



Essex County Community Foundation, Inc.

and Subsidiary

Consolidated Financial Statements

June 30, 2025 and 2024

Essex County Community Foundation, Inc. and Subsidiary

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June 30, 2025 and 2024

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Essex County Community Foundation, Inc. (a Massachusetts nonprofit corporation) and Subsidiary (a Massachusetts limited liability company) (collectively, the Foundation), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Essex County Community Foundation, Inc. and Subsidiary as of June 30, 2025 and 2024, and the changes in their net assets and their 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 (GAAS). 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 the Foundation 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 opinion.

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 consolidated 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 the Foundation's ability to continue as a going concern within one year after the date 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 GAAS 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 judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment 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 the Foundation'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation'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.

AAFCPAs, Inc.

Westborough, Massachusetts
October 15, 2025

Essex County Community Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

As of June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,643,036	\$ 2,191,097
Contributions and grants receivable	75,563	118,266
Investments	95,119,167	82,561,357
Prepaid expenses	69,065	75,625
Total current assets	<u>96,906,831</u>	<u>84,946,345</u>
Property and equipment, net	120,552	87,932
Agency endowment investments	25,358,612	22,800,201
Endowment investments	27,302,470	25,611,328
Right-of-use asset, operating lease	831,645	904,438
Total assets	<u>\$ 150,520,110</u>	<u>\$ 134,350,244</u>
Liabilities and Net Assets		
Liabilities:		
 Current liabilities:		
Accounts payable and accrued expenses	\$ 265,831	\$ 538,999
Current portion of grants payable	1,745,502	1,429,303
Current portion of operating lease liability	104,906	51,678
 Total current liabilities	<u>2,116,239</u>	<u>2,019,980</u>
Operating lease liability, net of current portion	804,687	871,278
Grants payable, net of current portion	189,776	497,662
Agency endowment funds	25,358,612	22,800,201
 Total liabilities	<u>28,469,314</u>	<u>26,189,121</u>
Net assets:		
Net assets with donor restrictions	8,854,366	7,902,545
Net assets without donor restrictions	113,196,430	100,258,578
 Net assets	<u>122,050,796</u>	<u>108,161,123</u>
Total liabilities and net assets	<u>\$ 150,520,110</u>	<u>\$ 134,350,244</u>

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

Essex County Community Foundation, Inc. and Subsidiary
 Consolidated Statements of Activities and Changes in Net Assets
 For the years ended June 30, 2025 and 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Investment return	\$ 11,725,308	\$ 1,013,625	\$ 12,738,933	\$ 11,361,212	\$ 1,060,936	\$ 12,422,148
Government grants	281,380	-	281,380	149,958	-	149,958
Contribution revenue	18,702,442	354,265	19,056,707	11,803,308	8,879	11,812,187
Special event revenue	692,293	-	692,293	584,688	-	584,688
Net assets released from restriction	416,069	(416,069)	-	442,780	(442,780)	-
Total revenues	31,817,492	951,821	32,769,313	24,341,946	627,035	24,968,981
Expenses:						
Program services	16,182,609	-	16,182,609	18,130,296	-	18,130,296
Management and general	1,704,018	-	1,704,018	1,653,299	-	1,653,299
Fundraising	993,013	-	993,013	889,952	-	889,952
Total expenses	18,879,640	-	18,879,640	20,673,547	-	20,673,547
Changes in net assets	12,937,852	951,821	13,889,673	3,668,399	627,035	4,295,434
Net assets at beginning of year	100,258,578	7,902,545	108,161,123	96,590,179	7,275,510	103,865,689
Net assets at end of year	\$ 113,196,430	\$ 8,854,366	\$ 122,050,796	\$ 100,258,578	\$ 7,902,545	\$ 108,161,123

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

Essex County Community Foundation, Inc. and Subsidiary

Consolidated Statements of Functional Expenses
For the years ended June 30, 2025 and 2024

	2025				2024				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses	
Personnel:									
Salaries and wages	\$ 366,850	\$ 873,453	\$ 506,603	\$ 1,746,906	\$ 521,583	\$ 827,339	\$ 449,641	\$ 1,798,563	
Taxes and benefits	72,375	172,322	99,946	344,643	90,742	143,936	78,226	312,904	
Total	439,225	1,045,775	606,549	2,091,549	612,325	971,275	527,867	2,111,467	
Grants	13,786,640	-	-	13,786,640	15,612,356	-	-	15,612,356	
Consulting services	1,101,691	-	-	1,101,691	853,724	-	-	853,724	
Scholarship grants	628,759	-	-	628,759	688,990	-	-	688,990	
Other expenses	93,102	221,671	128,569	443,342	204,651	324,619	176,423	705,693	
Travel and conferences	59,904	142,628	82,723	285,255	63,846	101,273	55,039	220,158	
Supplies and office expenses	23,203	57,714	32,041	112,958	35,571	56,423	30,664	122,658	
Rent expense	23,333	55,555	32,221	111,109	27,814	44,119	23,977	95,910	
Repairs and maintenance	20,123	47,913	27,789	95,825	25,613	40,628	22,081	88,322	
Professional and legal fees	-	92,836	-	92,836	-	98,500	-	98,500	
Marketing and advertising	-	-	73,966	73,966	-	-	49,241	49,241	
Trainings	-	24,141	-	24,141	-	7,886	-	7,886	
Insurance expense	3,523	8,389	4,865	16,777	3,402	5,396	2,932	11,730	
Depreciation	3,106	7,396	4,290	14,792	2,004	3,180	1,728	6,912	
Total expenses	\$16,182,609	\$ 1,704,018	\$ 993,013	\$18,879,640	\$18,130,296	\$ 1,653,299	\$ 889,952	\$20,673,547	

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

Essex County Community Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Changes in net assets	\$ 13,889,673	\$ 4,295,434
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	14,792	6,912
Net investment return	(9,716,242)	(9,322,177)
Contributions restricted to endowment	(416,429)	(451,974)
Change in value of fiscal agent liability	-	310,366
Net endowment investment return	(3,022,691)	(3,099,971)
Contribution and grants receivable	42,703	1,199,831
Prepaid expenses	6,560	(27,877)
Accounts payable and accrued expenses	286,431	315,548
Operating lease	86,156	18,518
Grants payable	(8,313)	(1,040,796)
Net cash provided by (used in) operating activities	<u>1,162,640</u>	<u>(7,796,186)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(47,412)	(83,641)
Proceeds from sale of investments	17,868,812	30,890,803
Purchase of investments	(19,948,530)	(21,955,485)
Net cash provided by (used in) investing activities	<u>(2,127,130)</u>	<u>8,851,677</u>
Cash flows from financing activities:		
Contributions restricted to endowment	<u>416,429</u>	<u>451,974</u>
Net change in cash and cash equivalents	<u>(548,061)</u>	<u>1,507,465</u>
Cash and cash equivalents at beginning of year	<u>2,191,097</u>	<u>683,632</u>
Cash and cash equivalents at end of year	<u>\$ 1,643,036</u>	<u>\$ 2,191,097</u>
Supplemental cash flow information:		
Operating lease asset obtained in exchange for lease liability	<u>\$ -</u>	<u>\$ 911,485</u>

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

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

1. Nature of Operations

Operations and Nonprofit Status

Essex County Community Foundation, Inc. (the Organization) 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 nonprofit agencies serving Essex County communities. The Organization provides services to people whose care and loyalty for Essex County communities leads them to community philanthropy.

The Organization has formed a single member 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. The LLC is considered a disregarded entity for tax purposes.

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 nonprofit agencies in Essex County during its annual grant cycle. The Foundation holds informational meetings open to all nonprofit 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.

Designated Funds

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

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

1. Nature of Operations (Continued)

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 distribution 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.

The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within the requirements of the IRC.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the LLC. All significant balances between classes of net assets and intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Basis of Accounting

The Foundation prepares its consolidated financial statements in accordance with generally accepted accounting principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts 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, 2025 and 2024

2. Significant Accounting Policies (Continued)

Net Assets

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations are classified as net assets 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.

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 consolidated statements of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents

Cash and 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 cash and cash equivalents in the consolidated statements of financial position.

The Foundation maintains its cash balances in financial institutions in the United States (U.S.). Balances at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Foundation has not experienced any losses in these accounts and management believes the Foundation is not exposed to any significant credit risk on its cash and cash equivalents.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

2. Significant Accounting Policies (Continued)

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 consolidated 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 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 nonmarketable investment funds may limit the Foundation's ability to liquidate its interest in such investments. The Foundation's 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. A fourth capital commitment of \$1,000,000 was entered into during fiscal year 2024 of which \$110,000 was funded as of June 30, 2024. As of June 30, 2025 and 2024, \$3,200,000 and \$2,740,000, respectively, of these commitments have been funded.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

2. Significant Accounting Policies (Continued)

Agency Funds

The Foundation accepts contributions from a donor and agrees to transfer those assets, the return on investments of those assets, or both, to another entity that is specified by the donor. If a nonprofit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, that community foundation must account for the transfer of such assets as a liability rather than as a contribution.

In accordance with U.S. GAAP, the Foundation accounts for agency funds as liabilities equal to the fair value of the assets. All agency endowment activity is excluded from the consolidated statements of activities and changes in net assets and is reflected in the funds held as agency endowments in the accompanying consolidated statements of financial position. Fees on agency endowments are recognized as they are earned.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of receipt by the Foundation. Renewals and betterments in excess of \$5,000 are capitalized as additions to property, while repairs and maintenance are expensed as incurred. Land is not depreciated (see Note 6).

Depreciation of property and equipment is computed using the straight-line method over an estimated useful lives of three to seven years.

Revenue Recognition

In accordance with ASC Subtopic 958-605 (Topic 958), *Revenue Recognition*, the Foundation must determine whether a contribution is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Foundation should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Grants and contributions without donor restrictions are recorded as revenue when received or unconditionally pledged. Grants and contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred, purpose restrictions are met, or time restrictions have lapsed and are shown as net assets released from restrictions in the accompanying consolidated statements of activities and changes in net assets.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

2. Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

The Foundation receives a portion of its revenue from state agencies which are included in government grants and contracts in the accompanying consolidated statements of activities and changes in net assets. Amounts received under contracts with state agencies have been recorded in accordance with Topic 958. These grants are considered nonreciprocal transactions because the general public receives the benefit as a result of the assets transferred. These conditional contributions are recognized as costs are incurred or as the conditions are satisfied.

Subsequent Events

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

Income Taxes

The Foundation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Foundation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at June 30, 2025 and 2024. The Foundation's information returns are subject to examination by the Federal and state jurisdictions.

Fair Value Measurements

The Foundation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Foundation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Foundation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Foundation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

2. Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs

Investments

Investments are recorded in the consolidated financial statements at fair value. If an investment is directly held by the Foundation and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

The Foundation's interests in alternative investment funds represent interests in certain partnerships and limited liability corporations (LLC). Values for these alternative investment funds, which may invest in both marketable and non-marketable securities, are determined by the Foundation's management based on information provided by each partnership's general partner or LLC managing member and may be based on historical cost, appraisals, market values discounted for concentration of ownership, or other estimates. Because of the inherent uncertainty of valuing the investments in such partnerships and LLCs and uncertainty of the value of the underlying investments held by the partnerships and LLCs, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a readily available market value for the investments existed, and that difference may be material. If a valuation was not available from the general partner or managing member as of year-end, the consolidated financial statements report the most recent prior valuation updated by subsequent capital calls and distributions. The Foundation believes that the carrying amount of its limited liability partnership and LLC investments is a reasonable estimate of fair value as of June 30, 2025 and 2024.

A summary of inputs used in valuing the Foundation's investments as of June 30, 2025 and 2024, is included in Note 4.

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities, including notes and bonds payable, does not differ materially from its estimated fair value. These qualifying assets and liabilities are considered Level 1 in the fair value hierarch.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

2. Significant Accounting Policies (Continued)

Functional Expense Allocation

Expenses related directly to program or supporting functions are distributed to that program or supporting function. Certain categories of expenses that are attributable to both program and supporting functions require an allocation on a reasonable basis that is consistently applied. Personnel costs are charged directly to programs or supporting functions. Non-personnel costs, such as occupancy, office expenses, program consulting/professional fees, software licensing, and support are allocated to programs or supporting functions based on personnel and related cost percentages by function.

Leases

The Foundation determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Foundation determines these assets are leased because the Foundation has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

In evaluating its contracts, the Foundation separately identifies lease and non-lease components such as common area and other maintenance costs, in calculating the right-of-use (ROU) assets and lease liabilities for its office space and equipment. The Foundation has elected the practical expedient to combine lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Foundation determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Foundation uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Foundation uses the risk-free discount rate for the term closest to the full term of the lease, based on the information available at the lease commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the Foundation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. The Foundation has elected not to record leases with an initial term of twelve months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

2. Significant Accounting Policies (Continued)

Grants

The Foundation recognizes grant expense at the time the grant is approved and any conditions are met. All grants are ratified by the Board of Trustees. As of June 30, 2025 and 2024, grants are payable as follows:

	2025	2024
2025	\$ -	\$ 1,429,303
2026	\$ 1,745,502	\$ 432,885
2027	\$ 189,776	\$ 64,777

3. Liquidity and Availability of Resources

The Foundation's financial assets available for general use at June 30, consist of the following:

	2025	2024
Financial assets available:		
Cash and cash equivalents	\$ 1,643,036	\$ 2,191,097
Investments	95,119,167	82,561,357
Financial assets available to meet cash needs for general expenditures within one year	<hr/> \$ 96,762,203	<hr/> \$ 84,752,454
	<hr/> <hr/>	<hr/> <hr/>

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 Organization charges each fund an annual administrative fee consistent with the Organization's fund fees policy. The administrative fee serves as support for current operations.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

3. Liquidity and Availability of Resources (Continued)

The Foundation also has a board-designated endowment of \$3,089,390 and \$3,744,932 at June 30, 2025 and 2024, respectively. While the Foundation has no current intention to draw upon these funds, amounts from the board-designated endowment could be made available, if necessary, after Board approval.

4. Investments

The following tables set forth, by level within the fair value hierarchy, the Foundation's investments at fair value as of June 30:

	June 30, 2025			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Cash	\$ 13,866,220	\$ -	\$ -	\$ 13,866,220
Equity Funds:				
Large Cap	51,601,856	-	-	51,601,856
Mid Cap	9,499,208	-	-	9,499,208
Total equity funds	61,101,064	-	-	61,101,064
Fixed Income Funds:				
Multi-sector	15,591,208	-	-	15,591,208
Other bond funds	25,134,351	-	-	25,134,351
High yield	5,168,729	-	-	5,168,729
Total fixed income funds	45,894,288	-	-	45,894,288
Alternative Investments:				
Limited Partnerships	-	-	3,443,345	3,443,345
Private equity funds	1,013,668	-	-	1,013,668
Total alternative investments	1,013,668	-	3,443,345	4,457,013
Exchange Traded Funds	22,461,664	-	-	22,461,664
Total assets	\$ 144,336,904	\$ -	\$ 3,443,345	\$ 147,780,249

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

4. Investments (Continued)

	June 30, 2024			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Cash	\$ 14,290,146	\$ -	\$ -	\$ 14,290,146
Equity Funds:				
Large Cap	52,568,560	-	-	52,568,560
Mid Cap	8,662,583	-	-	8,662,583
Small Cap	1,000,000	-	-	1,000,000
Total equity funds	62,231,143	-	-	62,231,143
Fixed Income Funds:				
Multi-sector	14,351,685	-	-	14,351,685
Other bond funds	11,247,499	-	-	11,247,499
High yield	4,811,124	-	-	4,811,124
International	4,758,698	-	-	4,758,698
Total fixed income funds	35,169,006	-	-	35,169,006
Alternative Investments:				
Limited Partnerships	-	-	2,939,466	2,939,466
Private equity funds	-	-	-	-
Total alternative investments	-	-	2,939,466	2,939,466
Exchange Traded Funds	16,343,125	-	-	16,343,125
Total assets	\$ 128,033,420	\$ -	\$ 2,939,466	\$ 130,972,886

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

4. Investments (Continued)

Changes in Level 3 Recurring Fair Value Measurements

The following table presents selected information regarding Level 3 assets measured at fair value on a recurring basis during the years ended June 30:

	2025	2024
Beginning Balance	\$ 2,939,466	\$ 1,931,170
Capital calls	460,000	750,000
Investment return	43,879	258,296
 Ending Balance	 \$ 3,443,345	 \$ 2,939,466

Total investment return consists of the following for the years ended June 30:

	2025	2024
Unrealized gains	\$ 7,554,768	\$ 6,839,642
Realized gains, net	1,459,828	2,040,037
Interest and dividends	3,763,843	3,553,151
Investment fees	(39,506)	(10,682)
 \$ 12,738,933	 \$ 12,422,148	

The Foundation's investment portfolio includes equity hedges and multiple strategy funds, which take the legal form of limited partnerships and trusts. These investments are classified as alternative investments. The fair values of the alternative investments have been estimated by management based on the information provided by the fund managers or the general partners. The information provided by the fund managers or general partners has been audited by other independent auditing firms in accordance with U.S. GAAP.

Certain alternative investments have limited liquidity with lock-up periods allowing withdrawals monthly, quarterly or annually, with some alternative investments requiring prior notice, as defined in the agreements. Certain managers of the Foundation's alternative investments reserve rights to alter lock-up periods with notice to the Foundation.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

5. Contributions and Grants Receivable

Contributions and grants receivable are stated at unpaid balances. Any allowance for potentially uncollectable amounts is based on collection experience and other circumstances, which may affect the ability of donors to meet their obligations. It is the Foundation's policy to charge off uncollectible receivables when management determines the receivable will not be collected. There was no allowance at June 30, 2025 and 2024.

6. Property and Equipment

The historical costs of the Foundation's property and equipment and related accumulated depreciation balances at June 30, were as follows:

	2025	2024
Property and Equipment:		
Furniture and fixtures	\$ 153,000	\$ 105,588
Less - accumulated depreciation and amortization	(32,448)	(17,656)
Property and equipment, net	\$ 120,552	\$ 87,932

Depreciation expense related to property and equipment was \$14,792 and \$6,912 for the years ended June 30, 2025 and 2024, respectively.

7. Leases

The Foundation leased office space under an operating lease which expired on April 30, 2024. The Organization entered into a new lease for office space through December 2034 starting in May 2024. Monthly rent payments escalate through the term of the new lease in amounts ranging from \$8,613 to \$11,238. The Foundation was in a no rent period until January 1, 2025, at which point payments on the lease began. The lease requires the Foundation to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses, as defined in the agreement. As of June 30, 2025, there were no material leases that have been executed but not yet commenced.

As noted in Note 2, the Foundation accounts for leases in accordance with ASC Topic 842 and records a ROU asset and lease liability upon the lease commencement date.

In evaluating its contracts, the Foundation separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office building. The Foundation has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

7. Leases (Continued)

Information regarding lease terms and discount rates as of June 30, is as follows:

	<u>2025</u>	<u>2024</u>
Weighted-average remaining lease term (years):		
Operating leases	9.50	10.50
Weighted-average discount rate (%):		
Operating leases	4.63	4.63

Maturities of the lease liability is as follows as of June 30, 2025:

Year	<u>Operating Leases</u>
2026	\$ 104,906
2027	108,054
2028	111,295
2029	114,634
2030	118,073
Thereafter	<u>576,221</u>
Total lease payments	<u>1,133,183</u>
Less - discount to present value	(223,590)
Less - current portion	<u>(104,906)</u>
Total long-term lease liability	<u><u>\$ 804,687</u></u>

8. Net Assets With Donor Restrictions

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment, which amounted to \$3,089,390 and \$3,744,932 as of June 30, 2025 and 2024, respectively, and other donor created endowments that are subject to both the Foundation's variance power and spending policy.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

8. Net Assets With Donor Restrictions (Continued)

As of June 30, 2025 and 2024, net assets with donor restrictions included net assets of \$5,747,770 and \$5,393,505, respectively, consisting of twenty-five and twenty-three individual endowment funds, 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:

	<u>2025</u>	<u>2024</u>
Cumulative Earnings - Perpetual Endowment Funds		
Without purpose restrictions	\$ 1,748,010	\$ 1,265,908
With purpose restrictions	1,358,586	1,243,132
	<u>\$ 3,106,596</u>	<u>\$ 2,509,040</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:

	<u>2025</u>	<u>2024</u>
Appropriation of donor restricted endowment earnings	<u>\$ 416,069</u>	<u>\$ 442,780</u>

9. Endowment

The Foundation's endowment consists of approximately sixty (60) individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. Net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

9. Endowment (Continued)

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

Interpretation of Relevant Law

The Foundation's Board of Trustees' has interpreted the enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees'.

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are 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:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

9. Endowment (Continued)

Changes in endowment net assets for the years ended June 30, 2025 and 2024, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2023	<u>\$ 16,543,716</u>	<u>\$ 7,275,510</u>	<u>\$ 23,819,226</u>
Investment return:			
Interest and dividends	373,484	241,754	615,238
Net appreciation, realized and unrealized	1,665,551	819,182	2,484,733
Total investment return	<u>2,039,035</u>	<u>1,060,936</u>	<u>3,099,971</u>
Contributions	443,095	8,879	451,974
Other changes:			
Appropriation of assets for expenditure	(1,317,063)	(442,780)	(1,759,843)
Change in endowment net assets	<u>1,165,067</u>	<u>627,035</u>	<u>1,792,102</u>
Endowment net assets, June 30, 2024	<u>17,708,783</u>	<u>7,902,545</u>	<u>25,611,328</u>
Investment return:			
Interest and dividends	533,463	252,862	786,325
Net appreciation, realized and unrealized	1,475,603	760,763	2,236,366
Total investment return	<u>2,009,066</u>	<u>1,013,625</u>	<u>3,022,691</u>
Contributions	62,164	354,265	416,429
Other changes:			
Appropriation of assets for expenditure	(1,331,909)	(416,069)	(1,747,978)
Change in endowment net assets	<u>739,321</u>	<u>951,821</u>	<u>1,691,142</u>
Endowment net assets, June 30, 2025	<u><u>\$ 18,448,104</u></u>	<u><u>\$ 8,854,366</u></u>	<u><u>\$ 27,302,470</u></u>

Perpetual Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2025 and 2024, there were no deficiencies among donor-restricted endowment funds.

Essex County Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

9. Endowment (Continued)

Return Objectives and Risk Parameters

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.

Spending Policy

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 2025 and 2024 was 4.5%. 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.

10. Reclassifications

Certain amounts in the fiscal year 2024 consolidated financial statements have been reclassified to conform with the fiscal year 2025 presentation.