

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

Consolidated Financial Statements
&
Independent Auditor's Report

June 30, 2021 and 2020

Essex County Community Foundation, Inc. and Subsidiary
Consolidated Financial Statements
June 30, 2021 and 2020

TABLE OF CONTENTS

	<u>Page #</u>
Independent Auditor's Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-28
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on a Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30

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, 2021 and 2020, 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, 2021 and 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2021, on our consideration of Essex County Community Foundation, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Essex County Community Foundation, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Essex County Community Foundation, Inc. and Subsidiary's internal control over financial reporting and compliance.

Anstiss & Co., P.C.

Anstiss & Co., P.C.

October 4, 2021

Essex County Community Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,532,466	\$ 1,973,789
Investments	79,039,771	58,525,843
Other receivables	345,413	-
Prepaid expenses and other current assets	15,146	19,656
Total current assets	81,932,796	60,519,288
Long-term assets		
Property and equipment - net	10,767	6,221
Security deposit	5,580	5,580
Annuitized split-interest agreements	154,041	251,669
Agency endowment investments	18,505,259	14,582,397
Endowment investments	26,640,252	21,565,127
Total long-term assets	45,315,899	36,410,994
Total assets	\$ 127,248,695	\$ 96,930,282
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 134,615	\$ 140,776
Grants payable	355,560	529,252
Deferred revenue	2,500	23,000
SBA PPP loan payable	-	143,947
Total current liabilities	492,675	836,975
Long-term liabilities		
Fiscal agency liability	492,272	95,939
Split-interest obligations	154,041	251,669
Agency endowment funds	18,505,259	14,582,397
Total long-term liabilities	19,151,572	14,930,005
Total liabilities	19,644,247	15,766,980
Net assets		
Without donor restrictions		
Available for operations	80,953,429	59,591,954
Designated for endowment	18,582,078	15,169,993
Invested in property and equipment	10,767	6,221
Total without donor restrictions	99,546,274	74,768,168
With donor restrictions		
Held in perpetuity	5,210,620	5,127,075
Purpose restricted	1,830,358	509,174
Time restricted	1,017,196	758,885
Total with donor restrictions	8,058,174	6,395,134
Total net assets	107,604,448	81,163,302
Total liabilities and net assets	\$ 127,248,695	\$ 96,930,282

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc.
Consolidated Statements of Activities
For the Years Ended June 30, 2021 and 2020

	2021		2020	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
		<u>Total</u>		<u>Total</u>
Support and revenue				
Contributions and grants	\$ 23,860,360	\$ 83,545	\$ 23,943,905	
Government grants and contracts	2,073,625	-	2,073,625	
Special event revenue, net of cost of direct	124,254	-	124,254	
Program fees	52,192	-	52,192	
Investment return	19,042,940	1,820,783	20,863,723	
Donated services	3,000	-	3,000	
Gain on extinguishment of debt	143,947	-	143,947	
Net assets released from restrictions	241,288	(241,288)	-	
Total support and revenue	<u>45,541,606</u>	<u>1,663,040</u>	<u>47,204,646</u>	
Expenses				
Program services	19,483,007	-	19,483,007	
Management and general	979,447	-	979,447	
Fundraising	301,046	-	301,046	
Total expenses	<u>20,763,500</u>	<u>-</u>	<u>20,763,500</u>	
Change in net assets	<u>24,778,106</u>	<u>1,663,040</u>	<u>26,441,146</u>	
Net assets at beginning of year	<u>74,768,168</u>	<u>6,395,134</u>	<u>81,163,302</u>	
Net assets at end of year	<u>\$ 99,546,274</u>	<u>\$ 8,058,174</u>	<u>\$ 107,604,448</u>	
			<u>\$ 23,580,932</u>	<u>\$ 202,447</u>
			<u>-</u>	<u>-</u>
			<u>2,478</u>	<u>-</u>
			<u>2,778,164</u>	<u>249,415</u>
			<u>-</u>	<u>-</u>
			<u>186,843</u>	<u>(186,843)</u>
			<u>26,548,417</u>	<u>265,019</u>
			<u>18,716,148</u>	<u>-</u>
			<u>1,010,213</u>	<u>-</u>
			<u>440,993</u>	<u>-</u>
			<u>20,167,354</u>	<u>-</u>
			<u>6,381,063</u>	<u>265,019</u>
			<u>68,387,105</u>	<u>6,130,115</u>
			<u>\$ 74,768,168</u>	<u>\$ 6,395,134</u>
			<u>\$ 81,163,302</u>	<u>\$ 81,163,302</u>

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, 2021

	Program	General & Administrative	Fundraising	Total
Grants	\$ 17,676,660	\$ -	\$ -	\$ 17,676,660
Salaries and related	431,115	659,353	177,518	1,267,986
Professional consultants and speakers	654,679	-	-	654,679
Project support	542,832	-	-	542,832
Occupancy	41,454	63,400	17,069	121,923
Office supplies and expenses	42,744	65,373	17,601	125,718
Information technology	28,843	44,114	11,877	84,834
Outsourced administrative services	-	83,160	-	83,160
Fundraising expenses	-	-	74,694	74,694
Conferences	59,123	-	-	59,123
Legal and accounting	-	44,180	-	44,180
Training	-	11,369	-	11,369
Insurance	2,184	3,340	899	6,423
Travel	1,691	2,586	696	4,973
Professional fees - other	895	1,368	368	2,631
Depreciation	787	1,204	324	2,315
Miscellaneous expense	-	-	-	-
Total expenses by function	<u>\$ 19,483,007</u>	<u>\$ 979,447</u>	<u>\$ 301,046</u>	<u>\$ 20,763,500</u>

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, 2020

	Program	General & Administrative	Fundraising	Total
Grants	\$ 17,008,645	\$ -	\$ -	\$ 17,008,645
Salaries and related	361,531	552,930	148,865	1,063,326
Professional consultants and speakers	281,250	-	-	281,250
Project support	808,039	-	-	808,039
Occupancy	45,075	68,939	18,561	132,575
Office supplies and expenses	36,178	55,329	14,896	106,403
Information technology	24,231	37,058	9,977	71,266
Outsourced administrative services	-	79,200	-	79,200
Fundraising expenses	-	-	243,202	243,202
Conferences	137,803	-	-	137,803
Legal and accounting	-	17,619	-	17,619
Training	-	178,741	-	178,741
Insurance	1,808	2,765	745	5,318
Travel	9,983	15,268	4,111	29,362
Professional fees - other	850	1,301	350	2,501
Depreciation	695	1,063	286	2,044
Miscellaneous expense	60	-	-	60
Total expenses by function	<u>\$ 18,716,148</u>	<u>\$ 1,010,213</u>	<u>\$ 440,993</u>	<u>\$ 20,167,354</u>

Essex County Community Foundation, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 26,441,146	\$ 6,646,082
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	2,315	2,044
Realized and unrealized gain on investments	(13,973,263)	(825,177)
Contributions restricted to endowment	(904,229)	(2,522,628)
Change in value of fiscal agency liability	396,333	(17,920)
Change in value of agency endowment liability	3,922,862	(718,631)
Endowment net investment return	(5,663,376)	(728,080)
Gain on extinguishment of debt	(143,947)	-
Changes in operating assets and liabilities		
Decrease in prepaid expenses and other assets	4,510	14,709
Increase in other receivables	(345,413)	-
Decrease in accounts payable and accrued expenses	(6,161)	(60,860)
Decrease in grants payable	(173,692)	(56,183)
(Decrease) increase in deferred revenue	(20,500)	18,000
Net cash provided by operating activities	<u>9,536,585</u>	<u>1,751,356</u>
Cash flows from investing activities		
Purchase of investments	(22,714,080)	(16,645,228)
Proceeds from sale of investments	12,250,553	15,622,665
Purchase of property and equipment	(6,861)	(4,312)
Withdrawals from assets held under split-interest agreements	97,628	97,628
Withdrawals from endowment	1,492,480	147,759
Net cash used by investing activities	<u>(8,880,280)</u>	<u>(781,488)</u>
Cash flows from financing activities		
Proceeds from SBA PPP loan	-	143,947
Payments to beneficiaries of split-interest agreements	(97,628)	(97,628)
Net cash (used) provided by financing activities	<u>(97,628)</u>	<u>46,319</u>
Net change in cash and cash equivalents	558,677	1,016,187
Cash and cash equivalents at beginning of year	<u>1,973,789</u>	<u>957,602</u>
Cash and cash equivalents at end of year	<u>\$ 2,532,466</u>	<u>\$ 1,973,789</u>
Supplemental information		
SBA PPP loan forgiveness	<u>\$ 143,947</u>	<u>\$ -</u>

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020

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

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

Alternative investments include non-marketable securities such as limited partnerships, 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 the investments held. Because of the inherent uncertainty in valuing 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. On May 29, 2020, the Foundation entered into a commitment in the amount of \$1,000,000 in a limited partnership. A second commitment of \$1,000,000 was entered into for another limited partnership on October 14, 2020. As of June 30, 2021 and 2020, \$530,000 and \$150,000 of these commitments had been funded, respectively.

Pooled investments include investments in pooled funds which have 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.

ASU 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 liquidated, at NAV under the original terms of the subscription agreements. 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, 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 sale of the Foundation's interest in a fund in the secondary market 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 are reasonable.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Receivables

Revenue is accounted for at established rates on the accrual basis, less an allowance for contractual, charitable, and other arrangements for services provided at less than established rates. The Foundation does not accrue interest on trade receivables. The Foundation records its accounts receivable at the outstanding principal amount less an allowance for doubtful accounts. On a periodic basis, the Foundation evaluates its accounts receivable and establishes an allowance for doubtful accounts based on the history of past write-offs, collections, and current credit conditions.

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 uncollectible 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, 2021 and 2020.

Property and Equipment

All property and equipment additions of \$5,000 or more are capitalized and 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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Program fees, which consist of fees for workshops and training classes, are recognized when services are performed. Program services fees billed or collected in advance are recorded as deferred revenue until the services are performed. As of June 30, 2021 and 2020, there were \$2,500 and \$23,000, respectively, in fees collected in advance and recorded as deferred revenue.

A portion of the Foundation's revenue is derived from state contracts and grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. There were no refundable advances as of June 30, 2021 and 2020.

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 \$3,000 received in donated goods for the year ended June 30, 2021. There were no donated goods or services received during the year ended June 30, 2020.

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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

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.

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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020.

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. Management believes it is no longer subject to review by taxing authorities for periods prior to 2018.

Accounting updates

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, 2021. For the Foundation, this ASU takes effect for fiscal years starting July 1, 2022.

The Foundation is currently evaluating the effect that this accounting pronouncement 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, 2021 and 2020

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2021	2020
Cash and cash equivalents	\$ 1,961,873	\$ 1,797,570
Investments	79,039,771	58,525,843
Distributions from annuitized split-interest agreements	97,628	97,628
Endowment spending policy distributions and appropriations	1,213,871	1,117,022
Total financial assets available	\$82,313,143	\$61,538,063

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 \$3,379,598 and \$2,493,727 in board designated funds functioning as endowment as of June 30, 2021 and 2020, respectively. Although the Board currently has no intention of doing so, these funds can be made available for general expenditure with Board approval.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 4 – 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 30th:

	Total	2021		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Cash equivalents	\$ 15,822	\$ 15,822	\$ -	\$ -
Equity funds				
Large cap	60,260,328	60,260,328	-	-
Mid cap	10,287,458	10,287,458	-	-
Small cap	1,237,442	1,237,442	-	-
Other	5,000	5,000	-	-
Fixed income funds				
Multi-sector	15,811,985	15,811,985	-	-
Other bond funds	10,980,333	10,980,333	-	-
High yield	2,448,416	2,448,416	-	-
International	3,328,861	3,328,861	-	-
Government	1,368,030	1,368,030	-	-
Alternative investments				
Limited partnerships	514,961	-	-	514,961
Exchange traded funds				
Other	2,918,859	2,918,859	-	-
Total investments at fair value	109,177,495	<u>\$ 108,662,534</u>	\$ -	\$ 514,961
Pooled investments at NAV				
Domestic equity	2,861,906			
International equity	393,186			
Short-term	221,748			
Intermediate	147,369			
Money market	11,383,578			
Total investments	<u>\$ 124,185,282</u>			
Liabilities:				
Agency endowment funds	<u>\$ 18,505,259</u>			

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2020			
	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	\$ 83,620	\$ 83,620	\$ -	\$ -
Equity funds				
Large cap	49,939,298	49,939,298	-	-
Mid cap	6,882,476	6,882,476	-	-
Small cap	248,940	248,940	-	-
Global fund	27,268	27,267	-	-
International	35,872	35,872	-	-
Other	14,587	14,587	-	-
Fixed income funds				
Multi-sector	10,508,133	10,508,133	-	-
Other bond funds	6,923,187	6,923,188	-	-
High yield	1,958,644	1,958,644	-	-
International	3,273,075	3,273,075	-	-
Government	221,041	221,041	-	-
Intermediate core plus	97,826	97,826	-	-
Alternative investments				
Limited partnerships	150,000	-	-	150,000
Exchange traded funds				
Other	535,638	535,638	-	-
Total investments at fair value	80,899,605	\$ 80,749,605	\$ -	\$ 150,000
Pooled investments at NAV				
Domestic equity	836,279			
International equity	322,900			
Short-term	178,497			
Intermediate	118,383			
Money market	12,317,703			
Total investments	\$ 94,673,367			
Liabilities:				
Agency endowment funds	\$ 14,582,397			

There were no realized and unrealized gains (losses) on investments with significant unobservable inputs for the year ended June 30, 2020, as the investment was made at the end of the fiscal year. Investment activity for level 3 investments was as follows for the year ended June 30th:

Significant unobservable inputs Level 3	2021	2020
Beginning balance	\$ 150,000	\$ -
Capital calls	380,000	150,000
Investment return	(15,039)	-
Ending balance	\$ 514,961	\$ 150,000

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 5 – INVESTMENT RETURN

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

	2021	2020
Interest and dividends	\$ 1,716,037	\$ 1,990,415
Realized gains and losses	4,367,572	640,656
Unrealized gains and losses	14,799,529	419,897
Partnership losses	(12,280)	-
Investment fees	(7,135)	(23,389)
	\$ 20,863,723	\$ 3,027,579

Investment return is shown net of investment management and custody fees paid directly to the investment managers in the amount of \$7,135 and \$23,389 for the years ended June 30, 2021 and 2020, 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 6 – PROPERTY AND EQUIPMENT

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

	2021	2020
Furniture and equipment	\$ 67,759	\$ 60,898
Software	44,111	44,111
Total fixed assets	111,870	105,009
Less: accumulated depreciation	101,103	98,788
Fixed assets - net	\$ 10,767	\$ 6,221

Depreciation expense was \$2,315 and \$2,044 for the years ending June 30, 2021 and 2020, respectively.

NOTE 7 – SBA/PPP LOAN PAYABLE

On April 17, 2020, the Foundation received loan proceeds from People’s United Bank in the amount of \$143,947 under the Paycheck Protection Program (“PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), enacted by the U.S. Government on March 27, 2020 to help small businesses retain employees during the pandemic and economic downturn. The PPP provides for loans to qualifying businesses for amounts up to two- and one-half times the average monthly allowable payroll costs incurred during the year prior to the loan date. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 7 – SBA/PPP LOAN PAYABLE (continued)

maintains its payroll levels. No more than 40% of amounts expended can be for non-payroll costs and the amount of loan forgiveness will be reduced if the borrower terminates employees or reduces wages paid to employees by more than 25% during the twenty-four-week period. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%. If the forgiveness application is submitted within 10 months after the end of the covered period, payments will be deferred until the SBA remits the loan forgiveness amount to the lender or notifies the lender that no loan forgiveness is allowed. Loan forgiveness is contingent upon the lending institution's approval, which was granted on January 6, 2021 and the full amount was recognized as a gain on extinguishment of debt.

NOTE 8 - NET ASSETS

Net assets consisted of the following at June 30, 2021 and 2020, respectively:

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating funds	\$ 290,141	\$ -	\$ 290,141	\$ 270,291	\$ -	\$ 270,291
Non-endowed funds	80,663,288	-	80,663,288	59,321,663	-	59,321,663
Invested in property and equipment	10,767	-	10,767	6,221	-	6,221
Endowment funds	<u>18,582,078</u>	<u>8,058,174</u>	<u>26,640,252</u>	<u>15,169,993</u>	<u>6,395,134</u>	<u>21,565,127</u>
	<u>\$99,546,274</u>	<u>\$8,058,174</u>	<u>\$107,604,448</u>	<u>\$74,768,168</u>	<u>\$6,395,134</u>	<u>\$81,163,302</u>

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment, which amounted to \$3,379,598 and \$2,493,727 as of June 30, 2021 and 2020, respectively, and other donor created endowments that are subject to both the Foundation's variance power and spending policy.

As of June 30, 2021 and 2020, net assets with donor restrictions included net assets of \$5,210,620 and \$5,127,075, respectively, consisting of 21 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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 8 - NET ASSETS (continued)

In addition, there were net assets with donor restrictions consisting of contributions whose restrictions 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:

	2021	2020
Cumulative earnings - perpetual endowment funds		
Without purpose restrictions	\$1,017,196	\$ 509,174
With purpose restrictions	1,830,358	758,885
Total	\$2,847,554	\$1,268,059

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, 2021 and 2020:

	2021	2020
Expiration of time restrictions	\$241,288	\$186,843

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

	2021	2020
Environment	\$ 3,328,785	\$ 2,608,758
Education	2,637,426	2,091,625
Health and human services	1,617,133	1,317,925
Art	71,053	56,941
Other	403,777	319,885
Total net assets with donor restrictions	8,058,174	\$6,395,134

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

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 9 – ENDOWMENT FUNDS (continued)

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 perpetually 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

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, 2021 and 2020, there were no underwater endowments.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 9 – ENDOWMENT FUNDS (continued)

As of June 30, 2021 and 2020, perpetual endowment funds with original gift values of \$5,210,620 and \$5,127,075 and fair values of \$8,058,174 and \$6,395,134, 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 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 2021 and 2020 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.

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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 9 – ENDOWMENT FUNDS (continued)

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor created funds	\$ 15,202,480	\$ 8,058,174	\$ 23,260,654
Board designated funds	3,379,598	-	3,379,598
	\$ 18,582,078	\$ 8,058,174	\$ 26,640,252
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor created funds	\$ 12,676,266	\$ 6,395,134	\$ 19,071,400
Board designated funds	2,493,727	-	2,493,727
	\$ 15,169,993	\$ 6,395,134	\$ 21,565,127

Changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 15,169,993	\$ 6,395,134	\$ 21,565,127
Investment return:			
Investment income	323,756	152,809	476,565
Appreciation/depreciation	3,518,837	1,667,974	5,186,811
Total investment return	3,842,593	1,820,783	5,663,376
Contributions	820,684	83,545	904,229
Appropriation of assets for expenditure	(1,251,192)	(241,288)	(1,492,480)
Endowment net assets, end of year	\$ 18,582,078	\$ 8,058,174	\$ 26,640,252

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 9 – ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 12,332,063	\$ 6,130,115	\$18,462,178
Investment return:			
Investment income	361,282	177,104	538,386
Appreciation/depreciation	117,383	72,311	189,694
Total investment return	478,665	249,415	728,080
Contributions	2,320,181	202,447	2,522,628
Appropriation of assets for expenditure	(756,070)	(186,843)	(942,913)
Other changes	795,154	-	795,154
Endowment net assets, end of year	<u>\$ 15,169,993</u>	<u>\$ 6,395,134</u>	<u>\$21,565,127</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 3 Organizations in the amount of \$492,272 and \$95,939 as of June 30, 2021 and 2020, 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 funds held by the Foundation as of June 30, 2021 and 2020, were \$18,505,259 and \$14,582,397, respectively.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 12 – SPLIT-INTEREST OBLIGATIONS

Split-interest agreements of \$154,041 and \$251,669 as of June 30, 2021 and 2020, 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, 2021 and 2020, the Foundation made grants of \$2,551,736 and \$2,691,236 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 \$26,143 and \$21,990 were made for the fiscal years ended June 30, 2021 and 2020, respectively.

NOTE 15 - OPERATING LEASE

The Foundation occupies office space in Danvers, MA under a seven-year operating lease expiring April 1, 2024. The lease provides for monthly rental payments of \$6,256 for 2021 which graduates annually. Rent expense for the years ending June 30, 2021 and 2020 was \$75,195 and \$72,706, respectively. Effective July 1, 2021, the lease was amended to increase the square footage to 5,020 square feet. The future minimum lease payments are fixed and include an additional \$1.25 per square foot for electrical. The minimum required lease payments are as follows for fiscal years ending June 30th:

2022	99,145
2023	99,145
2024	74,356
Total	<u>\$ 272,646</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

NOTE 16 – CONTINGENCY

As of October 4, 2021, the Foundation continues to be impacted by COVID-19, which was characterized as a pandemic by the World Health Organization on March 11, 2020. Multiple jurisdictions in the U.S. have declared a state of emergency and implemented enhanced screenings, quarantine requirements, and other restrictions. It is anticipated that the impacts from this pandemic will continue for some time. There has been no immediate impact to the Foundation's operations. Potential impacts may include disruptions or restrictions on our employees' ability to work, our donors' ability to contribute, our ability to fundraise, or our capacity to support program services. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

Since the COVID-19 outbreak, major U.S. and foreign stock indices have continued to experience significant volatility due to the COVID-19 pandemic. Management is monitoring investment market conditions and the impact such volatility is having on the Foundation's investment portfolio. There is significant uncertainty regarding the impact that the current volatility will have on the future value of the Foundation's investment portfolio or on the amounts approved for expenditure under the Foundation's spending policy.

NOTE 17 - SUBSEQUENT EVENTS

ASC 855-10, "Subsequent Events," defines further disclosure requirements for events that occur after the consolidated statements of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Organization's management has evaluated events subsequent to June 30, 2021 through October 4, 2021, which is the date the financial statements were available to be issued. There were no material events noted during this period that would either impact the results reflected in this report or the Foundation's results going forward.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Essex County Community Foundation, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Essex County Community Foundation, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Essex County Community Foundation, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Essex County Community Foundation, Inc. and Subsidiary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Essex County Community Foundation, Inc. and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Lowell, MA
October 4, 2021