

THE MACDOWELL COLONY, INC.
Consolidated Financial Statements
For the Nine Months Ended December 31, 2015
(With Independent Auditors' Report Thereon)

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6
SUPPLEMENTARY INFORMATION:	
Consolidating Statement of Financial Position	19
Consolidating Statement of Activities	20

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The MacDowell Colony, Inc.

Additional Offices:
Nashua, NH
Andover, MA
Greenfield, MA
Ellsworth, ME

We have audited the accompanying consolidated financial statements of The MacDowell Colony, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the nine months 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The MacDowell Colony, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the nine months then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The MacDowell Colony, Inc.'s fiscal year March 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information appearing on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Melanson Heath

July 20, 2016

THE MACDOWELL COLONY, INC.

Consolidated Statement of Financial Position
December 31, 2015
(With Comparative Totals as of March 31, 2015)

	Unrestricted			Temporarily Restricted	Permanently Restricted	<u>12/31/2015</u>	<u>3/31/2015</u>
	Operating	Board Designated	Total Unrestricted				
ASSETS							
Current Assets:							
Cash and cash equivalents	\$ 683,573	\$ -	\$ 683,573	\$ 16,350	\$ -	\$ 699,923	\$ 368,147
Pledges receivable in less than one year	73,900	-	73,900	1,045,000	-	1,118,900	137,710
Other current assets	<u>125,811</u>	<u>-</u>	<u>125,811</u>	<u>-</u>	<u>150,000</u>	<u>275,811</u>	<u>291,776</u>
Total current assets	883,284	-	883,284	1,061,350	150,000	2,094,634	797,633
Pledges receivable in more than one year	-	-	-	147,500	-	147,500	60,000
Investments in marketable and other securities	11,011,539	1,522,444	12,533,983	7,623,964	10,721,829	30,879,776	33,248,614
Property and equipment:							
Property and equipment	11,818,229	-	11,818,229	-	-	11,818,229	11,179,458
Less: accumulated depreciation	<u>(5,675,966)</u>	<u>-</u>	<u>(5,675,966)</u>	<u>-</u>	<u>-</u>	<u>(5,675,966)</u>	<u>(5,392,266)</u>
Property and equipment, net	<u>6,142,263</u>	<u>-</u>	<u>6,142,263</u>	<u>-</u>	<u>-</u>	<u>6,142,263</u>	<u>5,787,192</u>
Total Assets	<u>\$ 18,037,086</u>	<u>\$ 1,522,444</u>	<u>\$ 19,559,530</u>	<u>\$ 8,832,814</u>	<u>\$ 10,871,829</u>	<u>\$ 39,264,173</u>	<u>\$ 39,893,439</u>
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Accounts payable	\$ 85,081	\$ -	\$ 85,081	\$ -	\$ -	\$ 85,081	\$ 53,122
Accrued liabilities	60,500	-	60,500	-	-	60,500	84,310
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Total current liabilities	145,581	-	145,581	-	-	145,581	177,432
Net Assets:							
Unrestricted	17,891,505	1,522,444	19,413,949	-	-	19,413,949	21,232,455
Temporarily restricted	-	-	-	8,832,814	-	8,832,814	8,099,972
Permanently restricted:							
Income restricted	-	-	-	-	6,971,735	6,971,735	6,483,486
Income unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,900,094</u>	<u>3,900,094</u>	<u>3,900,094</u>
Total Net Assets	<u>17,891,505</u>	<u>1,522,444</u>	<u>19,413,949</u>	<u>8,832,814</u>	<u>10,871,829</u>	<u>39,118,592</u>	<u>39,716,007</u>
Total Liabilities and Net Assets	<u>\$ 18,037,086</u>	<u>\$ 1,522,444</u>	<u>\$ 19,559,530</u>	<u>\$ 8,832,814</u>	<u>\$ 10,871,829</u>	<u>\$ 39,264,173</u>	<u>\$ 39,893,439</u>

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

THE MACDOWELL COLONY, INC.

Consolidated Statement of Activities
For the Nine Months Ended December 31, 2015
(With Comparative Totals for the Year Ended March 31, 2015)

	Unrestricted			Temporarily Restricted	Permanently Restricted	Nine Months Ended 12/31/2015	Twelve Months Ended 3/31/2015
	Operating	Board Designated	Total Unrestricted				
Support and revenue:							
Contributions:							
Individuals	\$ 297,120	\$ -	\$ 297,120	\$ 2,530,001	\$ 274,425	\$ 3,101,546	\$ 666,743
Foundations	118,801	-	118,801	173,294	-	292,095	1,029,295
Corporations	5,000	-	5,000	10,000	-	15,000	39,000
Bequests	32,486	-	32,486	-	213,824	246,310	231,304
Government grants	40,000	-	40,000	-	-	40,000	30,000
Events:							
National benefit	311,175	-	311,175	4,000	-	315,175	469,077
Medal Day	44,065	-	44,065	1,500	-	45,565	69,741
Other special events	85,300	-	85,300	5,500	-	90,800	66,352
Campaign contributions	-	-	-	-	-	-	240,000
Other income:							
Application fees	26,164	-	26,164	-	-	26,164	41,634
Other	24,030	-	24,030	-	-	24,030	34,557
New High Street - income	19,001	-	19,001	-	-	19,001	31,598
Interest income	228	-	228	-	-	228	321
Net assets released from restrictions	1,412,730	(66,643)	1,346,087	(1,346,087)	-	-	-
Total support and revenue	2,416,100	(66,643)	2,349,457	1,378,208	488,249	4,215,914	2,949,622
Expenses:							
Colony operations	1,818,206	-	1,818,206	-	-	1,818,206	2,364,592
Administrative	719,806	-	719,806	-	-	719,806	919,824
Fund raising	763,277	-	763,277	-	-	763,277	811,845
Total expenses	3,301,289	-	3,301,289	-	-	3,301,289	4,096,261
Excess (deficiency) of support and revenue over expenses before net investment return	(885,189)	(66,643)	(951,832)	1,378,208	488,249	914,625	(1,146,639)
Return on investments:							
Unrealized gain (loss) on investments	(1,105,796)	(146,772)	(1,252,568)	(725,238)	(904,865)	(2,882,671)	1,148,967
Realized gains on investment transactions	282,951	39,362	322,313	192,616	253,753	768,682	557,317
Interest and dividends	226,660	30,720	257,380	146,676	197,893	601,949	716,596
Total return on investments	(596,185)	(76,690)	(672,875)	(385,946)	(453,219)	(1,512,040)	2,422,880
Reclassification of investment return based on donor restrictions:							
From restricted revenue - temporarily restricted net assets	(23,802)	-	(23,802)	23,802	-	-	-
From income unrestricted - permanently restricted net assets	(169,997)	-	(169,997)	-	169,997	-	-
From income restricted - permanently restricted net assets	-	-	-	(283,222)	283,222	-	-
Total reclassification of investment return	(193,799)	-	(193,799)	(259,420)	453,219	-	-
Net investment return	(789,984)	(76,690)	(866,674)	(645,366)	-	(1,512,040)	2,422,880
Change in net assets	(1,675,173)	(143,333)	(1,818,506)	732,842	488,249	(597,415)	1,276,241
Net assets, beginning of year	19,566,678	1,665,777	21,232,455	8,099,972	10,383,580	39,716,007	38,439,766
Net assets, end of year	\$ 17,891,505	\$ 1,522,444	\$ 19,413,949	\$ 8,832,814	\$ 10,871,829	\$ 39,118,592	\$ 39,716,007

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

THE MACDOWELL COLONY, INC.

Consolidated Statement of Cash Flows
For the Nine Months Ended December 31, 2015
(With Comparative Totals For the Year Ended March 31, 2015)

	Nine Months Ended <u>12/31/2015</u>	Twelve Months Ended <u>3/31/2015</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (597,415)	\$ 1,276,241
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	301,675	416,204
Net unrealized gains on investments	2,882,671	(1,148,967)
Net realized gain (loss) on investments	(768,682)	(557,317)
Restricted contributions	(488,249)	(855,000)
Decrease (Increase) In:		
Pledges receivable	(1,068,690)	(23,539)
Other current assets	15,965	(23,033)
(Decrease) Increase In:		
Accounts payable	31,959	(74,902)
Accrued liabilities	(23,810)	10,840
Deferred revenue	<u>(40,000)</u>	<u>21,750</u>
Net Cash Provided (Used) By Operating Activities	245,424	(957,723)
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments	(2,309,551)	(2,059,392)
Proceeds from sales of investments	2,564,396	2,302,905
Purchases of property and equipment	<u>(656,742)</u>	<u>(274,221)</u>
Net Cash Used By Investing Activities	(401,897)	(30,708)
<u>Cash Flows From Financing Activities:</u>		
Proceeds from restricted contributions	<u>488,249</u>	<u>855,000</u>
Net Cash Provided By Financing Activities	<u>488,249</u>	<u>855,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	331,776	(133,431)
Cash and Cash Equivalents, Beginning of Year	<u>368,147</u>	<u>501,578</u>
Cash and Cash Equivalents, End of Year	<u>\$ 699,923</u>	<u>\$ 368,147</u>

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

THE MACDOWELL COLONY, INC.

Notes to Consolidated Financial Statements

1. **Activities:**

The MacDowell Colony, Inc. (the Colony) is an artists' community which provides residencies of up to eight weeks to over 275 writers, visual artists, composers, filmmakers, and other creative artists each year. Consisting primarily of 32 separate studios and 13 support buildings sited amidst woods and fields on a 450-acre property in Peterborough, New Hampshire, the Colony offers artists in residence uninterrupted time and seclusion in a stimulating community of other artists, hoping thereby to enhance the process of artistic creativity.

2. **Change in Year End:**

In 2015, the Colony changed its year end from March 31 to December 31.

3. **Summary of Significant Accounting Policies:**

Basis of Presentation

The Colony reports information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted, and permanently restricted as follows:

- *Unrestricted Net Assets* are expended when and as authorized by the Board of Directors (the "Board").
- *Temporarily Restricted Net Assets* consist of donated funds which may be expended upon the satisfaction of donor-imposed restrictions. Approximately 80% of *Temporarily Restricted Net Assets* are for the anticipated purchase of an office condominium at 521 West 23rd Street.
- *Permanently Restricted - Income Restricted Net Assets* consist of donated funds for which the donor has stipulated that the principal be maintained in perpetuity. The investment gains, losses, and income from these investments are reclassified to temporarily restricted net assets to fund certain activities of the Colony upon the satisfaction of donor-imposed restrictions.

- *Permanently Restricted - Income Unrestricted Net Assets* consist of donated funds for which the donor has stipulated that the principal is to be maintained in perpetuity. The investment gains, losses and income from these investments are reclassified to unrestricted net assets to fund Colony operations.

Basis of Accounting

Revenues and expenses are reported on the accrual basis of accounting. Under this basis, revenues, other than contributions, and expenses are reported when incurred, without regard to the date of receipt or payment of cash. Contributions are reported in accordance with FASB ASC *Accounting for Contributions Received and Contributions Made*.

Principles of Consolidation

During fiscal year 2012, the Colony formed New High Street, LLC, a New Hampshire Limited Liability Company, for the sole purpose of acquiring certain real estate located adjacent to its facility (see Note 14). The Colony is the sole member of New High Street, LLC.

The accompanying financial statements include the accounts of MacDowell Colony, Inc. and its wholly owned limited liability company, New High Street, LLC. All material inter-company transactions have been eliminated.

Revenue Recognition

Unconditional pledges to give cash or other assets are recognized as revenue in the period pledged at their estimated fair value. Gifts of cash and other assets and the related investment income thereon are recorded as restricted support if received with donor stipulations limiting the use of the donated assets. When the donor restriction expires or is otherwise satisfied, the related revenues are reclassified to the appropriate net asset category and reported in the Statement of Activities as satisfaction of donor restrictions.

Cash and Cash Equivalents

The Colony considers all cash and interest-bearing deposits in banks to be cash equivalents.

Pledges Receivable

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially

met and the promises become unconditional. No allowance has been recorded, as management believes all pledges to be fully collectible.

Investments

The Colony records its investments and gifts of investments at their fair market values based on quoted market prices.

The Colony utilizes a pooled-investment-fund basis of managing its investments. Unless otherwise restricted by the donor, investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets. Investment gains, losses, and income are allocated to donor-restricted funds based on their proportionate share of the pooled investments. Investment losses on donor-restricted assets will not reduce the value of said assets below the historical value of the original gift. Any excess loss will reduce temporarily restricted net assets to the extent that donor-imposed restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss will reduce unrestricted net assets.

Property and Equipment

Property and equipment are recorded at cost. Major additions and improvements are capitalized, while ordinary maintenance and repairs are charged to expense. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, with any resulting gain or loss reflected in the Statement of Activities. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 through 40 years. Donated property and equipment are recorded at fair value when such fair value information is available. Donated property for which an objective basis is not available to measure that value at the time of the gift is not reflected in the financial statements. Almost all of the Colony's land and much of its property are thus accorded no value in these financial statements. The Colony regularly reviews its property and equipment to determine that the carrying values have not been impaired. Assets not in service are not depreciated.

Donated Services and Materials

The Colony receives certain materials and services from donors and volunteers. At the time of donation, the value of these resources is reflected in the accompanying financial statements.

Tax Status

The Colony is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Colony has also been classified as an entity that is not a private foun-

ation within the meaning of Section 509(a) and qualifies for deductible contributions.

The Colony follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. FASB ASC 740-10 did not have a material impact on the Colony's financial statements.

The Colony's Federal Form 990 (Return of Organization Exempt From Income Tax) for the past three fiscal years are subject to examination by the IRS, generally for three years after filing.

The Colony recognizes interest related to unrecognized tax benefits in interest expense and penalties that are included within reported expenses. During the nine months ended December 31, 2015, the Colony had no interest or penalties accrued related to unrecognized tax benefits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Colony to significant concentrations of credit risk consist primarily of cash and cash equivalents. These cash and cash equivalents are maintained with high credit quality financial institutions.

Fair Value Measurements

The Colony reports its fair value measurements using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1. Quoted prices for identical assets or liabilities in active markets of which the Colony has access at the measurement date.

- Level 2. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the Colony measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs are not available for many of the assets and liabilities that the Colony is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Colony's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give (Note 4).
- recurring measurement of investments (Note 6).

4. **Pledges Receivable:**

Pledges receivable consisted of the following:

	<u>12/31/2015</u>	<u>3/31/2015</u>
Receivable in less than one year	\$ 1,118,900	\$ 137,710
Receivable in one to five years	<u>147,500</u>	<u>60,000</u>
Total	<u>\$ 1,266,400</u>	<u>\$ 197,710</u>

5. Conditional Pledges:

The MacDowell Colony, Inc. established a planned giving program to acknowledge donors who have indicated they have included the Colony in their estate plans. Conditional pledges not recorded in the financial statements consist of bequests and gifts of life insurance proceeds.

6. Investments in Marketable and Other Securities:

Investments at fair value consisted of the following:

	<u>12/31/2015</u>	<u>3/31/2015</u>
Mutual funds:		
Stock funds, domestic	\$ 12,330,796	\$ 12,946,626
Stock funds, international	2,426,341	2,637,821
Short-term bond fund	1,105,676	1,122,429
Money market funds	4,524,545	5,687,063
Common stock at market	9,761,816	10,287,126
Federated U.S. treasury cash	<u>730,602</u>	<u>567,549</u>
Total	<u>\$ 30,879,776</u>	<u>\$ 33,248,614</u>

As discussed in Note 2 to these financial statements, the Colony is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to the Colony's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of December 31, 2015. Level 2 is for investments measured using inputs, such as quoted prices for similar assets, quoted prices for the identical asset in inactive markets, and for investments measured at net asset value that can be redeemed in the near term. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, market activity for the investment. The Colony's valuation technique used to measure its investments is a Level 1 fair value measure.

7. Property and Equipment:

Property and equipment consisted of the following:

	<u>12/31/2015</u>	<u>3/31/2015</u>
Land improvements	\$ 1,012,369	\$ 1,002,711
Land	104,996	104,996
Building and building improvements	9,103,570	8,484,507
Equipment	552,846	552,846
Investment in a cooperative apartment building corporation	289,714	289,714
Vehicles	246,628	236,578
Assets not being depreciated	222,956	222,956
Construction in progress	<u>285,150</u>	<u>285,150</u>
Subtotal	11,818,229	11,179,458
Less: accumulated depreciation	<u>(5,675,966)</u>	<u>(5,392,266)</u>
Total	<u>\$ 6,142,263</u>	<u>\$ 5,787,192</u>

The investment in a cooperative apartment building corporation includes 188 shares of common stock of 165 East 81st Street Corporation at cost, plus the costs of renovating the Colony's office, which is located in this building. Under the terms of a proprietary lease assumed by the Colony (as lessee), 165 East 81st Street Corporation (the "lessor") has a lien on these shares as collateral for shared maintenance and other amounts payable as specified in the lease.

8. Net Assets:

Unrestricted net assets are classified as follows:

	<u>12/31/2015</u>	<u>3/31/2015</u>
Colony operations	\$ 17,891,505	\$ 19,566,678
Board designated - Building and Equipment Reserve Fund	<u>1,522,444</u>	<u>1,665,777</u>
Total unrestricted net assets	<u>\$ 19,413,949</u>	<u>\$ 21,232,455</u>

Temporarily restricted net assets are available for the following purposes:

	<u>12/31/2015</u>	<u>3/31/2015</u>
Fellowships at the Colony	\$ 4,537,810	\$ 5,511,469
Travel to/from the Colony	1,110,791	1,228,278
Maintenance of the Colony	731,320	802,924
Campaign and other time restricted gifts	297,924	164,453
Colony renovations and operations	<u>2,154,969</u>	<u>392,848</u>
Total temporarily restricted net assets	<u>\$ 8,832,814</u>	<u>\$ 8,099,972</u>

Permanently restricted net assets are comprised of:

	<u>12/31/2015</u>	<u>3/31/2015</u>
Income restricted - investment in perpetuity, the income from which is expendable to support:		
Fellowships at the Colony	\$ 5,687,610	\$ 5,199,361
Travel to/from the Colony	750,000	750,000
Maintenance of the Colony	<u>534,125</u>	<u>534,125</u>
Total income restricted	6,971,735	6,483,486
Income unrestricted - investment in perpetuity, the income from which is expendable to support any activities of the Colony	<u>3,900,094</u>	<u>3,900,094</u>
Total permanently restricted net assets	<u>\$ 10,871,829</u>	<u>\$ 10,383,580</u>

9. **Retirement Plan:**

The Colony provides benefits for substantially all employees through the Teachers Insurance and Annuity Association ("TIAA") and the College Retirement Equities Fund ("CREF"). The TIAA/CREF retirement system is a defined contribution plan whereby monthly contributions by the Colony are applied to individual annuities owned and controlled by each participating employee. The Colony's contributions to TIAA/CREF were \$108,927 and \$135,744 for the nine months ended December 31, 2015 and the year ended March 31, 2015, respectively.

10. New Hampshire Charitable Foundation:

The Colony is the beneficiary of a designated fund at The New Hampshire Charitable Foundation (“Foundation”). Pursuant to the terms of the resolution establishing this fund, certain property contributed to the Foundation is held as a separate fund designated for the benefit of the Colony (“Fund”). In accordance with its spending policy, the Foundation makes distributions from the Fund to the Colony. Since all property in the Fund was contributed to The New Hampshire Charitable Foundation to be held and administered for the benefit of the Colony, the Fund is not included in these financial statements.

Distributions to the Colony from the Fund totaled \$56,801 and \$71,087 for the nine months ended December 31, 2015 and the year ended March 31, 2015, respectively. The market value of the fund assets was \$1,863,988 as of December 31, 2015.

11. Operating Fund:

The operations for the year are covered by 1) annual contributions and income from the current year and contributions from prior years that have been released from restrictions as reflected in Support and Revenue, and 2) transfers of net investment return on endowment. Operating budgets are projected using the guideline of spending a maximum of 5% from our investment pool (more specifically, the average of the 12 preceding quarters of all net investments) to cover deficits between operating income and expenses in a given fiscal year. To the extent the Colony’s operating deficit exceeds the 5% level, the Board can designate an additional draw from unrestricted funds. Additionally, the Board oversees capital expenses to make improvements to the plant, and these are covered by the Board Designated Building and Equipment Reserve Fund or special gifts designated for this purpose.

12. Endowment Funds:

The Colony’s endowment consists of various individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Board-designated Endowment

As of December 31, 2015, the Board of Directors had designated \$1,522,444 of unrestricted net assets as a general endowment fund to support the mission of the Colony. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Composition of and changes in Board-designated endowment net assets for the nine months ended December 31, 2015 were as follows:

Board-designated endowment net assets, beginning of year	\$ 1,665,777
Investment gains/(losses)	(76,690)
Amounts appropriated for expenditure	<u>(66,643)</u>
Board-designated endowment net assets, end of year	<u><u>\$ 1,522,444</u></u>

Donor-designated Endowments

The Board of Directors of the Colony has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Colony classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Colony in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Colony considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Colony, and (7) the Colony's investment policies.

Funds with Deficiencies

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 UPMIFA requires the Colony to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are required to be restored from either temporarily restricted or unrestricted net

assets, depending on donor stipulations. These deficiencies result from unfavorable market fluctuations that occur causing the original donor restricted contribution, plus accumulated investment earnings that, in accordance with donor stipulations, are required to be added to the original contribution, to fall below the accumulated balances. Donor stipulations for permanently restricted-income restricted funds require the reclassification of realized and unrealized earnings to temporarily restricted net assets. Based on donor stipulations, there are no temporarily or permanently restricted funds in deficit.

Investment Policy

The Colony's Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Colony expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Colony has a policy of appropriating for distribution each year 5% of its investment assets' average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Colony considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Colony expects to preserve the corpus of the endowment and allow for growth sufficient enough to support the Colony's annual spending policy. This is consistent with the Colony's objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

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

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 7,623,964	\$ 10,721,829	\$ 18,345,793
Board-designated endowment funds	-	1,522,444	-	-	1,522,444
Unrestricted endowment funds	<u>11,011,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,011,539</u>
Total funds	<u>\$ 11,011,539</u>	<u>\$ 1,522,444</u>	<u>\$ 7,623,964</u>	<u>\$ 10,721,829</u>	<u>\$ 30,879,776</u>

Changes in endowment net assets as of December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 13,398,095	\$ 1,665,777	\$ 7,951,162	\$ 10,233,580	\$ 33,248,614
Investment income	509,611	70,082	339,292	451,646	1,370,631
Unrealized gains/losses	(1,105,796)	(146,772)	(725,238)	(904,865)	(2,882,671)
Investment fees	<u>(53,204)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,204)</u>
Net investment earnings	(649,389)	(76,690)	(385,946)	(453,219)	(1,565,244)
Reclassification of investment return	(193,799)	-	(259,420)	453,219	-
Cash basis support and revenue	65,393	-	1,333,251	309,113	1,707,757
Investment transfer used in operations:					
Cash funded transfer for operations	(1,608,761)	-	-	179,136	(1,429,625)
Assets released from restriction	-	(66,643)	(516,383)	-	(583,026)
New York space and restricted gifts released from restriction	<u>-</u>	<u>-</u>	<u>(498,700)</u>	<u>-</u>	<u>(498,700)</u>
Total investment transfer used in operations	<u>(1,608,761)</u>	<u>(66,643)</u>	<u>(1,015,083)</u>	<u>179,136</u>	<u>(2,511,351)</u>
Endowment net assets, end of year	<u>\$ 11,011,539</u>	<u>\$ 1,522,444</u>	<u>\$ 7,623,964</u>	<u>\$ 10,721,829</u>	<u>\$ 30,879,776</u>

13. Related Party Transactions:

During 2015, the Colony entered into various transactions with members of the Board. All transactions were reviewed and approved by the Board and performed in accordance with conflict of interest guidelines established by the New Hampshire Attorney General's Office.

14. New High Street, LLC:

During fiscal year 2012, the Colony formed a New Hampshire Limited Liability Company, New High Street, LLC, to acquire land and buildings adjacent to the Colony's property. The 38-acre parcel gifted to the Peterborough Golf Association in 1900 by Edward MacDowell has been operated as a public golf course

by the Monadnock Country Club, a nonprofit social club. Owing to financial difficulties, the Monadnock Country Club sought to sell the property to an entity that would welcome the club's continued operation. To facilitate the purchase and distinguish it from the Colony's program, New High Street, LLC purchased the property and negotiated a multi-year lease with Monadnock Country Club for its continued operation of the property as a public golf course.

15. Subsequent Events:

In accordance with the provision set forth by FASB ASC, *Subsequent Events*, management has evaluated for disclosure events and transactions that occurred from January 1 through July 20, 2016, the date the financial statements were available to be issued.

The Colony has a signed Contract of Sale agreement to purchase the second floor unit in the Artist's Condominium building, located at 521 West 23rd Street, New York, NY for the purchase price of \$5.1 million. A closing date is anticipated before August 31, 2016.

The Colony has a loan commitment letter for a commercial mortgage loan from First Republic Bank for up to \$2.55 million for the acquisition of commercial real estate. Interest will accrue at an initial rate of 3.9%, fixed for 60 months. Interest will accrue at 2.8% over the one-month LIBOR beginning in month 61 of the loan with a floor of 3.15% and rate cap of 11.95%. Principal and interest will be payable monthly in arrears, in equal monthly installments during the term of the loan based on an amortization of 25 years, with a loan maturity of 10 years. Borrower may repay the loan in whole or in part after the fourth anniversary of the loan without penalty. The mortgage will be collateralized by the real property located at 521 West 23rd Street, New York, NY.

The Colony has a \$5 million line of credit with Boston Private Bank. Proceeds for any drawdown from the line of credit will be used to fund the purchase and improvement of 521 West 23rd Street, New York, NY. Drawdown from the line of credit will be due on demand. In addition, accrued interest on the unpaid drawn down principal amount will be payable monthly commencing one month after any drawdown from the line of credit. Interest on any outstanding principal will accrue at an annual rate equal to the three month LIBOR annual rate plus 1.75%. The line of credit will be collateralized by securities held by the lender in the borrower's investment account. The Colony expects to repay the principal amount of the drawdown from the proceeds of the sale of the office condominium currently owned by the Colony.

Other than the events noted above, management has determined that there were no material events that would require disclosure in the Colony's financial statements through this date.

THE MACDOWELL COLONY, INC.

Consolidating Statement of Financial Position
December 31, 2015

	<u>The MacDowell Colony, Inc.</u>	<u>New High Street, LLC</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	\$ 677,955	\$ 21,968	\$ 699,923	\$ -	\$ 699,923
Pledges receivable in less than one year	1,118,900	-	1,118,900	-	1,118,900
Other current assets	<u>267,202</u>	<u>8,609</u>	<u>275,811</u>	<u>-</u>	<u>275,811</u>
Total current assets	2,064,057	30,577	2,094,634	-	2,094,634
Pledges receivable in more than one year	147,500	-	147,500	-	147,500
Investments in marketable and other securities	30,879,776	-	30,879,776	-	30,879,776
Investment in New High Street, LLC	426,432	-	426,432	(426,432)	-
Property and equipment:					
Property and equipment	11,416,138	402,091	11,818,229	-	11,818,229
Less: accumulated depreciation	<u>(5,643,591)</u>	<u>(32,375)</u>	<u>(5,675,966)</u>	<u>-</u>	<u>(5,675,966)</u>
Property and equipment, net	<u>5,772,547</u>	<u>369,716</u>	<u>6,142,263</u>	<u>-</u>	<u>6,142,263</u>
Total Assets	<u>\$ 39,290,312</u>	<u>\$ 400,293</u>	<u>\$ 39,690,605</u>	<u>\$ (426,432)</u>	<u>\$ 39,264,173</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable	\$ 85,081	\$ -	\$ 85,081	\$ -	\$ 85,081
Accrued liabilities	<u>60,500</u>	<u>-</u>	<u>60,500</u>	<u>-</u>	<u>60,500</u>
Total current liabilities	145,581	-	145,581	-	145,581
Net Assets:					
Unrestricted	19,440,088	400,293	19,840,381	(426,432)	19,413,949
Temporarily restricted	8,832,814	-	8,832,814	-	8,832,814
Permanently restricted:					
Income restricted	6,971,735	-	6,971,735	-	6,971,735
Income unrestricted	<u>3,900,094</u>	<u>-</u>	<u>3,900,094</u>	<u>-</u>	<u>3,900,094</u>
Total Net Assets	<u>39,144,731</u>	<u>400,293</u>	<u>39,545,024</u>	<u>(426,432)</u>	<u>39,118,592</u>
Total Liabilities and Net Assets	<u>\$ 39,290,312</u>	<u>\$ 400,293</u>	<u>\$ 39,690,605</u>	<u>\$ (426,432)</u>	<u>\$ 39,264,173</u>

See Independent Auditors' Report.

THE MACDOWELL COLONY, INC.

Consolidating Statement of Activities
For the Nine Months Ended December 31, 2015

	The MacDowell Colony, Inc.	New High Street, LLC	Total	Eliminations	Consolidated
Support and revenue:					
Contributions:					
Individuals	\$ 3,101,546	\$ -	\$ 3,101,546	\$ -	\$ 3,101,546
Foundations	292,095	-	292,095	-	292,095
Corporations	15,000	-	15,000	-	15,000
Bequests	246,310	-	246,310	-	246,310
Government grants	40,000	-	40,000	-	40,000
Events:					
National benefit	315,175	-	315,175	-	315,175
Medal Day	45,565	-	45,565	-	45,565
Other special events	90,800	-	90,800	-	90,800
Other income:					
Application fees	26,164	-	26,164	-	26,164
Other	24,030	19,001	43,031	-	43,031
Interest income	228	-	228	-	228
	<u>4,196,913</u>	<u>19,001</u>	<u>4,215,914</u>	<u>-</u>	<u>4,215,914</u>
Total support and revenue					
Expenses:					
Colony operations	1,818,206	-	1,818,206	-	1,818,206
Administrative	703,000	16,806	719,806	-	719,806
Fund raising	763,277	-	763,277	-	763,277
	<u>3,284,483</u>	<u>16,806</u>	<u>3,301,289</u>	<u>-</u>	<u>3,301,289</u>
Total expenses					
Excess (deficiency) of support and revenue over expenses before net investment return	912,430	2,195	914,625	-	914,625
Return on investments:					
Unrealized gain (loss) on investments	(2,882,671)	-	(2,882,671)	-	(2,882,671)
Realized gains on investment transactions	768,682	-	768,682	-	768,682
Interest and dividends	601,949	-	601,949	-	601,949
	<u>(1,512,040)</u>	<u>-</u>	<u>(1,512,040)</u>	<u>-</u>	<u>(1,512,040)</u>
Total return on investments					
Investment in New High Street, LLC	<u>-</u>	<u>29</u>	<u>29</u>	<u>(29)</u>	<u>-</u>
Change in net assets	(599,610)	2,224	(597,386)	(29)	(597,415)
Net assets, beginning of year	<u>39,744,341</u>	<u>398,069</u>	<u>40,142,410</u>	<u>(426,403)</u>	<u>39,716,007</u>
Net assets, end of year	<u>\$ 39,144,731</u>	<u>\$ 400,293</u>	<u>\$ 39,545,024</u>	<u>\$ (426,432)</u>	<u>\$ 39,118,592</u>

See Independent Auditors' Report.