from the currently reported amounts.

The Foundation is obligated under the terms of certain limited partnership agreements to remit additional funding periodically as capital calls are exercised. At March 31, 2011 and 2010, the Foundation had uncalled commitments of \$2,641,222 and \$13,826,575, respectively. Such commitments are generally callable over a period of years and the related agreements contain fixed expiration dates or other termination clauses.

Investments are carried at fair value and are based on quoted market prices, except for certain alternative investments such as limited partnership interests, for which quoted market prices are not available. The estimated fair value of these alternative investments is based on quarterly valuations and other data provided by the external investment managers, updated for capital calls and distributions and other market activity. The valuations for these alternative investments involve appraisals, assumptions, and methods that are reviewed by the Foundation's management, as well as the Investment Committee. Accordingly, such values may differ from the values that would have been used had a ready market for these investments existed. Such differences could be material. The limited partnerships interests and other are comprised of other funds, partnerships and trusts with underlying investments primarily consisting of private equity, venture capital, mezzanine debt, long/short equity positions, distressed companies, oil and gas, timber and real estate.

The limited partnership agreements associated with the limited partnership investments have original termination dates ranging from December 2012 through December 2016 with extensions available at the discretion of the General Partner or consent of the a majority of limited partners with transfers approved only by the discretion of these same parties. One of these partnerships does allow quarterly redemptions and requires a written notice of redemption 100 days in advance. The redemption restrictions on the remaining investments in this category vary with each fund. The Alternative Investments Group investment can be redeemed twice yearly on June 30th and December 31st with 90 days notice with a 5-10% hold back. The High Vista investment has an initial two year period where redemption is not allowed and then 60 days notice are required with a 10% holdback. Only the TIFF investment holds no redemption restriction.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**Notes to Financial Statements
March 31, 2011 and 2010**

Note 5: Investments and Assets Held Under Charitable Trusts including Endowments (continued)

Endowed investments and assets held under charitable trusts by net asset class and type at March 31, 2011 consist of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor advised funds	\$ 29,367,220	\$ -	\$ -	\$ 29,367,220
Donor restricted purpose funds	-	54,959,370	-	54,959,370
Donor restricted endowment funds	-	-	4,690,929	4,690,929
Total investments	<u>\$ 29,367,220</u>	<u>\$ 54,959,370</u>	<u>\$ 4,690,929</u>	<u>\$ 89,017,519</u>

Endowed investments and assets held under charitable trusts by net asset class and type at March 31, 2010 consist of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor advised funds	\$ 26,133,372	\$ -	\$ -	\$ 26,133,372
Donor restricted purpose funds	-	51,408,359	-	51,408,359
Donor restricted endowment funds	-	-	4,690,929	4,690,929
Total investments	<u>\$ 26,133,372</u>	<u>\$ 51,408,359</u>	<u>\$ 4,690,929</u>	<u>\$ 82,232,660</u>

The following schedule reconciles the change in investments by net asset class for the years ended March 31, 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments – April 1, 2009	\$ 20,497,156	\$ 36,665,901	\$ 4,690,404	\$ 61,853,461
Investment income	455,896	1,008,747	-	1,464,643
Realized and unrealized gains	6,072,964	11,518,169	-	17,591,133
Contributions received	-	2,444,073	525	2,444,598
Spending policy distributions	-	(2,101,162)	-	(2,101,162)
Split interest agreements investment gain	-	1,228,400	-	1,228,400
Other/release from restriction	(892,644)	644,231	-	(248,413)
Investments – March 31, 2010	<u>26,133,372</u>	<u>51,408,359</u>	<u>4,690,929</u>	<u>82,232,660</u>
Investment income	453,450	1,097,666	-	1,551,116
Realized and unrealized gains	2,267,014	5,747,485	-	8,014,499
Contributions received	-	865,847	-	865,847
Spending policy distributions	-	(2,092,286)	-	(2,092,286)
Split interest agreements investment gains	-	407,127	-	407,127
Other/release of restrictions	513,384	(2,474,828)	-	(1,961,444)
Investments – March 31, 2011	<u>\$ 29,367,220</u>	<u>\$ 54,959,370</u>	<u>\$ 4,690,929</u>	<u>\$ 89,017,519</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**Notes to Financial Statements
March 31, 2011 and 2010**

Note 6: Fair Value Measurements

Assets measured at fair value on a recurring basis at March 31 were as follows:

	Total 2011	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$ 2,108,973	\$ 2,108,973		
Contributions receivable	245,473			\$ 245,473
Mutual funds:				
Equity index funds	39,872,523	39,872,523		-
Bond index funds	10,242,754	10,242,754		-
Growth funds	3,907,705	3,907,705		-
Balanced funds	7,694,284	7,694,284		-
Income funds	267,132	267,132		-
Bond funds	4,116,572	4,116,572		-
U.S. Government obligations	98,686	98,686		-
Corporate bonds:				
AA+ Rating	49,066	49,066		-
A+ Rating	35,983	35,983		-
A Rating	26,416	26,416		-
BBB+ Rating	26,246	26,246		-
Common stocks:				
Energy	166,487	166,487		-
Financial services	120,465	120,465		-
Consumer goods	157,619	157,619		-
Industrials	502,732	183,830	\$ 318,902	-
Health care	67,728	67,728	-	-
Materials	124,296	124,296	-	-
Technology	114,435	114,435	-	-
Telecommunications	32,251	32,251	-	-
Utilities	64,734	64,734	-	-
Limited partnerships and other:				
Private equity venture capital	8,413,991	-	-	8,413,991
Natural resources	3,046,377	-	-	3,046,377
Real estate	963,759	-	-	963,759
Hedge funds	8,481,682	-	-	8,481,682
Mezzanine	423,596	-	-	423,596
	<u>\$ 91,371,965</u>	<u>\$ 69,478,185</u>	<u>\$ 318,902</u>	<u>\$ 21,574,878</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**Notes to Financial Statements
March 31, 2011 and 2010**

Note 6: Fair Value Measurements (continued)

	Total 2010	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$ 3,215,197	\$ 3,215,197		
Contributions receivable	340,609	-		\$ 340,609
Mutual funds:				
Equity index funds	37,565,320	37,565,320		-
Bond index funds	18,241,371	18,241,371		-
Growth funds	5,678,818	5,678,818		-
Balanced funds	5,177,607	5,177,607		-
Income funds	260,594	260,594		-
Bond funds	4,407,166	4,407,166		-
U.S. Government obligations	202,576	202,576		-
Corporate bonds:				
AA+ Rating	70,664	70,664		-
A+ Rating	46,747	46,747		-
A Rating	89,320	89,320		-
Common stocks:				
Energy	212,602	212,602		-
Financial services	125,762	125,762		-
Consumer goods	165,315	165,315		-
Industrials	550,183	207,561	\$ 342,622	-
Health care	134,694	134,694	-	-
Materials	65,399	65,399	-	-
Technology	170,764	170,764	-	-
Telecommunications	22,653	22,653	-	-
Utilities	42,834	42,834	-	-
Limited partnerships and other:				
Private equity venture capital	2,359,247	-	-	2,359,247
Natural resources	2,421,559	-	-	2,421,559
Real estate	886,104	-	-	886,104
Hedge funds	2,714,861	-	-	2,714,861
Mezzanine	620,500	-	-	620,500
	<u>\$ 85,788,466</u>	<u>\$ 76,102,964</u>	<u>\$ 342,622</u>	<u>\$ 9,342,980</u>

Cash equivalents

The carrying value of cash equivalents approximates fair value as maturities are less than three months.

Contributions receivable

The present value of the estimated future receipts on charitable lead trusts and the estimate value of contributions receivable, after allowances for uncollectible contributions, was estimated by management based on the present value of discounted cash flows (Note 7).

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**Notes to Financial Statements
March 31, 2011 and 2010**

Note 6: Fair Value Measurements (continued)

Mutual funds, common stocks, and U.S. government obligations

Level 1- Valued at closing price reported on the active market on which the individual securities are traded.

Level 2- Valued at a price established when the investment was last traded.

Corporate bonds

Valued at quoted market prices.

Limited partnerships and other

Underlying investments are valued at the closing prices reported on the active market on which the individual securities are traded. Included in the portfolios are securities that are not actively or frequently traded, and for which public information can be minimal or not available. When market quotations are not readily available, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the trustee or the investment manager.

Split interest agreements

The fair value of split interest agreements was determined by calculating the present value of the agreement using life expectancy tables and a 6.5% discount rate.

Fair Value Measurements

The following schedule reconciles fair value measurements using significant unobservable inputs (Level 3) as noted above for the year ended March 31, 2011:

Assets	Contributions receivable	Limited Partnerships And Other
Balance 4/1/09	\$ 1,190,360	\$ 8,373,732
Total unrealized losses	-	(347,767)
Purchases, issuances and settlements	<u>(849,751)</u>	<u>976,306</u>
Balance 3/31/10	340,609	9,002,271
Total unrealized gains	-	1,809,110
Purchases, issuances and settlements	<u>(95,136)</u>	<u>10,518,024</u>
Balance 3/31/11	<u>\$ 245,473</u>	<u>\$ 21,329,405</u>
 Total activity for the period included on the statement of activities related to Level 3 assets held at March 31, 2010	 <u>\$ -</u>	 <u>\$ (347,767)</u>
 Total activity for the period included on the statement of activities related to Level 3 assets held at March 31, 2011	 <u>\$ -</u>	 <u>\$ 1,809,110</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**Notes to Financial Statements
March 31, 2011 and 2010**

Note 7: Contributions Receivable

Contributions receivable at March 31 are as follows:

	<u>2011</u>	<u>2010</u>
Due within 1 year	\$ 115,752	\$ 115,752
Due in 1 to 5 years	155,751	271,144
Due after 5 years	-	-
	<u>271,503</u>	<u>386,896</u>
Less discount to present value at 6%	(26,030)	(46,287)
	<u>\$ 245,473</u>	<u>\$ 340,609</u>

The Foundation is known to have been named as beneficiary in the wills of certain supporters. These conditional contributions have not been recorded as of March 31, 2011.

Note 8: Note Receivable

The Foundation holds a note receivable of \$543,501 at March 31, 2011 and 2010, due on January 15, 2019. Interest only is payable quarterly at 6%.

Note 9: Loans Receivable

Loans receivable at March 31 are as follows:

	<u>2011</u>	<u>2010</u>
Loans receivable	\$ 3,500,346	\$ 3,333,418
Less: reserve for uncollectable loans	(777,000)	(638,000)
	<u>\$ 2,723,346</u>	<u>\$ 2,695,418</u>

The loans are non-interest bearing with repayment terms of up to five years.

Note 10: Property and Equipment

Property and equipment at March 31 are as follows:

	<u>2011</u>	<u>2010</u>
Computer equipment and furniture	\$ 136,337	\$ 130,464
Less: accumulated depreciation	(121,115)	(110,621)
	<u>\$ 15,222</u>	<u>\$ 19,843</u>

Note 11: Lease Commitment

The Foundation leases office space under an agreement which expires in March 2012 with an option to extend for an additional five years. Rent expense for the years ended March 31, 2011 and 2010 amounted to \$82,586 and \$84,874, respectively. The future minimum lease payments exclusive of building maintenance expense as of March 31, 2011 are \$77,328 for the year ending March 31, 2012.

Note 12: Conditional Promises To Give

The Foundation has made certain conditional promises to give in the amount of approximately \$222,500 as of March 31, 2011. The allocations are contingent upon certain agency performance targets and availability of funding. Conditional promises to give are not recorded until conditions have been met and as such the related expense and allocation payable have not been recorded in the accompanying financial statement. The Foundation anticipates payment begin made over the period April 1, 2011 and March 31, 2012.

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

**Notes to Financial Statements
March 31, 2011 and 2010**

Note 13: Employee Benefit Plan

The Foundation has a defined contribution 401(k) Profit Sharing Plan. All full time employees completing one year of service are eligible to participate through voluntary tax deferred contributions. In addition, the Foundation contributes 7% of each eligible participant's annual gross salary and matches up to 2% of any voluntary contributions. The plan expense was \$56,940 and \$53,267 for the years ended March 31, 2011 and 2010, respectively.

Note 14: Related Party Transaction

A member of the Board of Trustees is a partner in the law firm which provides legal services to the Foundation. In fiscal 2011 and 2010, respectively, the Foundation paid this firm \$16,543 and \$8,972 for services rendered.

A member of the Board of Trustees is the owner of staffing agency which provides temporary employees to the Foundation. In fiscal year 2010, the Foundation paid this firm \$2,659 for temporary help.

Certain members of the Board of Trustees are distribution advisors to certain funds held by the Foundation.

Note 15: Temporarily Restricted Net Assets

Temporarily restricted net assets as of March 31 are comprised of the following:

	<u>2011</u>	<u>2010</u>
Colgan and Sutton Annen loan funds	\$ 7,916,846	\$ 7,576,661
Appreciation on investments available for total return	589,314	257,986
Gifts restricted to particular purposes	47,273,851	43,908,261
	<u>\$ 55,780,011</u>	<u>\$ 51,742,908</u>

During the years ended March 31, temporarily restricted net assets were released from restrictions to support the Foundation's activities, as follows:

	<u>2011</u>	<u>2010</u>
Qualifying grant expenditures	\$ 3,167,267	\$ 2,999,479

Note 16: Permanently Restricted Net Assets

Permanently restricted net assets as of March 31 are comprised of the following:

	<u>2011</u>	<u>2010</u>
Grant making purposes	\$ 4,201,471	\$ 4,201,471
Scholarships	489,458	489,458
	<u>\$ 4,690,929</u>	<u>\$ 4,690,929</u>

Note 17: Functional Expenses

Expenses by functional classification for the years ended March 31 are as follows:

	<u>2011</u>	<u>2010</u>
Grants	\$ 6,446,700	\$ 5,524,239
Scholarship	2,206,332	2,218,827
Management and general	353,299	345,759
Fund raising	317,333	313,867
	<u>\$ 9,323,664</u>	<u>\$ 8,402,692</u>

COMMUNITY FOUNDATION OF WESTERN MASSACHUSETTS

Notes to Financial Statements
March 31, 2011 and 2010

Note 18: Concentrations and Credit Risks

During 2011, there was one donor who contributed 8% of total contributions (17% in 2010) and another donor who contributed 5% of total contributions (13% in 2010).

The Foundation maintains its cash balances at various banks and other financial institutions. Cash balances at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From December 31, 2010 through December 31, 2012, the accounts which are non-interest bearing are fully insured by the FDIC. After December 31, 2012, the limit of \$250,000 is scheduled to be reinstated. At various times during the year, the cash balances may exceed the insured amount. The Foundation has not experienced any losses on these accounts. The Foundation believes it is not exposed to any significant credit risk on cash and money market accounts.

Note 19: Reclassification

Certain 2010 amounts have been reclassified to conform with the 2011 presentation. This reclassification did not result in any change to the statement of changes in net assets.

Note 20: Subsequent Events

Changes in investment returns and fair values can have a significant effect on the Foundation. Since March 31, 2011, U.S. and world markets continue to be volatile. Management is monitoring investment conditions and the impact this volatility is having on the Foundation's investment portfolio. Due to the volatility of the financial markets as of the date of the report, there is uncertainty regarding the impact which continued volatility may have on the Foundation's investment portfolio.

Management has evaluated subsequent events through June 28, 2011, the date which the financial statements were available to be issued.