

**THE MACDOWELL COLONY, INC.**

Consolidated Financial Statements

For the Year Ended December 31, 2017

(With Independent Auditors' Report Thereon)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The MacDowell Colony, Inc.

We have audited the accompanying consolidated financial statements of The MacDowell Colony, Inc., which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 from material misstatement.

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

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance 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 December 31, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited consolidated 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 as a whole. The supplementary information appearing on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*Melanson Heath*

March 29, 2018

**THE MACDOWELL COLONY, INC.**

Consolidated Statement of Financial Position  
December 31, 2017  
(With Comparative Totals as of December 31, 2016)

	Unrestricted						
	Operating	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
<b>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 663,292	\$ -	\$ 663,292	\$ -	\$ -	\$ 663,292	\$ 696,904
Contributions receivable in less than one year	73,719	-	73,719	131,000	-	204,719	64,360
Accounts receivable	25,666	-	25,666	-	-	25,666	-
Other current assets	144,792	-	144,792	-	150,000	294,792	300,401
Total Current Assets	907,469	-	907,469	131,000	150,000	1,188,469	1,061,665
Contributions receivable in more than one year	6,000	-	6,000	65,000	-	71,000	105,000
Investments	12,075,914	1,817,987	13,893,901	9,681,957	11,274,959	34,850,817	31,156,979
Property and equipment, net	11,558,434	-	11,558,434	-	-	11,558,434	10,883,559
Total Assets	<u>\$ 24,547,817</u>	<u>\$ 1,817,987</u>	<u>\$ 26,365,804</u>	<u>\$ 9,877,957</u>	<u>\$ 11,424,959</u>	<u>\$ 47,668,720</u>	<u>\$ 43,207,203</u>
<b>LIABILITIES AND NET ASSETS</b>							
Current Liabilities:							
Accounts payable	\$ 139,184	\$ -	\$ 139,184	\$ -	\$ -	\$ 139,184	\$ 83,570
Accrued liabilities	76,875	-	76,875	-	-	76,875	77,644
Line of credit	495,000	-	495,000	-	-	495,000	-
Current portion of mortgage payable	43,730	-	43,730	-	-	43,730	64,544
Total Current Liabilities	754,789	-	754,789	-	-	754,789	225,758
Mortgage payable, net of current portion	2,451,910	-	2,451,910	-	-	2,451,910	2,485,456
Other liabilities	7,253	-	7,253	-	-	7,253	-
Total Liabilities	3,213,952	-	3,213,952	-	-	3,213,952	2,711,214
Net Assets:							
Unrestricted	21,333,865	1,817,987	23,151,852	-	-	23,151,852	21,850,678
Temporarily restricted	-	-	-	9,877,957	-	9,877,957	7,754,630
Permanently restricted:							
Income restricted	-	-	-	-	7,524,865	7,524,865	6,990,587
Income unrestricted	-	-	-	-	3,900,094	3,900,094	3,900,094
Total Net Assets	<u>21,333,865</u>	<u>1,817,987</u>	<u>23,151,852</u>	<u>9,877,957</u>	<u>11,424,959</u>	<u>44,454,768</u>	<u>40,495,989</u>
Total Liabilities and Net Assets	<u>\$ 24,547,817</u>	<u>\$ 1,817,987</u>	<u>\$ 26,365,804</u>	<u>\$ 9,877,957</u>	<u>\$ 11,424,959</u>	<u>\$ 47,668,720</u>	<u>\$ 43,207,203</u>

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

THE MACDOWELL COLONY, INC.

Consolidated Statement of Activities  
For the Year Ended December 31, 2017  
(With Comparative Totals for the Year Ended December 31, 2016)

	Unrestricted			Temporarily Restricted	Permanently Restricted	2017	2016
	Operating	Board Designated	Total Unrestricted				
Support and Revenue:							
Contributions:							
Individuals	\$ 388,575	\$ -	\$ 388,575	\$ 413,815	\$ 31,275	\$ 833,665	\$ 900,106
Foundations	210,602	-	210,602	516,099	500,000	1,226,701	433,099
Corporations	94,305	-	94,305	37,000	-	131,305	48,234
Bequests	36,287	-	36,287	-	3,003	39,290	388,761
Government grants	25,000	-	25,000	-	-	25,000	35,000
Events:							
National benefit	567,596	-	567,596	-	-	567,596	529,294
Medal Day	55,510	-	55,510	-	-	55,510	72,881
Other special events	126,535	-	126,535	-	-	126,535	50,308
Other income:							
Application fees	42,579	-	42,579	-	-	42,579	48,555
Other	45,465	-	45,465	-	-	45,465	21,955
New High Street income	26,679	-	26,679	-	-	26,679	28,405
Interest income	201	-	201	-	-	201	270
Net assets released from restrictions	1,513,219	-	1,513,219	(1,513,219)	-	-	-
Total support and revenue	3,132,553	-	3,132,553	(546,305)	534,278	3,120,526	2,556,868
Expenses:							
Colony operations	2,592,684	-	2,592,684	-	-	2,592,684	2,497,603
Administrative	1,250,481	-	1,250,481	-	-	1,250,481	1,008,799
Fund raising	1,014,834	-	1,014,834	-	-	1,014,834	941,562
Total expenses	4,857,999	-	4,857,999	-	-	4,857,999	4,447,964
Change in net assets before net investment return	(1,725,446)	-	(1,725,446)	(546,305)	534,278	(1,737,473)	(1,891,096)
Return on investments:							
Unrealized gain (loss) on investments	1,630,530	249,703	1,880,233	1,266,527	1,562,751	4,709,511	2,054,715
Realized gains on investments	53,181	8,197	61,378	43,065	52,479	156,922	406,313
Interest and dividends	284,653	44,374	329,027	228,879	271,913	829,819	807,465
Total return on investments	1,968,364	302,274	2,270,638	1,538,471	1,887,143	5,696,252	3,268,493
Reclassification of investment return:							
From board designated - property, plant, and equipment expenditures	87,729	(87,729)	-	-	-	-	-
From restricted revenue - temporarily restricted net assets	75,968	-	75,968	(75,968)	-	-	-
From income unrestricted - permanently restricted net assets	680,014	-	680,014	-	(680,014)	-	-
From income restricted - permanently restricted net assets	-	-	-	1,207,129	(1,207,129)	-	-
Total reclassification of investment return	843,711	(87,729)	755,982	1,131,161	(1,887,143)	-	-
Net investment return	2,812,075	214,545	3,026,620	2,669,632	-	5,696,252	3,268,493
Change in net assets	1,086,629	214,545	1,301,174	2,123,327	534,278	3,958,779	1,377,397
Net assets, beginning of year	20,247,236	1,603,442	21,850,678	7,754,630	10,890,681	40,495,989	39,118,592
Net assets, end of year	\$ 21,333,865	\$ 1,817,987	\$ 23,151,852	\$ 9,877,957	\$ 11,424,959	\$ 44,454,768	\$ 40,495,989

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

**THE MACDOWELL COLONY, INC.**

Consolidated Statement of Cash Flows  
For the Year Ended December 31, 2017  
(With Comparative Totals For the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 3,958,779	\$ 1,377,397
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	453,508	393,973
Net unrealized (gain) loss on investments	(4,709,511)	(2,054,715)
Net realized (gain) loss on investments	(156,922)	(406,313)
Restricted contributions	(534,278)	(18,852)
Decrease (Increase) In:		
Contributions receivable	(106,359)	1,097,040
Accounts receivable	(25,666)	-
Other current assets	5,609	(24,590)
(Decrease) Increase In:		
Accounts payable	55,614	(1,511)
Accrued liabilities	(769)	17,144
Other liabilities	<u>7,253</u>	<u>-</u>
Net Cash Provided (Used) By Operating Activities	(1,052,742)	379,573
Cash Flows From Investing Activities:		
Purchase of investments	(1,638,112)	(2,725,272)
Proceeds from sales of investments	2,810,705	4,909,098
Purchases of property and equipment	<u>(1,128,381)</u>	<u>(2,585,270)</u>
Net Cash Provided (Used) By Investing Activities	44,212	(401,444)
Cash Flows From Financing Activities:		
Proceeds from line of credit	495,000	-
Principal payments on property mortgage	(54,360)	-
Proceeds from restricted contributions	<u>534,278</u>	<u>18,852</u>
Net Cash Provided By Financing Activities	<u>974,918</u>	<u>18,852</u>
Net Change in Cash and Cash Equivalents	(33,612)	(3,019)
Cash and Cash Equivalents, Beginning of Year	<u>696,904</u>	<u>699,923</u>
Cash and Cash Equivalents, End of Year	<u>\$ 663,292</u>	<u>\$ 696,904</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 108,054</u>	<u>\$ -</u>
Noncash financing - property acquired through mortgage	<u>\$ -</u>	<u>\$ 2,550,000</u>

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

# THE MACDOWELL COLONY, INC.

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2017

## 1. Organization

The MacDowell Colony, Inc.'s (the Colony) mission is to promote the arts of music, literature, drama, architecture, painting, sculpture, and other fine arts. The Colony supports the creation of new works of art by providing residencies of up to 2 months to approximately 300 creative individuals of the highest talent selected from the widest possible range of perspective and demographics. 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. Through education and community benefit programs, publications, presentations and other activities, The MacDowell Colony, Inc. increases understanding and appreciation of the arts and its value to the public.

## 2. Significant Accounting Policies

### *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 consolidated 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.

### *Comparative Financial Information*

The accompanying consolidated financial statements include certain prior-year summarized comparative information 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 (GAAP). Accordingly, such information should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

### ***Cash and Cash Equivalents***

All cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

### ***Contributions Receivable***

Contributions receivable are unconditional contributions that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. Fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. No allowance has been recorded, as management believes all contributions receivable 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 is reported in the Consolidated Statement of Financial Position at cost, if purchased, and at fair value at the date of donation, if donated. Almost all of the Colony's land and much of its property are thus accorded no value in these consolidated financial statements. 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 Consolidated 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. The Colony regularly reviews its property and equipment to determine that the carrying values have not been impaired. No impairment losses were recognized in the consolidated financial statements in the current period. Assets not in service are not depreciated.

### ***Net Assets***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported 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.
- *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.

### ***Revenue and Revenue Recognition***

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

### ***Accounting for Contributions***

Contributions are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due and, therefore, are reported as temporarily restricted until

the payment is due unless the contribution is clearly intended to support activities of the current year or is received with permanent restrictions.

The Colony has established a planned giving program to acknowledge donors who have indicated they have included the Colony in their estate plans. These conditional pledges are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met, and consist of bequests and gifts of life insurance proceeds.

### ***Gifts-in-Kind Contributions***

The Colony periodically receives contributions in a form other than cash or investments. Contributed property and equipment is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Colony's capitalization policy. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

The Colony benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Colony's program operations and in its fund raising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. Generally Accepted Accounting Principles allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated architectural services with an estimated fair value of \$94,305 met those criteria and are included in the Statement of Activities. Donated legal services with an estimated fair value of \$2,500 are not included in the Statement of Activities.

### ***Grant Revenue***

Grant revenue is recognized when the qualifying costs are incurred for cost reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue is subject to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Colony's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Colony.

### ***Income Taxes***

The MacDowell Colony, Inc. 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 foundation 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 consolidated financial statements.

The Colony's Federal Form 990 (Return of Organization Exempt From Income Tax) is 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 year ended December 31, 2017, the Colony had no interest or penalties accrued related to unrecognized tax benefits.

### ***Change in Net Assets Before Net Investment Return***

The Colony reports as the change in net assets before net investment return all Colony operations, administrative, and fund raising activity, excluding investment return and the reclassification of the investment return based on donor restrictions.

### ***Estimates***

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Accordingly, actual results may differ from those estimates.

### ***Financial Instruments and Credit Risk***

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with receivables is considered to be limited due to high historical collection rates or because substantial portions of the outstanding amounts are due from Board members and foundations supportive of the Colony's mission. Investments are made by diversified investment managers whose performance is monitored by the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Investment

Committee believes that the investment policies and guidelines are prudent for the long-term welfare of the Colony.

### ***Fair Value Measurements and Disclosures***

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 2 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.
- recurring measurement of investments (Note 4).
- recurring measurement of mortgage payable (Note 6).
- recurring measurement of line of credit (Note 7).

### 3. Contributions Receivable

Unconditional contributions receivable are estimated to be collected as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 204,719	\$ 64,360
Receivable in one to five years	<u>71,000</u>	<u>105,000</u>
Total	<u>\$ 275,719</u>	<u>\$ 169,360</u>

### 4. Investments

Investments consist of the following at December 31, 2017 and 2016:

<u>Investment Type</u>	<u>2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Level 1</u>
Mutual funds:			
Stock funds, domestic	\$ 12,818,298	\$ 14,058,167	\$ 14,058,167
Stock funds, international	2,047,422	2,485,092	2,485,092
Short-term bond fund	115,820	115,845	115,845
Money market funds	3,768,784	3,836,293	3,836,293
Common stock	9,336,699	14,039,405	14,039,405
Federated U.S. treasury cash	<u>316,015</u>	<u>316,015</u>	<u>316,015</u>
Total	<u>\$ 28,403,038</u>	<u>\$ 34,850,817</u>	<u>\$ 34,850,817</u>

<u>Investment Type</u>	<u>2016</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Level 1</u>
Mutual funds:			
Stock funds, domestic	\$ 8,173,040	\$ 13,509,087	\$ 13,509,087
Stock funds, international	2,508,438	2,335,703	2,335,703
Short-term bond fund	121,228	115,820	115,820
Money market funds	3,918,751	3,444,356	3,444,356
Common stock	9,187,953	11,683,472	11,683,472
Federated U.S. treasury cash	<u>68,541</u>	<u>68,541</u>	<u>68,541</u>
Total	<u>\$ 23,977,951</u>	<u>\$ 31,156,979</u>	<u>\$ 31,156,979</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, 2017. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical assets 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.

## 5. **Property, Equipment, and Depreciation**

A summary of the major components of property and equipment is presented below:

	<u>2017</u>	<u>2016</u>
Land improvements	\$ 1,026,920	\$ 1,022,019
Land	104,996	104,996
Building and building improvements	15,126,713	8,905,198
Equipment	687,309	552,846
Investment in a cooperative apartment building corporation*	289,714	289,714
Vehicles	240,583	246,628
Assets not being depreciated	222,956	222,956
Construction in progress	<u>276,513</u>	<u>5,609,141</u>
Subtotal	17,975,704	16,953,498
Less: accumulated depreciation	<u>(6,417,270)</u>	<u>(6,069,939)</u>
Total	<u>\$ 11,558,434</u>	<u>\$ 10,883,559</u>

\*The investment in a cooperative apartment building corporation includes 188 shares of common stock of 165 East 81<sup>st</sup> Street Corporation at cost, plus the costs of renovation. Under the terms of a proprietary lease assumed by the Colony (as lessee), 165 East 81<sup>st</sup> Street Corporation (the "lessor") has a lien on these shares as collateral for shared maintenance and other amounts payable as specified in the lease.

Depreciation expense totaled \$453,508 and \$393,973 for the years ended December 31, 2017 and December 31, 2016, respectively.

## 6. **Mortgage Payable**

In 2016, the Colony purchased a second floor unit in the Artist's Condominium building, located at 521 West 23<sup>rd</sup> Street, New York, NY for the purchase price of \$5.1 million. The Colony financed the building through a 25 year, \$2,550,000 mortgage with First Republic Bank. Interest accrued at an initial

rate of 3.500% until January 1, 2017, now accrues at 3.625%. Principal and interest is 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. The Colony may repay the loan in whole or in part after the fourth anniversary of the loan without penalty. The mortgage is secured by the real and personal property located at 521 West 23<sup>rd</sup> Street, New York, NY.

The following is a summary of future payments on the mortgage payable:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 43,730	\$ 110,292	\$ 154,022
2019	44,599	109,423	154,022
2020	46,647	107,375	154,022
2021	48,790	105,232	154,022
2022	51,032	102,990	154,022
Thereafter	<u>2,260,842</u>	<u>1,409,690</u>	<u>3,670,532</u>
Total	\$ <u>2,495,640</u>	\$ <u>1,945,002</u>	\$ <u>4,440,642</u>

This mortgage is also subject to certain annual financial covenants. Minimum unrestricted liquid assets of \$7 million and a loan-to-value ratio of 50% or less is required. As of December 31, 2017, the Colony has met all covenants.

The fair value of the mortgage payable has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for the mortgage payable does not purport to represent the amounts at which the debt obligation would be settled. The mortgage payable is categorized in the fair value hierarchy as Level 2.

## **7. Line of Credit**

In 2015, the Colony obtained a \$5 million revolving line of credit with Boston Private Bank. Proceeds from drawdowns were used to fund the purchase and improvement of 521 West 23<sup>rd</sup> Street, New York, NY. Drawdowns from the line of credit are due on demand. In addition, accrued interest on the unpaid drawn down principal amount is 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 is 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. At December 31, 2017, the outstanding balance was \$495,000. The line of credit is categorized in the fair value hierarchy as Level 2.

## 8. Net Assets

Unrestricted net assets are classified as follows:

	<u>2017</u>	<u>2016</u>
Colony operations	\$ 21,333,865	\$ 20,247,236
Board designated - Building and Equipment Reserve Fund	<u>1,817,987</u>	<u>1,603,442</u>
Total unrestricted net assets	<u>\$ 23,151,852</u>	<u>\$ 21,850,678</u>

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Fellowships at the Colony	\$ 6,692,620	\$ 5,160,294
Travel to/from the Colony	1,586,872	1,265,410
Maintenance of the Colony	1,066,909	841,923
Campaign and other time restricted gifts	314,516	254,872
Colony renovations and operations	<u>217,040</u>	<u>232,131</u>
Total temporarily restricted net assets	<u>\$ 9,877,957</u>	<u>\$ 7,754,630</u>

Permanently restricted net assets are comprised of:

	<u>2017</u>	<u>2016</u>
Income restricted - investment in perpetuity, the income from which is expendable to support:		
Fellowships at the Colony	\$ 6,240,740	\$ 5,706,462
Travel to/from the Colony	750,000	750,000
Maintenance of the Colony	<u>534,125</u>	<u>534,125</u>
Total income restricted	7,524,865	6,990,587
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>\$ 11,424,959</u>	<u>\$ 10,890,681</u>

## 9. 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 the Consolidated Statement of Activities under 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 which are covered by the Board Designated Building and Equipment Reserve Fund or special gifts designated for this purpose.

## 10. Endowment Funds

The Colony's endowment consists of various individual funds established for a variety of purposes. The 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, 2017, the Board of Directors had designated \$1,817,987 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 year ended December 31, 2017 were as follows:

Board-designated endowment net assets, beginning of year	\$ 1,603,442
Investment gains/(losses)	302,274
Amounts appropriated for expenditure	<u>(87,729)</u>
Board-designated endowment net assets, end of year	<u>\$ 1,817,987</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. Accord-

ingly, 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 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, 2017 is as follows:

	<u>Unrestricted</u>	Board <u>Designated</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Net Endowment <u>Assets</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 9,681,957	\$ 11,274,959	\$ 20,956,916
Board-designated endowment funds	-	1,817,987	-	-	1,817,987
Unrestricted endowment funds	<u>12,075,914</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,075,914</u>
Total funds	<u>\$ 12,075,914</u>	<u>\$ 1,817,987</u>	<u>\$ 9,681,957</u>	<u>\$ 11,274,959</u>	<u>\$ 34,850,817</u>

Changes in endowment net assets as of December 31, 2017 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	\$ 11,205,726	\$ 1,603,442	\$ 7,607,130	\$ 10,740,681	\$ 31,156,979
Investment income	337,834	52,571	271,943	324,392	986,740
Unrealized gains/losses	1,630,530	249,703	1,266,527	1,562,751	4,709,511
Investment fees	<u>(76,315)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(76,315)</u>
Net investment earnings	1,892,049	302,274	1,538,470	1,887,143	5,619,936
Reclassification of investment return	843,711	(87,729)	1,131,161	(1,887,143)	-
Support/contributions added to endowment	56,118	-	217,896	534,278	808,292
Investment transfer used in operations:					
Transfer for operations	(1,921,690)	-	-	-	(1,921,690)
Assets released from restriction	<u>-</u>	<u>-</u>	<u>(812,700)</u>	<u>-</u>	<u>(812,700)</u>
Total investment transfer used in operations	<u>(1,921,690)</u>	<u>-</u>	<u>(812,700)</u>	<u>-</u>	<u>(2,734,390)</u>
Endowment net assets, end of year	<u>\$ 12,075,914</u>	<u>\$ 1,817,987</u>	<u>\$ 9,681,957</u>	<u>\$ 11,274,959</u>	<u>\$ 34,850,817</u>

## 11. 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 \$153,911 and \$160,456 for the years ended December 31, 2017 and December 31, 2016, respectively.

## 12. New Hampshire Charitable Foundation

The Colony is the beneficiary of a designated fund at The New Hampshire Charitable Foundation (the 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 (the 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 consolidated financial statements.

Distributions to the Colony from the Fund totaled \$78,363 and \$77,429 for the years ended December 31, 2017 and December 31, 2016, respectively. The market value of the fund assets was \$2,078,425 as of December 31, 2017.

**13. Related Party Transactions**

During 2017, 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 Colony programs, 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. In October 2016, the Monadnock Country Club closed operations and terminated the lease with New High Street, LLC. A one year lease was signed in April 2017 with Hilltop Golf Course, LLC to reopen the golf course operations.

**15. Subsequent Events**

Subsequent events have been evaluated through March 29, 2018, the date the consolidated financial statements were available to be issued.

**THE MACDOWELL COLONY, INC.**

Consolidating Statement of Financial Position  
December 31, 2017

	<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	\$ 656,506	\$ 6,786	\$ 663,292	\$ -	\$ 663,292
Contributions receivable in less than one year	204,719	-	204,719	-	204,719
Accounts receivable	18,908	6,758	25,666	-	25,666
Other current assets	<u>293,197</u>	<u>1,595</u>	<u>294,792</u>	<u>-</u>	<u>294,792</u>
Total Current Assets	1,173,330	15,139	1,188,469	-	1,188,469
Contributions receivable in more than one year	71,000	-	71,000	-	71,000
Investments	34,850,817	-	34,850,817	-	34,850,817
Investment in New High Street, LLC	426,432	-	426,432	(426,432)	-
Property and equipment, net	<u>11,189,857</u>	<u>368,577</u>	<u>11,558,434</u>	<u>-</u>	<u>11,558,434</u>
Total Assets	<u>\$ 47,711,436</u>	<u>\$ 383,716</u>	<u>\$ 48,095,152</u>	<u>\$ (426,432)</u>	<u>\$ 47,668,720</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable	\$ 137,370	\$ 1,814	\$ 139,184	\$ -	\$ 139,184
Accrued liabilities	76,875	-	76,875	-	76,875
Line of credit	495,000	-	495,000	-	495,000
Current portion of mortgage payable	<u>43,730</u>	<u>-</u>	<u>43,730</u>	<u>-</u>	<u>43,730</u>
Total Current Liabilities	752,975	1,814	754,789	-	754,789
Mortgage payable, net of current portion	2,451,910	-	2,451,910	-	2,451,910
Other liabilities	<u>-</u>	<u>7,253</u>	<u>7,253</u>	<u>-</u>	<u>7,253</u>
Total Liabilities	3,204,885	9,067	3,213,952	-	3,213,952
Net Assets:					
Unrestricted	23,203,635	374,649	23,578,284	(426,432)	23,151,852
Temporarily restricted	9,877,957	-	9,877,957	-	9,877,957
Permanently restricted:					
Income restricted	7,524,865	-	7,524,865	-	7,524,865
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>44,506,551</u>	<u>374,649</u>	<u>44,881,200</u>	<u>(426,432)</u>	<u>44,454,768</u>
Total Liabilities and Net Assets	<u>\$ 47,711,436</u>	<u>\$ 383,716</u>	<u>\$ 48,095,152</u>	<u>\$ (426,432)</u>	<u>\$ 47,668,720</u>

See Independent Auditors' Report.

**THE MACDOWELL COLONY, INC.**

Consolidating Statement of Activities  
For the Year Ended December 31, 2017

	<u>The MacDowell Colony, Inc.</u>	<u>New High Street, LLC</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
Support and revenue:					
Contributions:					
Individuals	\$ 833,665	\$ -	\$ 833,665	\$ -	\$ 833,665
Foundations	1,226,701	-	1,226,701	-	1,226,701
Corporations	131,305	-	131,305	-	131,305
Bequests	39,290	-	39,290	-	39,290
Government grants	25,000	-	25,000	-	25,000
Events:					
National benefit	567,596	-	567,596	-	567,596
Medal Day	55,510	-	55,510	-	55,510
Other special events	126,535	-	126,535	-	126,535
Other income:					
Application fees	42,579	-	42,579	-	42,579
Other	45,465	26,679	72,144	-	72,144
Interest income	201	-	201	-	201
Total support and revenue	<u>3,093,847</u>	<u>26,679</u>	<u>3,120,526</u>	<u>-</u>	<u>3,120,526</u>
Expenses:					
Colony operations	2,592,684	-	2,592,684	-	2,592,684
Administrative	1,202,676	47,805	1,250,481	-	1,250,481
Fund raising	1,014,834	-	1,014,834	-	1,014,834
Total expenses	<u>4,810,194</u>	<u>47,805</u>	<u>4,857,999</u>	<u>-</u>	<u>4,857,999</u>
Change in net assets before net investment return	(1,716,347)	(21,126)	(1,737,473)	-	(1,737,473)
Return on investments:					
Unrealized gain (loss) on investments	4,709,511	-	4,709,511	-	4,709,511
Realized gains on investments	156,922	-	156,922	-	156,922
Interest and dividends	829,819	-	829,819	-	829,819
Total return on investments	<u>5,696,252</u>	<u>-</u>	<u>5,696,252</u>	<u>-</u>	<u>5,696,252</u>
Change in net assets	3,979,905	(21,126)	3,958,779	-	3,958,779
Net assets, beginning of year	<u>40,526,646</u>	<u>395,775</u>	<u>40,922,421</u>	<u>(426,432)</u>	<u>40,495,989</u>
Net assets, end of year	<u>\$ 44,506,551</u>	<u>\$ 374,649</u>	<u>\$ 44,881,200</u>	<u>\$ (426,432)</u>	<u>\$ 44,454,768</u>

See Independent Auditors' Report.