

**Essex County Community
Foundation, Inc. and Subsidiary**

Consolidated Financial Statements
&
Independent Auditor's Report

June 30, 2019 and 2018

Essex County Community Foundation, Inc. and Subsidiary
Consolidated Financial Statements
June 30, 2019 and 2018

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Independent Auditor's Report

To the Board Trustees of
Essex County Community Foundation, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Essex County Community Foundation, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 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 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 auditor's 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 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Essex County Community Foundation, Inc. and Subsidiary as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2019, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result, the standard was retroactively applied to the consolidated financial statements for the fiscal year ending June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the financial statements, there was a restatement of the financial statements as of and for the year ended June 30, 2018. The effect of this restatement on the change in net assets was an increase of \$2,358,138.

Anstiss & Co., P.C.

Anstiss & Co., P.C.

September 23, 2019

Essex County Community Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 957,602	\$ 1,106,199
Investments	56,201,065	38,224,135
Prepaid expenses and other current assets	34,365	26,320
Total current assets	<u>57,193,032</u>	<u>39,356,654</u>
Long-term assets		
Property and equipment - net	3,953	6,717
Security deposit	5,580	5,580
Annuitized split-interest agreements	349,297	446,925
Endowment promises to give	-	2,358,138
Agency endowment investments	15,301,028	13,745,457
Endowment investments	18,220,585	15,207,086
Total long-term assets	<u>33,880,443</u>	<u>31,769,903</u>
Total assets	<u><u>\$ 91,073,475</u></u>	<u><u>\$ 71,126,557</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 201,636	\$ 67,648
Grants payable	585,435	290,900
Deferred revenue	5,000	10,000
Total current liabilities	<u>792,071</u>	<u>368,548</u>
Long-term liabilities		
Fiscal agency liability	113,859	113,326
Split-interest obligations	349,297	446,925
Agency endowment funds	15,301,028	13,745,457
Total long-term liabilities	<u>15,764,184</u>	<u>14,305,708</u>
Total liabilities	<u>16,556,255</u>	<u>14,674,256</u>
Net assets		
Without donor restrictions		
Available for operations	56,292,682	41,238,498
Designated for endowment	12,090,470	9,170,029
Invested in property and equipment	3,953	6,717
Total without donor restrictions	<u>68,387,105</u>	<u>50,415,244</u>
With donor restrictions		
Held in perpetuity	4,924,628	4,903,413
Purpose restricted	490,880	720,566
Time restricted	714,607	413,078
Total with donor restrictions	<u>6,130,115</u>	<u>6,037,057</u>
Total net assets	<u>74,517,220</u>	<u>56,452,301</u>
Total liabilities and net assets	<u><u>\$ 91,073,475</u></u>	<u><u>\$ 71,126,557</u></u>

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc.
Consolidated Statements of Activities
For the Years Ended June 30, 2019 and 2018

	June 30, 2019			June 30, 2018		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>		<u>Restrictions</u>	<u>Restrictions</u>	
Support and revenue						
Contributions and grants	\$ 38,244,903	\$ 22,715	\$ 38,267,618	\$ 7,174,517	\$ 2,549,528	\$ 9,724,045
Special event revenue, net of cost of direct benefit to donors of \$13,123 and \$11,010	67,282	-	67,282	36,622	-	36,622
Program fees	206,574	-	206,574	4,080	-	4,080
Investment return	3,510,300	256,334	3,766,634	3,818,366	149,844	3,968,210
Donated goods	5,000	-	5,000	5,000	-	5,000
Loss on disposal of property and equipment	(613)	-	(613)	(2,029)	-	(2,029)
Net assets released from restrictions	185,991	(185,991)	-	3,444,254	(3,444,254)	-
Total support and revenue	42,219,437	93,058	42,312,495	14,480,810	(744,882)	13,735,928
Expenses						
Program services	23,032,440	-	23,032,440	7,796,676	-	7,796,676
Management and general	845,062	-	845,062	534,864	-	534,864
Fundraising	370,074	-	370,074	503,538	-	503,538
Total expenses	24,247,576	-	24,247,576	8,835,078	-	8,835,078
Change in net assets	17,971,861	93,058	18,064,919	5,645,732	(744,882)	4,900,850
Net assets at beginning of year	50,415,244	6,037,057	56,452,301	44,769,512	6,781,939	51,551,451
Net assets at end of year	\$ 68,387,105	\$ 6,130,115	\$ 74,517,220	\$ 50,415,244	\$ 6,037,057	\$ 56,452,301

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program	General & Administrative	Fundraising	Total
Grants	\$ 19,937,848	\$ -	\$ -	\$ 19,937,848
Project support	1,939,329	-	-	1,939,329
Salaries and related	300,920	460,230	123,908	885,058
Professional consultants and speakers	526,307	-	-	526,307
Training	-	10,229	-	10,229
Conferences	158,958	-	-	158,958
Outsourced administrative services	-	66,986	-	66,986
Program events	-	-	-	-
Occupancy	50,459	77,174	20,777	148,410
Office supplies and expenses	65,994	100,931	27,174	194,099
Legal and accounting	-	47,119	-	47,119
Professional fees - other	749	1,146	309	2,204
Information technology	21,833	33,392	8,990	64,215
Fundraising expenses	-	-	176,546	176,546
Cost of direct benefit to donors	-	-	13,123	13,123
Insurance	3,467	5,302	1,427	10,196
Depreciation	731	1,119	301	2,151
Miscellaneous expense	-	1,908	-	1,908
Travel	25,845	39,526	10,642	76,013
Total expenses by function	23,032,440	845,062	383,197	24,260,699
Less expenses shown net of revenues on the statement of activities				
Cost of direct benefit to donors	-	-	(13,123)	(13,123)
Total expenses per the statement of activities	\$ 23,032,440	\$ 845,062	\$ 370,074	\$ 24,247,576

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program	General & Administrative	Fundraising	Total
Grants	\$ 6,228,320	\$ -	\$ -	\$ 6,228,320
Project support	754,162	-	-	754,162
Salaries and related	320,320	184,231	280,295	784,846
Professional consultants and speakers	259,569	-	-	259,569
Training	-	132,282	-	132,282
Conferences	76,842	-	-	76,842
Outsourced administrative services	-	63,800	-	63,800
Program events	13,190	-	-	13,190
Occupancy	35,842	35,843	28,805	100,490
Office supplies and expenses	48,349	55,477	65,378	169,204
Legal and accounting	-	18,253	-	18,253
Professional fees - other	556	6,000	486	7,042
Information technology	30,533	30,533	15,266	76,332
Fundraising expenses	-	-	107,618	107,618
Cost of direct benefit to donors	-	-	11,010	11,010
Insurance	2,416	2,416	1,208	6,040
Depreciation	3,093	3,093	1,546	7,732
Travel	23,484	2,936	2,936	29,356
Total expenses by function	7,796,676	534,864	514,548	8,846,088
Less expenses shown net of revenues on the statement of activities				
Cost of direct benefit to donors	-	-	(11,010)	(11,010)
Total expenses per the statement of activities	\$ 7,796,676	\$ 534,864	\$ 503,538	\$ 8,835,078

Essex County Community Foundation, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 18,064,919	\$ 4,900,850
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	2,151	7,732
Realized and unrealized gain on investments	(2,657,678)	(1,975,472)
Loss on disposal of property and equipment	613	2,029
Contributions restricted to endowment	(583,693)	(3,337,528)
Change in value of fiscal agency liability	533	(27,688)
Change in value of agency endowment liability	1,555,571	1,878,677
Endowment net investment return	(1,108,956)	(681,954)
Changes in operating assets and liabilities		
Increase in prepaid expenses and other assets	(8,045)	(11,857)
Increase in accounts payable and accrued expenses	133,988	48,111
Increase (decrease) in grants payable	294,535	(12,667)
(Decrease) increase in deferred revenue	(5,000)	10,000
Net cash provided by operating activities	<u>15,688,938</u>	<u>800,233</u>
Cash flows from investing activities		
Purchase of investments	(29,633,111)	(22,174,419)
Proceeds from sale of investments	10,400,150	17,000,067
Purchase of property and equipment	-	(185)
Withdrawals from assets held under split-interest agreements	97,628	97,628
Withdrawals from endowment	1,037,288	604,888
Net cash used by investing activities	<u>(18,098,045)</u>	<u>(4,472,021)</u>
Cash flows from financing activities		
Collections of contributions restricted to endowment	2,358,138	3,444,255
Payments to beneficiaries of split-interest agreements	(97,628)	(97,628)
Net cash provided by financing activities	<u>2,260,510</u>	<u>3,346,627</u>
Net change in cash and cash equivalents	(148,597)	(325,161)
Cash and cash equivalents at beginning of year	<u>1,106,199</u>	<u>1,431,360</u>
Cash and cash equivalents at end of year	<u>\$ 957,602</u>	<u>\$ 1,106,199</u>
Supplemental information		
Loss on disposal of property and equipment	\$ 613	\$ 2,029

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 1 - ORGANIZATION

Essex County Community Foundation, Inc. and Subsidiary (the Foundation) is a nonprofit organization established in 1998 as a broad-based public foundation. Its purpose is to promote and expand philanthropy primarily in Essex County, Massachusetts, by collaborating with donors and by connecting them to the vital and effective work of the non-profit agencies serving Essex County communities. The Foundation provides services to people whose care and loyalty for Essex County communities leads them to community philanthropy.

On August 21, 2018, the Foundation formed a single member-managed limited liability company, ECCF Real Estate, LLC (the LLC) to own and manage real estate. The LLC is treated as a subsidiary of the Foundation for financial reporting purposes. All intercompany activity has been eliminated.

The Foundation seeks to build endowments and donor advised funds to support public benefit purposes. The Foundation's funds have been established for the following purposes:

Discretionary Funds

The Foundation makes grants to non-profit agencies in Essex County during its annual grant cycle. The Foundation holds informational meetings open to all non-profit agencies in different parts of the county on a regular basis. Agencies are invited to submit grant proposals which are reviewed by a community-based volunteer Grant Management Committee. The committee makes grant recommendations to the Foundation's Board of Trustees for final approval.

Field of Interest Funds

Field of interest funds are used to support projects within a donor-specified geographic area or within a charitable field of interest selected by the donor, such as the arts, conservation, education, health, social services, etc., within Essex County. The Foundation circulates a Request for Proposal to all agencies within the selected field of interest. The Foundation's Grant Management Committee or a committee designated by the donor reviews these proposals and makes recommendations to the Board of Trustees for final approval.

Agency Endowments

Through agency endowments, agencies are able to aggregate their funds with the Foundation, designating themselves as beneficiary. These agencies benefit from investing their funds with the Foundation's more substantial endowment and from using the fund management facilities already established by the Foundation, including investment management, income distribution and fundraising assistance.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 1 – ORGANIZATION (continued)

Designated Funds

A designated fund is a fund established for the benefit of a designated non-profit agency or program. Beneficiaries, chosen by the donor, will receive the benefit of that donation for many years to come.

Donor Advised Funds

Donor advised funds are used by community foundations to provide donors with a compelling alternative to establishing their own private foundation or charitable trust. With a donor advised fund, there is no requirement for the donor to establish a tax-exempt entity, which takes time, administrative effort and money. Through a designated committee, the donor retains advisory privileges with respect to the distributions of funds and the investment of accounts.

Scholarship Funds

The Foundation provides an opportunity for donors to establish scholarship funds to benefit individuals who might otherwise be unable to complete or continue their education at the secondary level or beyond.

Internal Funds

Internal funds have been established to support the operations of the Foundation, including discretionary grant making, youth and environmental programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of Recent Accounting Pronouncements

During 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): "Presentation of Financial Statements for Not-for-Profit Entities."* This ASU is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts as net assets without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. As a result of the adoption of this standard, during 2019, certain amounts from the prior year consolidated financial statements were reclassified to conform to current year presentation.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of Recent Accounting Pronouncements (continued)

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total net assets
As previously presented:			
Unrestricted	\$50,415,244	\$ -	\$50,415,244
Temporarily restricted	-	1,133,644	1,133,644
Permanently restricted	-	2,545,275	2,545,275
Total net assets as reclassified	\$50,415,244	\$3,678,919	\$54,094,163
Prior period adjustment	-	2,358,138	2,358,138
Total net assets as restated	<u>\$50,415,244</u>	<u>\$6,037,057</u>	<u>\$56,452,301</u>

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Foundation reports information regarding its financial position and activities in two classes of net assets based upon the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations are classified as without donor restrictions.

In addition, the Board may vote to set aside a certain dollar amount or percentage of net assets without donor restrictions for use at a specific time, for a specific purpose, or to function as endowment. These board-designated net assets may become undesignated with the passage of time or when used for their intended purpose. The Board may undesignate these net assets at its discretion if the originally intended time period or purpose is deemed to longer relevant or applicable to the needs of the Foundation.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Net Assets With Donor Restrictions

Net assets subject to donor-imposed stipulations that are either held in perpetuity or have restrictions that are met, either by actions of the Foundation and/or the passage of time, are classified as net assets with donor restrictions. All income and unrealized and realized net gains on investments related to net assets held in perpetuity are considered time or purpose restricted. These funds can be made available for expenditure as the Foundation appropriates its annual spending based on the use of a spending policy or in accordance with donor restrictions. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash equivalents include cash, time deposits, certificates of deposit, and other highly liquid financial instruments with original maturities of three months or less, which are neither held nor restricted by donors for long-term purposes. Cash, time deposits, certificates of deposit, and other highly liquid financial instruments restricted to endowments that are perpetual in nature or other long-term purposes are excluded from this definition.

Fair Value Measurements

GAAP defines fair value measurements applied to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. Under GAAP, fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active or inactive markets and other significant inputs that are observable for the assets or liabilities, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (continued)

Level 3 – Inputs that are significant unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying amounts for cash and cash equivalents, promises to give, prepaid expenses and other assets, accounts payable and accrued expenses, grants payable, and deferred revenue approximate fair value due to their short-term nature. ASC 825-10, "*Financial Instruments*," permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The foundation has not adopted any of the additional fair value options allowed under the standard.

Investments

The Foundation invests its assets in a manner intended to achieve a total rate of return sufficient to replace the assets spent for grants and expenses and recoup any value lost due to inflation. To minimize risk, the Foundation diversifies its investments among various financial instruments and asset categories and uses multiple investment strategies and managers. Significant investment decisions are made by the Board of Trustees' Investment Committee, which has oversight responsibility for the Foundation's investment program. The Foundation's portfolio is managed by outside investment managers who invest according to the investment guidelines recommended by the Investment Committee and approved by the Board of Trustees.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position and are included in level 1 of the fair value hierarchy. Fair value is based on market value in the case of marketable securities. The market value of publicly traded securities is based upon quotes from the principal exchanges on which the securities are traded. Investment return (including realized and unrealized gains and losses on investments, interest, dividends, and external and direct internal investment expenses) is included in the current year change in net assets. Realized and unrealized gains or losses are determined by comparison of the difference between market values and average cost, respectively. Dividend and interest income is recognized when earned.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

Alternative investments include non-marketable securities such as private equity, hedge funds, and real estate investment trusts which are valued using current estimates of fair value obtained from investment managers or general partners in the absence of readily determinable public market values. Such valuations generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Because of the inherent uncertainty of valuation for these investments, the estimate of the investment manager or general partner may differ from the values that would have been used had a ready market existed, and the differences could be significant. The agreements underlying participation in non-marketable investment funds may limit the Foundation's ability to liquidate its interest in such investments. Foundation management is responsible for the measurements of alternative investments reported in the fair value hierarchy as level 3. There were no alternative investments as of June 30, 2019 and 2018.

Pooled investments include investments in units of pooled funds for which there are underlying assets in various mutual funds and securities that are not held directly by the Foundation but rather by Greater Horizons. The underlying assets have readily determinable fair values based on the market value of publicly traded securities which are based upon quotes from the principal exchanges on which the securities are traded. Investment income earned by pooled assets is allocated to each investor participating in the pool based on average monthly balance invested.

Accounting Standards Update No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable, or may be liquidated, at NAV under the original terms of the subscription agreements or operations of the underlying assets. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds, and consequently, the fair value of the Foundation's interest in such funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore possible that if the Foundation were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different from the reported value. The Foundation has implemented policies and procedures to assess the reasonableness of the fair values provided. The Foundation believes that reported fair values of non-marketable securities at the statements of financial position dates are reasonable.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Promises to give due within the next twelve months are recorded at their net realizable value. Unconditional promises to give due in more than twelve months are recognized initially at fair value in the period the promise is made by the donor. The fair value of a pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts), discounted using a risk adjusted rate of 5% applicable to the years in which the promises are to be received. In subsequent periods, amortization of the discount rate is included in contribution revenue in the statements of activities. The allowance for uncollectable promise to give is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. There were no outstanding pledges as of June 30, 2019. As of June 30, 2018, there were pledges in the amount of \$2,358,138.

Property and Equipment

All property and equipment additions of \$2,000 or more are recorded at cost if purchased or constructed, or at fair market value at the date of the gift, if donated. Maintenance, repairs, rearrangement expenses, and renewal and betterments that do not significantly enhance the value or increase the basic productive capacity of the assets are charged to expenses as incurred. The Foundation depreciates property and equipment using the straight-line method over useful lives of the assets as follows:

	<u>Years</u>
Software	3-7
Furniture and equipment	4-7

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison to the future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Revenue Recognition

Program fees, which consist of fees for workshops and training classes, are recognized when evidence of an arrangement exists, delivery of services has occurred, the fee is fixed or determinable, and collectability is probable. Program services fees billed or collected in advance are recorded as deferred revenue until the services are performed. As of June 30, 2019 and 2018, there were \$5,000 and \$10,000, respectively, in fees collected in advance and recorded as deferred revenue.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Gifts of assets other than cash are recorded at their estimated fair value on the date of the gift. Pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Contributions

Donated goods, services, and fixed assets are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire fixed assets are reported as restricted contributions. The Foundation reports expiration of donor restrictions when the donated or acquired assets are placed in service. There was \$5,000 received in donated goods for the years ended June 30, 2019 and 2018.

Volunteers contribute significant amounts of time to our program services, administration and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed professional services are recorded at the respective fair values of the services received.

Functional Allocation of Expenses

The Foundation's program service is building endowment and donor advised funds to provide public benefit through grantmaking; and community leadership work through collaborative initiatives and programs working to make Essex County a better place to live, work, and raise a family. The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. The statements of functional expenses are required to present the natural classification detail of expenses by function, allocated on a reasonable basis that is consistently applied. Expenses that can be identified with a specific program and support services are allocated directly. Based on management's estimates, certain costs have been allocated among major classes of program services and supporting activities on a basis that is most appropriate for the cost allocated and that provides for a fair and equitable distribution. Salaries and wages, benefits, payroll taxes, communications and occupancy costs are allocated based on estimates of time and effort developed from periodic time studies. Other unallocable costs, general and administrative costs, and fundraising costs that are that are not identified with one or more programs are reported as management and general or fundraising as appropriate.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

The Foundation places its cash and cash equivalents with high quality financial institutions. Such deposits are covered by Federal Deposit Insurance Commission (FDIC) insurance and by state level insurance for balances exceeding FDIC limits. To minimize risk management routinely assesses the financial strength of the institutions.

Investments are exposed to market and credit risks. Due to the risk associated with such investments and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Use of Estimates

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

Income Taxes and Uncertain Tax Positions

The Foundation, incorporated under Chapter 180 of the Massachusetts General Laws as a tax-exempt entity, has been granted tax-exempt status under Internal Revenue Code (IRC) Section 501(c)(3) and is classified as other than a private foundation as defined by section 509(a) of the IRC. Therefore, it is generally exempt from federal and state income taxes except for tax on unrelated business income. Management has determined that substantially all of the Foundation's income, expenditures, and activities relate to its exempt purpose, therefore, the Foundation is not subject to unrelated business income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying consolidated financial statements.

The Foundation has elected, under IRC Sec. 501(h), to make limited expenditures to influence legislation. The Foundation is subject to excise tax of 25% on lobbying expenditures in excess of allowable limits. There were no excise taxes on excess lobbying expenditures for the years ending June 30, 2019 and 2018.

The Foundation is required to evaluate and disclose tax positions that could have an effect on the Foundation's consolidated financial statements. There are no uncertain tax positions considered to be material. The Foundation reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the governmental agencies for a period of three years after filing.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting updates

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers*," amending Financial Accounting Standards Board Accounting Standards Codification (ASC) topic 606. This ASU affects any entity that enters into contracts with customers to transfer goods or services and is intended to enhance the comparability of revenue recognition practices across entities. The new standard requires entities to recognize revenue when the entity has satisfied its performance obligations under contracts with customers in the amount the entity expects to be entitled to in exchange for the goods or services provided. For non-profit organizations with no public debt, this ASU takes effect for annual periods beginning after December 15, 2018. For the Foundation, this ASU takes affect for fiscal years starting July 1, 2019. Early adoption is permitted.

In June 2018, the FASB issued ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*," amending Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-605. The new ASU clarifies the difference between an exchange transaction and a contribution and further defines when a contribution is considered conditional or unconditional. This will allow non-profit entities to identify when and how revenue should be recognized. For non-profit organizations without public debt, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2018. For the Foundation, this ASU takes affect for fiscal years starting July 1, 2019.

In February 2016, the FASB issued ASU 2016-02, "*Leases*," amending Financial Accounting Standards Board Accounting Standards Codification (ASC) by adding topic 842. The new ASU requires that lessees recognize on the statement of financial position the assets and liabilities for the rights and obligations created by all leases with terms of more than twelve months, regardless of their classification as either operating or capital leases. For non-profit organizations without public debt, this ASU takes effect for annual periods beginning after December 15, 2019. For the Foundation, this ASU takes affect for fiscal years starting July 1, 2020.

The Foundation is currently evaluating the effect that these accounting pronouncements will have on the consolidated financial statements. There were no other accounting standards recently issued that had or are expected to have a material impact on the Foundation's consolidated financial statements and associated disclosures.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through September 23, 2019, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidated financial statements.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available within one year for general operating expenses, including grants, are as follows as of June 30, 2019:

Cash and cash equivalents	\$ 843,743
Investments	56,201,065
Distributions from annuitized split-interest agreements	97,628
Endowment spending policy distributions and appropriations	<u>1,147,336</u>
Total financial assets available	<u>\$58,289,772</u>

To manage liquidity, the Foundation strives to maintain three to nine months of operating reserves on hand to meet current liquidity needs and address shortfalls in cash flow caused by seasonal revenue cycles. The operating reserves are maintained in investment accounts with asset allocations consistent with the investment policy.

The Foundation maintains accounts in funds. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. The Foundation charges each fund an annual administrative fee consistent with the Foundation's fund fees policy. The administrative fee serves as support for current operations.

In addition, the Foundation had \$2,098,756 and \$1,912,202 in board designated funds functioning as endowment as of June 30, 2019 and 2018, respectively. Although the Board currently has no intention of doing so, these funds can be made available for general expenditure with Board approval.

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

As of June 30, 2019, there were no unconditional promises to give. As of June 30, 2018, unconditional promises to give consisted \$2,358,138 in promises that were all due within one year. There was no unamortized discount. These unconditional promises to give are donor designated for the endowment, and therefore, have been reflected as a long-term asset on the accompanying statements of financial position.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures (see Note 2). The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30:

		2019		
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Cash equivalents	\$ 1,504,933	\$ 1,504,933	\$ -	\$ -
Equity funds				
Large cap	47,374,817	47,374,817	-	-
Mid cap	6,724,577	6,724,577	-	-
Small cap	53,609	53,609	-	-
Fixed income funds				
Multi-sector	8,949,518	8,949,518	-	-
Other bond funds	5,961,184	5,961,184	-	-
High yield	3,306,885	3,306,385	-	-
International	3,131,891	3,131,891	-	-
Government	33,716	33,716	-	-
Exchange traded funds				
Other	268,450	268,450	-	-
Total investments at fair value	77,309,580	\$ 77,309,580	\$ -	\$ -
Pooled investments at NAV				
Domestic equity	1,147,818			
International equity	445,584			
Short-term	826,052			
Intermediate	553,482			
Money market	9,440,162			
Total investments	<u>\$ 89,722,678</u>			
Liabilities:				
Agency endowment funds	<u>\$ 15,301,028</u>			

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2018				
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Cash equivalents	\$ 2,644,666	\$ 2,644,666	\$ -	\$ -
Equity funds				
Large cap	38,959,298	38,959,298	-	-
Small cap	6,507,251	6,507,251	-	-
Fixed income funds				
Other bond funds	5,352,557	5,352,557	-	-
Multi-sector	5,705,818	5,705,818	-	-
International	2,868,983	2,868,983	-	-
Exchange traded funds				
Other	250,083	250,083	-	-
Total investments at fair Value	62,288,656	\$ 62,288,656	\$ -	\$ -
Pooled investments at NAV				
Short-term	172,587			
Intermediate	113,802			
Equity	1,142,202			
Money market	3,459,431			
Total investments	<u>\$ 67,176,678</u>			
Liabilities:				
Agency endowment funds	<u>\$ 13,745,457</u>			

Level 3 investments with significant unobservable inputs consisted of donated shares in a real estate investment trust that had been sold as of year-end. These shares were valued as of the date of donation and had the following activity for the year ended June 30, 2018:

Beginning balance	\$ 32,660
Contributions	-
Sales	(32,660)
Investment return	-
Ending balance	<u>\$ -</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 6 – INVESTMENT RETURN

Return on investments consisted of the following for the years ended June 30:

	2019	2018
Interest and dividends	\$ 1,724,532	\$ 1,318,950
Realized gains and losses	170,069	193,656
Unrealized gains and losses	1,882,818	2,463,770
Investment fees	(10,785)	(8,166)
	<u>\$ 3,766,634</u>	<u>\$ 3,968,210</u>

Investment return is shown net of investment management and custody fees paid directly to the investment managers in the amount of \$10,785 and \$8,166 for the years ended June 30, 2019 and 2018, respectively. There were additional investment fees that were not paid directly to the managers, but rather are netted from the return on certain investments.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment is composed of the following as of June 30:

	2019	2018
Furniture and equipment	\$ 56,586	\$ 58,751
Software	44,111	44,111
Total fixed assets	100,697	102,862
Less: accumulated depreciation	96,744	96,145
Fixed assets - net	<u>\$ 3,953</u>	<u>\$ 6,717</u>

Depreciation expense was \$2,151 and \$7,732 for the years ending June 30, 2019 and 2018, respectively.

NOTE 8 - NET ASSETS

Net assets consisted of the following at June 30, 2019 and 2018, respectively:

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating funds	\$ 253,275	\$ -	\$ 253,275	\$ 229,968	\$ -	\$ 229,968
Non-endowed funds subject to variance power	56,039,407	-	56,039,407	38,650,392	-	38,650,392
Invested in property and equipment	3,953	-	3,953	6,717	-	6,717
Pledges receivable	-	-	-	-	2,358,138	2,358,138
Endowment funds	12,090,470	6,130,115	18,220,585	11,528,167	3,678,919	15,207,086
	<u>\$68,387,105</u>	<u>\$6,130,115</u>	<u>\$74,517,220</u>	<u>\$50,415,244</u>	<u>\$6,037,057</u>	<u>\$56,452,301</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 8 - NET ASSETS (continued)

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment, which amounted to \$2,098,756 and \$1,912,202 as of June 30, 2019 and 2018, respectively, and other donor created endowments that are subject to both the Foundation's variance power and spending policy.

As of June 30, 2019 and 2018, net assets with donor restrictions included net assets of \$4,924,628 and \$4,903,413, respectively, consisting of 20 and 19 individual endowment funds and endowment receivables, respectively, which must be held by the Foundation in perpetuity. Earnings on perpetual endowment funds with purpose restrictions consist of funds restricted for a variety of uses within and outside Essex County, Massachusetts which meet the charitable needs of the community.

In addition, there were net assets with donor restrictions consisting of restricted contributions that can be satisfied through purpose spending or time and that resulted from earnings on perpetual endowment funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Commonwealth of Massachusetts as follows:

	2019	2018
Cumulative earnings - perpetual endowment funds		
Without purpose restrictions	\$ 490,880	\$ 413,078
With purpose restrictions	714,607	720,566
Total	<u>\$1,205,487</u>	<u>\$1,133,644</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Expiration of time restrictions	<u>\$ 185,991</u>	<u>\$3,444,254</u>

Net assets with donor restrictions consisted of the following as of and for the years ended June 30th:

	2019	2018
Environment	\$ 2,346,504	\$ 2,387,471
Education	2,073,149	1,970,764
Health and human services	1,339,333	1,322,253
Art	55,734	54,099
Other	315,395	302,470
Total net assets with donor restrictions	<u>\$6,130,115</u>	<u>\$6,037,057</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 9 – ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 53 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds established by the Board of Trustees to function as endowments. Under UPMIFA, the Board of Trustees has discretion to determine appropriate expenditure of a donor-restricted endowment fund in accordance with specific guidelines about what constitutes prudent spending. UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes, and duration for which the endowment is established. Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of the funds suggests that a donor-restricted endowment fund is perpetual in nature. Although the Foundation is permitted to continue a prudent payout even if the market value of the fund is below historic principal value, there is an expectation that over time, the permanently restricted amount will remain intact.

The Foundation's Board of Trustees' interpretation of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date has resulted in the classification of net assets with donor restrictions that are perpetual in nature as (a) the original value of gifts donated to the perpetual endowment, (b) the original value of the subsequent gifts donated to the perpetual endowment, and (c) accumulations to the perpetual 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 perpetual endowment is classified with other net assets with donor restrictions until appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) General economic conditions
- (2) The possible effect of inflation and deflation
- (3) The expected tax consequences, if any, of investment decisions
- (4) The effect of each investment or course of action on the overall investment portfolio
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the organization
- (7) The needs of the Foundation and the fund to make distributions and to preserve capital
- (8) An asset's special relationship or value, if any, to the Foundation's charitable purpose
- (9) The duration and preservation of the fund
- (10) The investment policy of the Foundation

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 9 – ENDOWMENT FUNDS (continued)

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain in a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur in newer endowment funds, shortly after the investment of new permanently restricted contributions, or when there was continued appropriation for certain programs that were deemed prudent by the Board of Trustees. As of June 30, 2019, the fair value of the underwater endowments was \$2,316,859, whereas the original endowment gifts were \$2,358,138. In accordance with GAAP, the resulting deficiency of \$41,280 is reported in net assets with donor restrictions as of June 30, 2019. There were no deficiencies of this nature as of June 30, 2018. As of June 30, 2019 and 2018, perpetual endowment funds with original gift values of \$4,924,628 and \$4,903,413 and fair values of \$6,130,115 and \$6,037,057, were reported in net assets with donor restrictions, respectively.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include the assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Consumer Price Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide a minimum rate of return equal to the return obtainable by investing in one-year U.S. Treasury Bills over three years. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's spending policy is determined each year and allows for appropriating up to 5 percent of its endowments fair market value using a twenty-quarter rolling average. The spending policy adopted for fiscal years ending 2019 and 2018 was 4.5 percent. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowments to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 9 – ENDOWMENT FUNDS (continued)

The Articles of Organization of the Foundation, and most fund agreements, include a variance power provision which gives the Board of Trustees the power to modify any restriction or condition placed on gifts, if in its sole judgment, the Board determines that the restriction becomes, in effect, incapable of fulfillment or is inconsistent with the charitable needs of the community.

Endowment net asset composition by fund type as of June 30th:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor created funds	\$ 9,991,714	\$ 6,130,115	\$16,121,829
Board designated funds	2,098,756	-	2,098,756
	<u>\$12,090,470</u>	<u>\$ 6,130,115</u>	<u>\$18,220,585</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor created funds	\$ 9,615,965	\$ 6,037,057	\$15,653,022
Board designated funds	1,912,202	-	1,912,202
	<u>\$11,528,167</u>	<u>\$ 6,037,057</u>	<u>\$17,565,224</u>

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 11,528,167	\$ 6,037,057	\$17,565,224
Investment return:			
Investment income	310,405	19,726	330,131
Appreciation/depreciation	401,137	236,608	637,745
Total investment return	<u>711,542</u>	<u>256,334</u>	<u>967,876</u>
Contributions	567,193	22,715	589,908
Appropriation of assets for expenditure	<u>(716,432)</u>	<u>(185,991)</u>	<u>(902,423)</u>
Endowment net assets, end of year	<u>\$ 12,090,470</u>	<u>\$ 6,130,115</u>	<u>\$18,220,585</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 9 – ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 10,812,945	\$ 3,337,685	\$14,150,630
Investment return:			
Investment income	281,542	92,763	374,305
Appreciation/depreciation	497,219	184,736	681,955
Total investment return	<u>778,761</u>	<u>277,499</u>	<u>1,056,260</u>
Pledges receivable	-	2,358,138	2,358,138
Contributions	788,000	191,390	979,390
Appropriation of assets for expenditure	<u>(851,539)</u>	<u>(127,655)</u>	<u>(979,194)</u>
Endowment net assets, end of year	<u>\$ 11,528,167</u>	<u>\$ 6,037,057</u>	<u>\$17,565,224</u>

NOTE 10 – FISCAL AGENCY LIABILITY

The Foundation acts as a fiscal agent for other organizations in the service area. The organizations place funds with the Foundation and direct the Foundation to disburse funds from time to time on the organizations' behalf. Fiscal agency funds reported in the statements of financial position represent undisbursed funds held by the Foundation on behalf of Community Health Network Areas (CHNA) 13 (Beverly/Gloucester) and 14 (North Shore) of \$113,859 and \$113,326 as of June 30, 2019 and 2018, respectively.

NOTE 11 – AGENCY ENDOWMENT FUNDS

Agency endowment arises when a transfer is received from a not-for-profit organization that specifies itself as the beneficiary. GAAP requires that the transfers received by a community foundation be accounted for as a liability as the transaction is deemed to be reciprocal. The agency endowments held by the Foundation as of June 30, 2019 and 2018, were \$15,301,028 and \$13,745,457, respectively.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

NOTE 12 – SPLIT-INTEREST OBLIGATIONS

Split-interest agreements of \$349,297 and \$446,925 as of June 30, 2019 and 2018, respectively, consist of charitable gift annuities in which donors have contributed assets to the Foundation and have designated themselves as beneficiaries of an annuity payment over a specified period of time. The Foundation recorded revenue representing its share of the split-interest agreements and purchased annuity certificates covering 100% of the split-interest obligations due to the beneficiaries. The annuity obligations and related expected proceeds from the annuity certificates are estimates that may differ from amounts actually paid and received. The decrease in split-interest obligations and annuitized split-interest agreements over time is the result of annuity payments made and received.

NOTE 13 – RELATED PARTY ACTIVITY

Several of the Foundation's board members also serve on the boards of, or otherwise have a business relationship with, other area non-profit organizations. During the years ended June 30, 2019 and 2018, the Foundation made grants of \$3,207,751 and \$2,517,212 to those organizations, respectively.

NOTE 14 – EMPLOYEE BENEFIT PLANS

Effective January 1, 2018, the Foundation adopted a SIMPLE IRA Plan. Under this Plan the Foundation may make matching contributions. Employer contributions in the amount of \$22,743 and \$10,081 were made for the fiscal years ended June 30, 2019 and 2018, respectively.

NOTE 15 - OPERATING LEASE

The Foundation occupies office space in Danvers, MA under a seven-year operating lease expiring August 31, 2023. The lease provides for monthly rental payments of \$5,918 for 2019 which graduate annually. Rent expense for the years ending June 30, 2019 and 2018 was \$70,677 and \$66,951, respectively. The minimum required lease payments are as follows for fiscal years ending June 30:

2020	\$ 72,706
2021	74,735
2022	75,073
2023	75,073
2024	12,512
Total	<u>\$ 310,099</u>

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 16 – PRIOR PERIOD ADJUSTMENT

As of June 30, 2018, the balance of unconditional endowment promises to give was restated as \$2,358,138. The effect of the restatement on the change in net assets for the year ended June 30, 2018 was an increase of \$2,358,138 from \$2,542,712 to \$4,900,850. The following financial statement line items as of and for the year ended June 30, 2018 were affected by this error correction:

	As Previously Stated	Effect of Correction 2018	As Restated
Statement of financial position as of June 30, 2018			
Endowment promises to give	\$ -	2,358,138	\$ 2,358,138
Total assets	\$68,768,419	2,358,138	\$71,126,557
Net assets with donor restrictions held in perpetuity	\$ 2,545,275	2,358,138	\$4,903,413
Total net assets	\$54,094,163	2,358,138	\$56,452,301
Total liabilities and net assets	\$68,768,419	2,358,138	\$71,126,557
Statement of activities for the year ended June 30, 2018			
Contributions and grants	\$ 7,365,907	2,358,138	\$ 9,724,045
Total support revenue	\$11,377,790	2,358,138	\$13,735,928
Change in net assets	\$ 2,542,712	2,358,138	\$ 4,900,850
Net assets at end of year	\$54,094,163	2,358,138	\$56,452,301
Statement of cash flows for the year ended June 30, 2018			
Change in net assets	\$ 2,542,712	2,358,138	\$ 4,900,850
Contributions restricted for endowment	\$ (979,390)	(2,358,138)	\$ (3,337,528)