

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

**Consolidated Financial Statements
&
Independent Auditor's Report**

June 30, 2023 and 2022

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements**Opinion**

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, 2023 and 2022, 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Essex County Community Foundation, Inc. and Subsidiary as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Essex County Community Foundation, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2023, the Foundation adopted Accounting Standards Update (ASU) 2016-02, "Leases". Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Essex County Community Foundation, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Essex County Community Foundation, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Essex County Community Foundation, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2023, 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.
Chelmsford, Massachusetts
October 10, 2023

Essex County Community Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 683,632	\$ 2,028,422
Investments	83,055,819	75,187,748
Other receivables	1,318,098	317,505
Prepaid expenses and other current assets	42,168	11,754
Total current assets	<u>85,099,717</u>	<u>77,545,429</u>
Long-term assets		
Property and equipment, net	11,203	13,861
Operating lease asset	76,575	-
Security deposit	5,580	5,580
Annuitized split-interest agreements	-	56,413
Agency endowment investments	17,636,831	16,121,118
Endowment investments	23,819,226	22,286,942
Total long-term assets	<u>41,549,415</u>	<u>38,483,914</u>
Total assets	<u>\$ 126,649,132</u>	<u>\$ 116,029,343</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 223,451	\$ 179,709
Grants payable	2,301,442	344,566
Operating lease liability	76,575	-
Total current liabilities	<u>2,601,468</u>	<u>524,275</u>
Long-term liabilities		
Grants payable long-term	666,319	-
Split-interest obligations	-	56,413
Fiscal agency liability	1,878,824	1,484,992
Agency endowment funds	17,636,831	16,121,118
Total long-term liabilities	<u>20,181,974</u>	<u>17,662,523</u>
Total liabilities	<u>22,783,442</u>	<u>18,186,798</u>
Net assets		
Without donor restrictions		
Available for operations	80,035,261	75,541,742
Designated for endowment	16,543,716	15,705,977
Invested in property and equipment	11,203	13,861
Total without donor restrictions	<u>96,590,180</u>	<u>91,261,580</u>
With donor restrictions		
Held in perpetuity	5,475,665	5,221,620
Purpose restricted	995,066	745,295
Time restricted	804,779	614,050
Total with donor restrictions	<u>7,275,510</u>	<u>6,580,965</u>
Total net assets	<u>103,865,690</u>	<u>97,842,545</u>
Total liabilities and net assets	<u>\$ 126,649,132</u>	<u>\$ 116,029,343</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, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions and grants	\$ 13,629,266	\$ 254,045	\$ 13,883,311	\$ 19,938,165	\$ 11,000	\$ 19,949,165
Government grants and contracts	4,370,569	-	4,370,569	1,735,265	-	1,735,265
Special event revenue, net of cost of direct benefit to donors of \$396,500 and \$15,079	272,133	-	272,133	330,799	-	330,799
Program fees	1,196	-	1,196	(1,305)	-	(1,305)
Investment return	8,673,517	728,373	9,401,890	(12,424,825)	(1,094,497)	(13,519,322)
Donated services	6,410	-	6,410	465	-	465
Net assets released from restrictions	287,873	(287,873)	-	393,712	(393,712)	-
Total support and revenue	27,240,964	694,545	27,935,509	9,972,276	(1,477,209)	8,495,067
Expenses						
Program services	19,917,562	-	19,917,562	16,698,162	-	16,698,162
Management and general	1,352,959	-	1,352,959	1,214,352	-	1,214,352
Fundraising	641,843	-	641,843	344,456	-	344,456
Total expenses	21,912,364	-	21,912,364	18,256,970	-	18,256,970
Change in net assets	5,328,600	694,545	6,023,145	(8,284,694)	(1,477,209)	(9,761,903)
Net assets at beginning of year	91,261,580	6,580,965	97,842,545	99,546,274	8,058,174	107,604,448
Net assets at end of year	\$ 96,590,180	\$ 7,275,510	\$ 103,865,690	\$ 91,261,580	\$ 6,580,965	\$ 97,842,545

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, 2023

	Program	General & Administrative	Fundraising	Total
Grants	\$ 17,709,332	\$ -	\$ -	\$ 17,709,332
Salaries and related	567,876	973,501	486,750	2,028,127
Project support	1,009,635	-	-	1,009,635
Professional consultants and speakers	451,810	-	-	451,810
Cost of direct benefit to donors	-	-	396,500	396,500
Occupancy	45,424	77,871	38,935	162,230
Office supplies and expenses	38,872	66,636	33,318	138,826
Outsourced administrative services	-	104,684	-	104,684
Information technology	27,114	46,481	23,240	96,835
Conferences	56,544	-	-	56,544
Fundraising expenses	-	-	50,210	50,210
Legal and accounting	-	43,264	-	43,264
Travel	6,595	11,306	5,653	23,554
Training	-	21,741	-	21,741
Insurance	2,146	3,679	1,840	7,665
Depreciation	1,182	2,027	1,013	4,222
Professional fees - other	1,032	1,769	884	3,685
Total expenses by function	<u>\$ 19,917,562</u>	<u>\$ 1,352,959</u>	<u>\$ 1,038,343</u>	<u>\$ 22,308,864</u>
Less expenses shown net of revenues on the statement of activities				
Cost of direct benefit to donors	-	-	(396,500)	(396,500)
Total expenses per the statement of activities	<u>\$ 19,917,562</u>	<u>\$ 1,352,959</u>	<u>\$ 641,843</u>	<u>\$ 21,912,364</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, 2022

	Program	General & Administrative	Fundraising	Total
Grants	\$ 14,214,670	\$ -	\$ -	\$ 14,214,670
Salaries and related	564,007	862,599	232,238	1,658,844
Professional consultants and speakers	1,008,489	-	-	1,008,489
Project support	708,941	-	-	708,941
Office supplies and expenses	53,788	82,265	22,148	158,201
Occupancy	50,123	76,659	20,639	147,421
Outsourced administrative services	-	109,406	-	109,406
Information technology	22,886	35,001	9,423	67,310
Conferences	67,122	-	-	67,122
Fundraising expenses	-	-	56,657	56,657
Legal and accounting	-	27,847	-	27,847
Cost of direct benefit to donors	-	-	15,079	15,079
Travel	3,425	5,238	1,410	10,073
Training	-	8,131	-	8,131
Insurance	2,420	3,702	997	7,119
Depreciation	1,240	1,897	511	3,648
Professional fees - other	1,051	1,607	433	3,091
Total expenses by function	<u>\$ 16,698,162</u>	<u>\$ 1,214,352</u>	<u>\$ 359,535</u>	<u>\$ 18,272,049</u>
Less expenses shown net of revenues on the statement of activities				
Cost of direct benefit to donors	-	-	(15,079)	(15,079)
Total expenses per the statement of activities	<u>\$ 16,698,162</u>	<u>\$ 1,214,352</u>	<u>\$ 344,456</u>	<u>\$ 18,256,970</u>

Essex County Community Foundation, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 6,023,145	\$ (9,761,903)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	4,222	3,648
Net realized and unrealized (gain) loss on investments	(5,228,770)	11,296,126
Contributions restricted to endowment	(742,461)	(903,050)
Change in value of fiscal agency liability	393,832	992,720
Change in value of agency endowment liability	1,515,713	(2,384,141)
Endowment net investment return	(2,335,583)	3,500,248
Changes in operating assets and liabilities		
(Increase) decrease in prepaid expenses and other assets	(30,414)	3,392
(Increase) decrease in other receivables	(1,000,593)	27,908
Increase in accounts payable and accrued expenses	43,742	45,094
Increase (decrease) in grants payable	2,623,195	(10,994)
Decrease in deferred revenue	-	(2,500)
Net cash provided by operating activities	<u>1,266,028</u>	<u>2,806,548</u>
Cash flows from investing activities		
Purchases of investments	(30,349,351)	(22,640,477)
Proceeds from sale of investments	26,194,337	17,580,515
Purchase of property and equipment	(1,564)	(6,742)
Withdrawals from assets held under split-interest agreements	97,628	97,628
Withdrawals from endowment	1,545,760	1,756,112
Net cash used by investing activities	<u>(2,513,190)</u>	<u>(3,212,964)</u>
Cash flows from financing activities		
Payments to beneficiaries of split-interest agreements	(97,628)	(97,628)
Net cash used by financing activities	<u>(97,628)</u>	<u>(97,628)</u>
Net change in cash and cash equivalents	(1,344,790)	(504,044)
Cash and cash equivalents at beginning of year	<u>2,028,422</u>	<u>2,532,466</u>
Cash and cash equivalents at end of year	<u>\$ 683,632</u>	<u>\$ 2,028,422</u>

See the accompanying notes to these consolidated financial statements.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 1 - ORGANIZATION

Essex County Community Foundation, Inc. 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 organization provides services to people whose care and loyalty for Essex County communities leads them to community philanthropy.

On August 21, 2018, Essex County Community Foundation, Inc. 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 nonprofit organization for financial reporting purposes. All intercompany activity has been eliminated.

Essex County Community Foundation, Inc. and Subsidiary (collectively, 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, 2023 and 2022

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 no longer relevant or applicable to the needs of the Foundation.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

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.

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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

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, prepaid expenses and other assets, accounts payable and accrued expenses, current portion of grants payable, and operating lease liability approximate fair value due to their short-term nature. The carrying amount of noncurrent grants payable approximates fair value based on current market rates and conditions. 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.

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

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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. As of June 30, 2021, the Foundation had entered into capital commitments of \$1,000,000 each in two limited partnerships. A third capital commitment of \$2,000,000 was entered into for another limited partnership on October 26, 2021. As of June 30, 2023 and 2022, \$1,980,000 and \$1,420,000 of these commitments has 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. The Foundation held no pooled investment funds with Greater Horizons as of June 30, 2023.

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.

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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

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 donor makes the promise. 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, 2023 and 2022.

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.

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, 2023 and 2022, there were no fees collected in advance and recorded as deferred revenue.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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, 2023 and 2022.

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 \$6,410 and \$465 received in donated services for the years ended June 30, 2023 and 2022, respectively.

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 GAAP. Contributed professional services are recorded at the respective fair values of the services received.

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.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses (continued)

Salaries and related benefits, occupancy and certain other costs are allocated based on estimates of time and effort developed from periodic time studies. Other unallocable costs such as outsourced administrative services and fundraising expenses that are not identified with one or more programs are reported as general and administrative or fundraising as appropriate.

Leases

The new lease standard adopted requires that leases with a lease term of more than twelve months be classified as either finance or operating leases. Leases are classified as finance leases when the Foundation expects to consume a major part of the economic benefits of the leased assets over the remaining lease term. The Foundation currently has no lease agreements classified as finance leases. Conversely, the Foundation is not expected to consume a major part of the economic benefits of assets classified as operating leases. The Foundation elected not to apply the recognition requirements under the new lease standard on short-term leases with lease terms twelve months or less and recognizes lease payments on those leases in the period in which those costs are incurred.

The Foundation currently does not have an incremental borrowing rate available and the interest rate implicit in the operating lease reported is not readily determinable. The interest rate used to determine the present value of the future lease payments is the U.S. Treasury risk-free rate closest to the date of adoption or the commencement date of a new lease.

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, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes and Uncertain Tax Positions

Essex County Community Foundation, Inc., 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 lobbying expenses for the fiscal years ended June 30, 2023 and 2022. There were no excise taxes on excess lobbying expenditures for the years ending June 30, 2023 and 2022.

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 2020.

Adoption of New Accounting Standard

In February 2016, the FASB issued ASU 2016-02, "Leases", and four additional amendments to the standard in 2018 and 2019. The amended standard includes a lessee accounting model that recognizes two types of leases: finance leases and operating leases. The standard requires that a lessee recognize on the statement of financial position assets and liabilities for leases with lease terms of more than twelve months. It also requires qualitative and quantitative disclosures, providing information about the amounts recorded in the financial statements. The amended standard is effective for annual financial statements of nonprofit organizations issued for fiscal years beginning after December 15, 2021. In adopting the new lease standard, the Foundation elected to use a transition method under which existing leases were measured and recognized as of the date of adoption, July 1, 2022, in lieu of applying the standard retrospectively to the year ended June 30, 2022. Additionally, as part of the implementation, the Foundation also elected to use a package of optional practical expedients which permitted the Foundation to avoid reassessing previous lease identifications within contracts, the existence of initial direct costs, and the lease classifications of any expired and existing leases. The impact on implementing the new lease standard on the Foundation's 2023 consolidated financial statements are described in Note 14.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Updates

In June 2016, the FASB issued ASU 2016-13, “*Measurement of Credit Losses on Financial Instruments*” (Topic 326). The standard requires assets measured at amortized cost basis to be presented at the net amount expected to be collected on the financial asset over its full life. The statement of activities will reflect credit losses for newly recognized financial assets, as well as expected increases or decreases of expected credit losses that have taken place during the period. This ASU is effective for annual periods beginning after December 15, 2022. For the Foundation, this ASU takes affect for fiscal years starting July 1, 2023.

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.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2023	2022
Cash and cash equivalents	\$ 484,796	\$ 1,459,186
Investments	83,055,819	75,351,925
Distributions from annuitized split-interest agreements	97,628	97,628
Endowment spending policy distributions and appropriations	1,584,977	1,468,203
Total financial assets available	<u>\$85,223,220</u>	<u>\$78,376,942</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 \$3,376,964 and \$3,178,309 in board designated funds functioning as endowment as of June 30, 2023 and 2022, 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, 2023 and 2022

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:

		2023		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
	Total			
Assets:				
Cash equivalents	\$ 16,836,528	\$ 16,836,528	\$ -	\$ -
Equity funds				
Large cap	56,603,836	56,603,836	-	-
Mid cap	8,210,804	8,210,804	-	-
Small cap	1,766,709	1,766,709	-	-
Other	-	-	-	-
Fixed income funds				
Multi-sector	14,888,493	14,888,493	-	-
Other bond funds	10,778,273	10,778,273	-	-
High yield	2,915,492	2,915,492	-	-
International	3,002,577	3,002,577	-	-
Government	1,730,387	1,730,387	-	-
Alternative investments				
Limited partnerships	1,931,170	-	-	1,931,170
Exchange traded funds				
Other	5,847,607	5,847,607	-	-
Total investments at fair value	124,511,876	\$ 122,580,706	\$ -	\$ 1,931,170
Pooled investments at NAV				
Domestic equity	-			
International equity	-			
Short-term	-			
Intermediate	-			
Money market	-			
Total investments	\$ 124,511,876			
Liabilities:				
Agency endowment funds	\$ 17,636,831			

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

		2022		
	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	\$ 41,240	\$ 41,240	\$ -	\$ -
Equity funds				
Large cap	50,325,905	50,325,905	-	-
Mid cap	7,080,923	7,080,923	-	-
Small cap	1,329,207	1,329,207	-	-
Other	6,771	6,771	-	-
Fixed income funds				
Multi-sector	14,180,180	14,180,180	-	-
Other bond funds	10,166,109	10,166,109	-	-
High yield	2,217,717	2,217,717	-	-
International	2,993,107	2,993,107	-	-
Government	1,482,257	1,482,257	-	-
Alternative investments				
Limited partnerships	1,580,351	-	-	1,580,351
Exchange traded funds				
Other	3,174,433	3,174,433	-	-
Total investments at fair value	94,578,200	\$ 92,997,849	\$ -	\$ 1,580,351
Pooled investments at NAV				
Domestic equity	746,422			
International equity	320,531			
Short-term	188,076			
Intermediate	123,165			
Money market	17,639,414			
Total investments	<u>\$ 113,595,808</u>			
Liabilities:				
Agency endowment funds	<u>\$ 16,121,118</u>			

Investment activity for level 3 investments was as follows for the years ended June 30th:

Significant unobservable inputs Level 3	2023	2022
Beginning balance	\$ 1,580,351	\$ 514,961
Capital calls	560,000	890,000
Investment return	(209,181)	175,390
Ending balance	<u>\$ 1,931,170</u>	<u>\$ 1,580,351</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 5 – INVESTMENT RETURN

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

	2023	2022
Interest and dividends	\$ 2,629,892	\$ 1,993,842
Realized gains	817,736	2,548,223
Unrealized gains and losses	6,094,395	(18,194,844)
Partnership gains and losses	(118,807)	143,359
Investment fees	(21,326)	(9,902)
	<u>\$ 9,401,890</u>	<u>\$(13,519,322)</u>

Investment return is shown net of investment management and custody fees paid directly to the investment managers in the amount of \$21,326 and \$9,902 for the years ended June 30, 2023 and 2022, 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:

	2023	2022
Furniture and equipment	\$ 76,065	\$ 74,501
Software	-	44,111
Total property and equipment	76,065	118,612
Less accumulated depreciation	(64,862)	(104,751)
Property and equipment, net	<u>\$ 11,203</u>	<u>\$ 13,861</u>

Depreciation expense was \$4,222 and \$3,648 for the years ending June 30, 2023 and 2022, respectively.

NOTE 7 - NET ASSETS

Net assets consisted of the following at June 30, 2023 and 2022, respectively:

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating funds	\$ 316,488	\$ -	\$ 316,488	\$ 302,030	\$ -	\$ 302,030
Non-endowed funds	79,718,773	-	79,718,773	75,239,712	-	75,239,712
Invested in property and equipment	11,203	-	11,203	13,861	-	13,861
Endowment funds	16,543,716	7,275,510	23,819,226	15,705,977	6,580,965	22,286,942
	<u>\$96,590,180</u>	<u>\$7,275,510</u>	<u>\$103,809,418</u>	<u>\$91,261,580</u>	<u>\$6,580,965</u>	<u>\$97,842,545</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 7 - 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 \$3,376,964 and \$3,178,309 as of June 30, 2023 and 2022, respectively, and other donor created endowments that are subject to both the Foundation's variance power and spending policy.

As of June 30, 2023 and 2022, net assets with donor restrictions included net assets of \$5,475,665 and \$5,221,620, respectively, consisting of 22 and 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.

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:

	2023	2022
Cumulative earnings - perpetual endowment funds		
Without purpose restrictions	\$ 804,779	\$614,050
With purpose restrictions	995,066	745,295
Total	<u>\$1,799,845</u>	<u>\$1,359,345</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, 2023 and 2022:

	2023	2022
Expiration of time restrictions	<u>\$287,873</u>	<u>\$393,712</u>

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

	2023	2022
Environment	\$ 2,923,152	\$ 2,644,411
Education	2,518,551	2,210,133
Health and human services	1,398,449	1,327,247
Art	66,175	60,246
Other	369,183	338,928
Total net assets with donor restrictions	<u>\$7,275,510</u>	<u>\$6,580,965</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 8 – ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 60 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 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

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 8 – 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. Deficiencies of this nature existed in two donor-restricted endowment funds, which together had an original gift value of \$84,674, a current fair value of \$76,306, and a deficiency of \$8,368 as of June 30, 2022. There were no underwater endowment funds as of June 30, 2023.

As of June 30, 2023 and 2022, perpetual endowment funds with original gift values of \$5,475,665 and \$5,221,620 and fair values of \$7,275,510 and \$6,580,965, 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 five percent of its endowments fair market value using a twenty-quarter rolling average. The spending policy adopted for fiscal years ending 2023 and 2022 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, 2023 and 2022

NOTE 8 – ENDOWMENT FUNDS (continued)

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

2023			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor created funds	\$ 13,166,752	\$ 7,275,510	\$ 20,442,262
Board designated funds	3,376,964	-	3,376,964
	<u>\$ 16,543,716</u>	<u>\$ 7,275,510</u>	<u>\$ 23,819,226</u>
2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor created funds	\$ 12,527,668	\$ 6,580,965	\$ 19,108,633
Board designated funds	3,178,309	-	3,178,309
	<u>\$ 15,705,977</u>	<u>\$ 6,580,965</u>	<u>\$ 22,286,942</u>

Changes in endowment net assets for the year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 15,705,977	\$ 6,580,965	\$ 22,286,942
Investment return:			
Investment income	426,539	227,025	653,564
Appreciation/depreciation	1,180,671	501,348	1,682,019
Total investment return	<u>1,607,210</u>	<u>728,373</u>	<u>2,335,583</u>
Contributions	488,416	254,045	742,461
Appropriation of assets for expenditure	<u>(1,257,887)</u>	<u>(287,873)</u>	<u>(1,545,760)</u>
Endowment net assets, end of year	<u>\$ 16,543,716</u>	<u>\$ 7,275,510</u>	<u>\$ 23,819,226</u>

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 8 – ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 18,582,078	\$ 8,058,174	\$26,640,252
Investment return:			
Investment income	367,704	396,269	763,973
Appreciation/depreciation	<u>(2,773,455)</u>	<u>(1,490,766)</u>	<u>(4,264,221)</u>
Total investment return	<u>(2,405,751)</u>	<u>(1,094,497)</u>	<u>(3,500,248)</u>
Contributions	892,050	11,000	903,050
Appropriation of assets for expenditure	<u>(1,362,400)</u>	<u>(393,712)</u>	<u>(1,756,112)</u>
Endowment net assets, end of year	<u>\$ 15,705,977</u>	<u>\$ 6,580,965</u>	<u>\$22,286,942</u>

NOTE 9 – 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 eleven and eight organizations in the amount of \$1,878,824 and \$1,484,992 as of June 30, 2023 and 2022, respectively.

NOTE 10 – 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, 2023 and 2022, were \$17,636,831 and \$16,121,118, respectively.

NOTE 11 – SPLIT-INTEREST OBLIGATIONS

Split-interest agreements of \$56,413 as of June 30, 2022, 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. There was no asset or liability balance as of June 30, 2023.

Essex County Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

NOTE 12 – 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 fiscal years ended June 30, 2023 and 2022, the Foundation made grants of \$2,403,808 and \$1,856,127 to those organizations, respectively.

Two board members are also members of law firms that provided professional services to the Foundation. The law firms provided professional services totaling \$15,074 for the fiscal year ended June 30, 2023.

NOTE 13 – 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 \$53,592 and \$40,799 were made for the fiscal years ended June 30, 2023 and 2022, respectively.

NOTE 14 - OPERATING LEASE

In 2016, the Foundation entered into an operating lease agreement to lease office space in Danvers, Massachusetts. The term of the lease agreement was initially for seven years through August 31, 2023, and on May 26, 2021, the lease was amended to extend the term of the lease through April 30, 2024. Monthly rental payments are \$7,739 over the amended term of the lease. In addition to rent, the lease requires the Foundation to pay certain operating expenses and utilities. In accordance with the implementation of ASU 2016-02, *Leases*, the Foundation recorded an operating lease asset and liability in the amount of \$166,107 on July 1, 2022. The Foundation measured and recorded the asset and liability under operating lease at the present value of future lease payments using the U.S. Treasury risk-free rate of 2.84% as the discount rate. The operating lease asset and corresponding liability was \$76,575 as of June 30, 2023. Rent expense under the lease agreement was \$92,871 for both fiscal years ended June 30, 2023 and 2022.

NOTE 15 - 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 Foundation's management has evaluated events subsequent to June 30, 2023 through October 10, 2023, which is the date the consolidated 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 and 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, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 10, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Essex County Community Foundation, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 or significant deficiencies may exist that were not identified.

Report on 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 consolidated 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.
Chelmsford, Massachusetts
October 10, 2023

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Essex County Community Foundation, Inc. and Subsidiary's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Essex County Community Foundation, Inc. and Subsidiary's major federal programs for the year ended June 30, 2023. Essex County Community Foundation, Inc. and Subsidiary's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Essex County Community Foundation, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Essex County Community Foundation, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Essex County Community Foundation, Inc. and Subsidiary's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Essex County Community Foundation, Inc. and Subsidiary's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Essex County Community Foundation, Inc. and Subsidiary's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Essex County Community Foundation, Inc. and Subsidiary's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Essex County Community Foundation, Inc. and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Essex County Community Foundation, Inc. and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Essex County Community Foundation, Inc. and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Chelmsford, Massachusetts
October 10, 2023

Essex County Community Foundation, Inc. and Subsidiary
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Other Programs				
U.S. Department of Health and Human Services				
<u>Congressional Directives</u>				
Congressional Directives	93.493		\$ 120,965	\$ 148,473
Total Congressional Directives			120,965	148,473
Total U.S. Department of Health and Human Services			120,965	148,473
U.S. Department of Housing and Urban Development				
<u>Pass-through -- Commonwealth of Massachusetts Department</u>				
<u>of Housing and Community Development</u>				
* COVID-19 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	Commonwealth of Massachusetts, OCD322022 821110000	2,684,124	2,877,009
Total Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii			2,684,124	2,877,009
Total U.S. Department of Housing and Urban Development			2,684,124	2,877,009
Total Expenditures of Federal Awards			\$ 2,805,089	\$ 3,025,482

See accompanying notes to schedule of expenditures of federal awards.

Essex County Community Foundation, Inc. and Subsidiary
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2023

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the grant activity of Essex County Community Foundation, Inc. and Subsidiary under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Essex County Community Foundation, Inc. and Subsidiary it is not intended to and does not present the financial position, changes in net assets, or cash flows of Essex County Community Foundation, Inc. and Subsidiary.

2. Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate:

Essex County Community Foundation, Inc. and Subsidiary has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

* Major Program