

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
THE VERMONT COMMUNITY FOUNDATION, INC.,
AND AFFILIATED SUPPORTING ORGANIZATIONS
DECEMBER 31, 2006 AND 2005**

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

DECEMBER 31, 2006 AND 2005

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Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated statements of financial position of The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations, as of December 31, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations, as of December 31, 2006 and 2005, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gallagher, Flynn & Company, LLP

July 16, 2007

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,

A S S E T S

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 6,035,887	\$ 4,405,569
Accrued investment income	110,966	337,743
Pledges receivable	6,669	50,256
Investments with readily determinable fair values	142,846,680	116,244,505
Other investments	1,960,000	1,840,000
Property and equipment, net	1,401,282	4,385,334
Other assets	<u>316,758</u>	<u>558,958</u>
Total assets	<u>\$152,678,242</u>	<u>\$127,822,365</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Grants payable	\$ 920,781	\$ 826,287
Accounts payable and accrued liabilities	569,451	650,413
Funds held for others under agency agreements	21,461,442	17,376,647
Liability under split-interest agreements	<u>5,420,949</u>	<u>5,013,287</u>
Total liabilities	<u>28,372,623</u>	<u>23,866,634</u>

NET ASSETS

Unrestricted	120,200,116	100,872,299
Temporarily restricted	<u>4,105,503</u>	<u>3,083,432</u>
Total net assets	<u>124,305,619</u>	<u>103,955,731</u>
Total liabilities and net assets	<u>\$152,678,242</u>	<u>\$127,822,365</u>

The accompanying notes are an integral part of these statements.

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31,

	<u>2006</u>			<u>2005</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND GAINS:						
Contributions	\$ 24,115,859	592,844	\$ 24,708,703	\$ 17,407,586	\$ 765,363	\$ 18,172,949
Investment return	14,445,591	1,112,207	15,557,798	5,538,924	479,206	6,018,130
Net assets released from restrictions	205,140	(205,140)	-	838,403	(838,403)	-
Other income (loss)	416,991	(3,981)	413,010	540,480	(30,937)	509,543
Total revenues and gains	<u>39,183,581</u>	<u>1,495,930</u>	<u>40,679,511</u>	<u>24,325,393</u>	<u>375,229</u>	<u>24,700,622</u>
EXPENSES:						
Program expenses:						
Grants	12,859,644	-	12,859,644	8,123,908	-	8,123,908
Recharacterization of net assets into agency funds (Note I)	2,132,163	-	2,132,163	-	-	-
Separation of supporting organizations (Note G)	1,864,090	-	1,864,090	-	-	-
Grant administration and related program activities	551,610	-	551,610	384,036	-	384,036
Foundation administered programs	437,598	-	437,598	373,447	-	373,447
Total program expenses	<u>17,845,105</u>	<u>-</u>	<u>17,845,105</u>	<u>8,881,391</u>	<u>-</u>	<u>8,881,391</u>
Supporting services:						
Management and general	1,650,305	-	1,650,305	1,388,778	-	1,388,778
Fundraising	360,354	-	360,354	390,837	-	390,837
Changes in the present value of split-interest agreements liability	-	473,859	473,859	-	502,864	502,864
Total supporting services	<u>2,010,659</u>	<u>473,859</u>	<u>2,484,518</u>	<u>1,779,615</u>	<u>502,864</u>	<u>2,282,479</u>
Total expenses	<u>19,855,764</u>	<u>473,859</u>	<u>20,329,623</u>	<u>10,661,006</u>	<u>502,864</u>	<u>11,163,870</u>
INCREASE (DECREASE) IN NET ASSETS	19,327,817	1,022,071	20,349,888	13,664,387	(127,635)	13,536,752
NET ASSETS, beginning of year	<u>100,872,299</u>	<u>3,083,432</u>	<u>103,955,731</u>	<u>87,207,912</u>	<u>3,211,067</u>	<u>90,418,979</u>
NET ASSETS, end of year	<u>\$ 120,200,116</u>	<u>\$ 4,105,503</u>	<u>\$ 124,305,619</u>	<u>\$ 100,872,299</u>	<u>\$ 3,083,432</u>	<u>\$ 103,955,731</u>

The accompanying notes are an integral part of these statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

	<u>2006</u>	<u>2005</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$20,349,888	\$13,536,752
Noncash items included in increase in net assets:		
Noncash contribution expense	3,628,063	-
Depreciation	140,519	137,924
Gains on investments	(12,975,538)	(4,367,455)
Noncash contributions	(11,068,773)	(7,435,593)
Changes in the present value of split-interest agreements liability	473,859	502,864
Other	7,157	(17,039)
Changes in assets and liabilities:		
Pledges receivable	43,587	589,992
Other assets	461,820	127,536
Grants payable	94,499	417,075
Accounts payable and accrued liabilities	(59,355)	93,584
Liability under split-interest agreements, net	(66,197)	459,163
Agency Funds	4,084,795	2,520,128
Net cash provided by operating activities	<u>5,114,324</u>	<u>6,564,931</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	35,973,954	37,569,832
Purchase of investments	(38,651,825)	(45,650,418)
Acquisition of property and equipment	<u>(784,528)</u>	<u>(71,501)</u>
Net cash used in investing activities	<u>(3,462,399)</u>	<u>(8,152,087)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term borrowings	<u>(21,607)</u>	<u>(21,672)</u>
Net cash used in financing activities	<u>(21,607)</u>	<u>(21,672)</u>
Net increase (decrease) in cash and cash equivalents	1,630,318	(1,608,828)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,405,569</u>	<u>6,014,397</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,035,887</u>	<u>\$ 4,405,569</u>
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the year for:		
Interest expense	<u>\$ 3,592</u>	<u>\$ 4,778</u>

The accompanying notes are an integral part of these statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

The Vermont Community Foundation, Inc., was incorporated in 1986, and is a resource for Vermont-focused philanthropists who want to maximize the impact of their charitable giving. The Foundation builds and manages charitable funds created by individuals, families, groups, organizations, and institutions to improve the quality of life in Vermont. The Foundation's mission is to ensure that philanthropy is increasingly effective in supporting healthy and vital Vermont communities, and that charitable partners meet their missions with excellence and efficiency.

The Foundation exercises significant control over supporting organizations which have been established for similar purposes. Accordingly, consolidated financial statements, which include these supporting organizations, are presented (see Note G).

Accounting policies:

A summary of the Foundation's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

1. Basis of presentation

The consolidated financial statements for The Vermont Community Foundation, Inc., and Affiliated Supporting Organizations (the Foundation), have been prepared on the accrual basis of accounting, which means that revenues are recognized when they are earned and expenses are recognized as they are incurred, whether or not cash is received or paid at that time.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

1. Basis of presentation (continued)

These financial statements include the activity of the following controlled supporting organizations:

- The J. Warren and Lois McClure Foundation, formed in 1994
- The Tarrant Supporting Organization Foundation, formed in 1996, dissolved in 2005
- The Antonio B. & Rita M. Pomerleau Foundation, formed in 1997, separated in 2006 (see Note G)
- The Right Track Foundation, formed in 1999
- The Permanent Fund for the Well-Being of Vermont Children, formed in 2000
- The Bryan Family Foundation, Inc., formed in 2002, dissolved in 2006 (see Note G)
- The Indian Tree Charitable Foundation, formed in 2002
- The Wisdom Connection, Inc., formed in 2003, separated in 2007 (see Note L)
- The High Meadows Fund, Inc., formed in 2004

The Foundation's financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. This statement requires the Foundation to present its net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - These net assets are defined as assets that are free of donor-imposed restrictions and include all investment income and appreciation not subject to donor-imposed restrictions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

Temporarily restricted net assets - These net assets include contributions, unconditional promises to give and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation. This classification includes investment income and appreciation which can be expended, but for which restrictions have not yet been met. Included in the temporarily restricted net assets are charitable remainder trusts, charitable gift annuities, pledge receivables and contributions that are limited by donor-imposed stipulations that have not expired as of December 31, 2006 and 2005, respectively.

Permanently restricted net assets - These net assets include contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation does not have any permanently restricted net assets as of December 31, 2006 and 2005, due to its variance power, as described below.

Variance power - Accounting principles generally accepted in the United States of America provide that if the governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary, such contributions must be classified as unrestricted net assets. The board of directors of the Foundation has that ability known as variance power. The board of directors has adopted a policy describing the criteria and limited circumstances under which the Foundation would exercise this power. The policy allows the board of directors to exercise variance power when the Foundation determines that distributions from the component fund has become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. Accordingly, the Foundation's financial statements classify substantially all funds as unrestricted net assets.

All significant interfoundation transactions have been eliminated.

2. Contributions and promises to give

The Foundation recognizes contributions and promises to give when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**THE VERMONT COMMUNITY FOUNDATION, INC.,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Contributions and promises to give (continued)

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows as temporarily restricted support and reclassified to unrestricted net assets when the time restriction is met. Conditional promises to give to the Foundation are not included as support until such time the conditions are substantially met.

Real estate received as contributions is recorded as revenue at fair value on the date of receipt.

Marketable securities and other assets received as contributions are recorded as revenue at their mean fair value on the date of receipt.

3. Agency funds

The Foundation presents the financial statements in accordance with Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*.

Under SFAS 136, the Foundation must account for assets provided by a not-for-profit organization with its own funds and specifies itself as the beneficiary of that fund, as a liability. The Foundation refers to such funds as "Agency Funds" (see Note H). The Foundation maintains variance power and legal ownership of the agency fund and, as such, continues to report the funds as assets of the Foundation.

4. Contributed services

During the years ended December 31, 2006 and 2005, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation.

5. Cash and cash equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

6. Investments

Investments with readily determinable fair values are stated at market value. Other investments, including promissory notes, are stated at face value. Investment income, gains and losses are allocated to the various funds based upon relative average daily market value. Unrealized gains and losses are included in the changes in net assets.

**THE VERMONT COMMUNITY FOUNDATION, INC.,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. Property and equipment

Property and equipment is stated at cost or, if donated, at fair value determined at the date of donation, less accumulated depreciation. Depreciation is calculated based on the straight-line method over the respective estimated useful lives of the assets. Expenditures for major improvements are capitalized, and expenditures that do not extend the lives of the related assets are charged to repairs and maintenance.

8. Income taxes

The Vermont Community Foundation, Inc., and the supporting organizations are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation and each supporting organization file separate federal income tax returns.

9. Functional expenses and allocation of shared costs

Expenses are charged to program and supporting services based on direct expenses incurred. Common costs, including occupancy and fringe benefits, are allocated to program services based upon related utilization.

10. Foundation administered programs expenses

Foundation administered programs expenses represent activities of certain special projects for which the Foundation provides administrative support. The special projects include the Childcare Fund of Vermont and the Vermont Women's Fund. The direct costs of these activities are charged to the funds and are reflected as foundation administered programs expenses.

11. Use of estimates

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

B) CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash balances, which at times exceed federally insured limits, at several financial institutions and investment firms in the United States. The accounts in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. In addition, excess balances are invested in daily repurchase obligations. Cash balances maintained with licensed investment and brokerage firms are also insured by the FDIC up to \$100,000, while money market funds are protected by the Securities Investor Protection Corporation (SIPC) for up to \$500,000. In addition, some of those firms provide protection in excess of SIPC to securities customers. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Foundation's investment portfolio consists of diversified investments which are subject to market risk, but are not subject to concentrations in any sector.

C) INVESTMENTS

Investments with readily determinable fair values:

Investments with readily determinable fair values are stated at fair value. A summary of these investments is as follows at December 31:

	<u>2006</u>		<u>2005</u>	
	<u>Fair Value</u>	% of <u>Total</u>	<u>Fair Value</u>	% of <u>Total</u>
Cash and cash equivalents	\$ 14,905,010	10.4	\$ 8,566,197	7.3
U.S. Treasury securities	2,179,813	1.5	3,015,360	2.6
Corporate bonds	20,601,248	14.4	19,023,343	16.4
Common stock	62,171,051	43.5	47,582,273	40.9
Limited partnership investment funds	42,791,007	30.1	37,875,098	32.6
Venture capital investment funds	<u>198,551</u>	<u>0.1</u>	<u>182,234</u>	<u>0.2</u>
Total investments	142,846,680	<u>100.0</u>	116,244,505	<u>100.0</u>
Less investments in Agency funds	<u>21,459,463</u>		<u>16,952,875</u>	
Investments for Foundation purposes	<u>\$121,387,217</u>		<u>\$99,291,630</u>	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

C) INVESTMENTS (continued)

Other investments:

Other investments are comprised of various notes receivable from Vermont-based companies totalling \$1,960,000 and \$1,840,000 at December 31, 2006 and 2005, respectively. The principal is due to the Foundation at maturity, unless extended for another term. The notes mature at various dates ranging from January 2007 to March 2011. Interest is accrued at a variable rate currently approximating 3.06%, and is received quarterly in arrears.

Total investment return:

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended:

	December 31, 2006		
	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 2,379,774	\$ 202,486	\$ 2,582,261
Net realized gains	3,403,732	196,856	3,600,588
Net unrealized gains	8,662,085	712,865	9,374,950
Total investment return	\$14,445,591	\$1,112,207	\$15,557,799
	December 31, 2005		
	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$1,495,082	\$ 155,593	\$1,650,675
Net realized gains	2,298,359	125,629	2,423,988
Net unrealized gains	1,745,483	197,984	1,943,467
Total investment return	\$5,538,924	\$ 479,206	\$6,018,130

The Foundation invests in several commingled funds and limited partnerships. Most of these funds and partnerships report income net of fees, and the Foundation follows the same practice. As a result, some of the fees paid to investment managers are reflected as a reduction of investment return and not included in management and general expenses. Total investment management fees included in management and general expenses were \$141,460 in 2006 and \$139,772 in 2005.

The Foundation has contracted with a leading investment consulting firm to provide guidance on the investment strategy, investment managers and asset allocation. The fee paid to the investment consultant is based on invested assets of the Foundation. Total investment consulting fees included in management and general expenses were \$91,727 in 2006 and \$83,740 in 2005.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

D) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2006	2005
Real estate held for rental (see Note G)	\$ -	\$3,763,300
Land and building	1,491,335	1,076,058
Office furniture and equipment	356,767	334,016
	1,848,102	5,173,374
Less accumulated depreciation	446,820	788,040
	<u>\$1,401,282</u>	<u>\$4,385,334</u>

E) LIABILITY UNDER SPLIT-INTEREST AGREEMENTS

The Foundation has entered into several charitable remainder trust and gift annuity agreements with various donors. The agreements obligate the Foundation to pay a stated return on the donors' initial investments or on the market value of the donated assets, net of payments, as determined as of the last day of the previous year, as defined in the agreements. The initial contributions and all subsequent earnings thereon are restricted for use to satisfy annuity payments until the death of the annuitants, at which time all related assets become unrestricted net assets of the Foundation. The Foundation has recorded a liability for each agreement in an amount which approximates the net present value of the annuity to the donor, based upon assumptions of the annuitant's mortality and a discount rate to calculate return on assets. The discount rates utilized to record the initial liability to annuitants range from 3.6% to 9.4%, based upon the "Table 90CM." The net difference between the initial contribution and the estimated present value of the obligation is recorded as a charitable contribution. The liabilities are revalued annually for changes in assumptions, and the resulting change is charged or credited to operations as "changes in the present value of split-interest agreements liability."

The Foundation recognized contribution revenue of \$505,204 in 2006 and \$429,223 in 2005, in connection with establishing new split-interest agreements. The statements of financial position include the following amounts as of December 31:

	2006	2005
Assets held under split-interest agreements included in cash and investments	\$9,195,971	\$7,737,849
Amounts included in temporarily restricted net assets	<u>\$3,769,720</u>	<u>\$2,719,886</u>

**THE VERMONT COMMUNITY FOUNDATION, INC.,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

E) LIABILITY UNDER SPLIT-INTEREST AGREEMENTS (continued)

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

F) RESTRICTED NET ASSETS AND PROMISES TO GIVE

Temporarily restricted net assets are available for the following purposes or periods at December 31:

	2006	2005
Split-interest agreements - time restriction (see Note E)	\$3,769,720	\$2,719,886
Life insurance	90,556	85,405
Pledges receivable	6,669	50,256
Net assets for certain program administered by the Foundation	238,558	227,885
	<u>\$4,105,503</u>	<u>\$3,083,432</u>

Pledges receivable (promises to give) are due as follows:

	2006	2005
Less than one year	\$ 4,669	\$ 28,756
One to five years	2,000	21,500
	<u>\$ 6,669</u>	<u>\$ 50,256</u>

G) SUPPORTING ORGANIZATIONS

Net assets of the supporting organizations are as follows as of December 31:

	2006	2005
The High Meadows Fund, Inc.	\$15,602,384	\$ 5,635,364
The J. Warren and Lois McClure Foundation	7,696,016	6,992,355
The Wisdom Connection, Inc. (see Note L)	2,524,826	2,293,266
The Right Track Foundation	1,344,108	1,192,683
The Indian Tree Charitable Foundation	1,252,646	1,173,412
The Permanent Fund for the Well-Being of Vermont Children	2,278,168	1,335,852
The Bryan Family Foundation, Inc.	16,749	6,297,125
The Antonio B. & Rita M. Pomerleau Foundation	-	1,729,991
	<u>\$30,714,897</u>	<u>\$26,650,048</u>

**THE VERMONT COMMUNITY FOUNDATION, INC.,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

G) SUPPORTING ORGANIZATIONS (continued)

As a result of the Pension Protection Act of 2006, signed into law on August 17, 2006, the articles of incorporation of the Antonio B. & Rita M. Pomerleau Foundation were amended and restated, resulting in the foundation becoming an independent private foundation rather than a supporting organization of the Vermont Community Foundation. Consequently, effective September 20, 2006, all assets of the Pomerleau Foundation, formerly consolidated in Vermont Community Foundation's financial statements, primarily consisting of real estate held for rental (see Note D) with a carrying value of approximately \$1,864,090, were accounted for as being distributed in 2006, and included in the statement of activities as "separation of supporting organizations."

Effective December 14, 2006, as a result of the Pension Protection Act of 2006, the board of the Bryan Family Foundation, Inc., agreed to dissolve the supporting organization and grant the value of the supporting organization's property held for rental to a separate 501(c)(3) not-for-profit organization. The net book value of the real estate is \$1,799,693, and is included in the statement of activities as "grant expense" in 2006. The remaining liquid assets established two separate component funds at the Vermont Community Foundation. As of December 31, 2006, the Bryan Family Foundation, Inc., retains a small amount of cash to address any residual costs as a result of its termination. Upon conclusion of the termination, any excess cash will be transferred to one of the two component funds previously established at the Foundation, as outlined in the board of directors' minutes.

H) CONTRIBUTIONS AND GRANTS

Amounts raised for agency endowment funds are recorded as a liability, and grants made from those funds are reported as reductions to the liability (see Note A3). The following schedule summarizes the total amounts raised and grants made in the years ended December 31:

	<u>2006</u>	<u>2005</u>
Total amount raised	\$25,471,824	\$20,213,274
Less amounts received in agency transactions	<u>763,121</u>	<u>2,040,325</u>
Total contributions	<u>\$24,708,703</u>	<u>\$18,172,949</u>
Total grants made and related expenses	\$13,948,372	\$ 8,612,698
Less grants made from funds held for others under agency transactions	<u>1,088,728</u>	<u>488,790</u>
Total grants expense	<u>\$12,859,644</u>	<u>\$ 8,123,908</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

I) RECHARACTERIZATION OF NET ASSETS INTO AGENCY FUNDS

In 2006, the Foundation terminated several component funds which were originally established to benefit specified qualified not-for-profit organizations and reestablished Agency Funds for the same not-for-profit organizations. As a result, \$2,132,163 in net assets have been recharacterized from the statement of activities to a liability on the statement of financial position called "funds held for others under agency fund agreements" (see Note A3).

J) MAJOR DONORS

In 2006, the Foundation received a substantial portion of its contributions from two donors. Contributions for the year ended December 31, 2006, from these donors were \$12,685,000 and \$2,770,000 (51.3% and 11.2% of total contributions, respectively). There were no amounts due from these donors at December 31, 2006.

In 2005, the Foundation received a substantial portion of its contributions from two donors. Contributions for the year ended December 31, 2005, from these donors were \$3,859,700 and \$1,904,873 (21.2% and 10.5% of total contributions, respectively). There were no amounts due from these donors at December 31, 2005.

K) RETIREMENT PLAN

Retirement plan

The Foundation has a 403(b)(7) retirement plan covering all full-time employees electing to participate. No employer contributions are allowed under the plan. The Foundation also has a simplified employee pension - individual retirement account (SEP-IRA) plan covering all employees who are 20 years of age and have completed one year of service. Contributions to the plan charged to operations totalled \$44,127 in 2006 and \$39,921 in 2005.

Deferred compensation liability

As of December 31, 2006 the Foundation is carrying a deferred compensation liability of \$156,423 to be paid in January 2007, 2008 and 2009, pursuant to an agreement with a former president, which is included in accounts payable and accrued liabilities. The amount included in accounts payable and accrued liabilities at December 31, 2005 was \$251,906.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

L) SUBSEQUENT EVENT

Effective January 1, 2007, the board of directors of the Wisdom Connection, Inc., a supporting organization of the Foundation, amended its articles of association and became an independent entity, rather than a supporting organization. Consequently, the financial statements for the Foundation for 2007 will exclude the Wisdom Connection, Inc. Effective with the separation, assets of \$2,524,000 will be distributed to the stand-alone entity.