

Essex County Community Foundation, Inc.

Financial Statements  
&  
Independent Auditor's Report

June 30, 2009

Essex County Community Foundation, Inc.  
Financial Statements  
June 30, 2009

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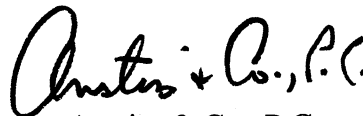
**Independent Auditor's Report**

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

We have audited the accompanying statements of financial position of Essex County Community Foundation, Inc. (the Foundation) as of June 30, 2009 and 2008 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Essex County Community Foundation, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Anstiss & Co., P.C.

August 7, 2009

**Essex County Community Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2009 and 2008**

	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,031,771	\$ 936,456
Investments at fair value (Notes 2 & 4)	7,049,546	9,491,531
Unconditional promises to give - net (Notes 2 & 3)	17,750	30,129
Prepaid expenses and other assets	5,770	10,918
Fixed assets - net (Note 2)	3,290	4,804
Reinsured split interest agreements (Note 14)	983,880	983,880
Total assets	\$ 10,092,007	\$ 11,457,718
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 2,215	\$ 25,344
Grants payable	73,362	34,923
Accrued expenses	49,923	35,600
Accrued payroll and related	32,005	14,859
Split interest agreements (Note 14)	983,880	983,880
Agency endowment funds (Note 9)	752,146	898,339
Total Liabilities	1,893,531	1,992,945
<b>NET ASSETS:</b>		
Unrestricted	7,517,454	8,634,616
Temporarily restricted (Notes 2 & 7)	46,800	143,142
Permanently restricted (Note 2)	634,222	687,015
Total net assets	8,198,476	9,464,773
Total liabilities and net assets	\$ 10,092,007	\$ 11,457,718

See the accompanying notes to these financial statements.

**Essex County Community Foundation, Inc.**  
**Statement of Activities**  
**For the Year Ended June 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2009</u>
<b>SUPPORT AND REVENUE:</b>				
Contributions, grants and gifts	\$ 1,930,148	\$ -	\$ -	\$ 1,930,148
Special event revenue, net of cost of direct benefit to donors of \$43,555	(21,783)	-	-	(21,783)
Program fees	27,491	-	-	27,491
Investment income (loss) - net	(1,340,080)	(82,647)	-	(1,422,727)
Donated services and goods	90,000	-	-	90,000
Net assets released from restrictions	13,695	(13,695)	-	-
Total support and revenue	<u>699,471</u>	<u>(96,342)</u>	<u>-</u>	<u>603,129</u>
<b>EXPENSES:</b>				
Program services	1,345,543	-	-	1,345,543
Management and general	233,914	-	-	233,914
Fundraising	289,969	-	-	289,969
Total expenses	<u>1,869,426</u>	<u>-</u>	<u>-</u>	<u>1,869,426</u>
CHANGE IN NET ASSETS	(1,169,955)	(96,342)	-	(1,266,297)
NET ASSETS AT BEGINNING OF YEAR	8,634,616	143,142	687,015	9,464,773
Reclassification of net assets (Note 15)	52,793	-	(52,793)	-
NET ASSETS AT END OF YEAR	<u>\$ 7,517,454</u>	<u>\$ 46,800</u>	<u>\$ 634,222</u>	<u>\$ 8,198,476</u>

See the accompanying notes to these financial statements.

**Essex County Community Foundation, Inc.**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total 2008</u>
<b>SUPPORT AND REVENUE:</b>				
Contributions, grants and gifts	\$ 1,329,565	\$ 1,000	\$ 42,854	\$ 1,373,419
Special event revenue, net of cost of direct benefit to donors of \$29,139	43,709	-	-	43,709
Program fees	38,073	-	-	38,073
Investment income (loss) - net	(346,774)	(20,578)	-	(367,352)
Donated services and goods	90,000	-	-	90,000
Net assets released from restrictions	27,173	(27,173)	-	-
Total support and revenue	<u>1,181,746</u>	<u>(46,751)</u>	<u>42,854</u>	<u>1,177,849</u>
<b>EXPENSES:</b>				
Program services	1,455,801	-	-	1,455,801
Management and general	190,481	-	-	190,481
Fundraising	139,217	-	-	139,217
Total expenses	<u>1,785,499</u>	<u>-</u>	<u>-</u>	<u>1,785,499</u>
CHANGE IN NET ASSETS	(603,753)	(46,751)	42,854	(607,650)
NET ASSETS AT BEGINNING OF YEAR	<u>9,238,369</u>	<u>189,893</u>	<u>644,161</u>	<u>10,072,423</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,634,616</u>	<u>\$ 143,142</u>	<u>\$ 687,015</u>	<u>\$ 9,464,773</u>

See the accompanying notes to these financial statements.

**Essex County Community Foundation, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (1,266,297)	\$ (607,650)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,513	1,381
Donated investments	(128,902)	(142,120)
Loss on investments	1,639,968	676,846
Donations to permanently restricted funds	-	(42,854)
Changes in assets and liabilities:		
Decrease in unconditional promises to give	12,379	6,639
Decrease (increase) in other assets	5,148	(4,836)
Increase (decrease) in accounts payable and accrued expenses	46,780	(35,540)
Decrease in other liabilities	(146,193)	(40,553)
Net cash provided (used) by operating activities	<u>164,396</u>	<u>(188,687)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	-	(3,501)
Purchase of investments	(1,111,833)	(6,703,577)
Sale of investments	2,042,752	6,546,656
Net cash provided (used) by investing activities	<u>930,919</u>	<u>(160,422)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Donations to permanently restricted funds	-	42,854
Net cash provided by financing activities	<u>-</u>	<u>42,854</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,095,315</b>	<b>(306,255)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>936,456</b>	<b>1,242,711</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 2,031,771</u></b>	<b><u>\$ 936,456</u></b>
 <b>Supplemental information:</b>		
Donated services and goods	<u>\$ 90,000</u>	<u>\$ 90,000</u>
Donated investments	<u>\$ 128,902</u>	<u>\$ 142,120</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.  
Notes to Financial Statements  
June 30, 2009

**NOTE 1 - ORGANIZATION**

Essex County Community Foundation, Inc. (the Foundation) is a nonprofit organization established in 1999 as a broad-based public foundation. Its purpose is to promote and expand philanthropy primarily in Essex County, Massachusetts, by collaborating with donors and by connecting them to the vital and effective work of the non-profit agencies serving Essex County communities. The Foundation seeks to provide services to people whose care and loyalty for Essex County communities leads them to community philanthropy.

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.  
Notes to Financial Statements  
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**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 can advise the community foundation with respect to the regular disbursements of grants from the fund and arrange for the transfer of cash or stock to the community foundation for the benefit of the fund.

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

An internal fund is a fund established to support the operations of the Foundation. Internal funds have been established for operations, discretionary grant making, youth and environmental programs.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets comprise those assets upon which donors have placed no restrictions on expenditure of the principal or income, subject to the approval of the Foundation's Board of Trustees.

Essex County Community Foundation, Inc.  
Notes to Financial Statements  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Temporarily Restricted Net Assets

Net assets subject to donor imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time are classified as temporarily restricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets comprise those assets contributed to the Foundation that are to remain in perpetuity as permanent assets of the Foundation.

***Income Taxes***

The Foundation is a community foundation that has qualified as a public charity under Internal Revenue Service Code Section 170 (b)(1)(A)(vi) and has been recognized as exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and Massachusetts Chapter 180. Accordingly, no provision for income taxes is required.

***Fixed Assets***

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

Fixed Assets are composed of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Furniture & Equipment	\$ 47,010	\$ 47,010
Software	39,277	39,277
Total Fixed Assets	<u>86,287</u>	<u>86,287</u>
Less Accumulated Depreciation	82,997	81,483
Fixed Assets - Net	<u>\$ 3,290</u>	<u>\$ 4,804</u>

Essex County Community Foundation, Inc.  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash Equivalents***

For purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit with original maturities of three months or less.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principals 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***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 statement of financial position. 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 income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the current year change in net assets. Realized and unrealized investment gains or losses are determined by comparison of the difference between market values and average cost, respectively. Dividend and interest income is recognized when earned.

Essex County Community Foundation, Inc.  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Uncertain Tax Positions***

The Foundation has elected to defer the application of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). The Financial Accounting Standards Board announced in FIN 48-3 that further guidance will be forthcoming on the application of FIN 48 to non-profit entities. As a non-profit organization that traditionally has no income tax liability, the Foundation will defer adoption until further guidance is issued.

***Promises to Give***

Contributions are recognized when the donor makes a promise (pledge) to give to the Foundation that is, in substance, unconditional. Promises to give (all temporarily restricted) as of June 30, 2009 and 2008 were \$17,750 and \$30,129, respectively. Promises to give due next year are recorded at their net realizable value. Promises to give due in subsequent years are reported at the present value of their net realizable value, using a risk-free interest rate of 6% applicable to the years in which the promises are to be received. Substantially all of the outstanding pledges as of June 30, 2009, are due from one donor.

***In-Kind Contributions***

No amounts have been reflected in the financial statements for the donated services of volunteers as the services were not provided by professionals in the regular course of their business. However, a substantial number of volunteers have donated significant amounts of their time in various organizational and fundraising activities.

The Organization receives donated services from the Chief Financial Officer. The estimated value of these services, \$90,000 as of June 30, 2009 and 2008, and has been recorded as revenue and expense in the financial statements.

***Fair Value of Financial Instruments***

On July 1, 2008, the Foundation adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS 157 emphasizes that 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:

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fair Value of Financial Instruments*** (continued)

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

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and 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 unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

In February 2007, the Financial Accounting Standards Board issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which became effective during the current year. This standard 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 in the standard.

**NOTE 3 - UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consisted of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Due Within One Year	\$ 17,750	\$ 21,795
Due in Two to Five Years	-	8,334
	<u>\$ 17,750</u>	<u>\$ 30,129</u>

Unconditional promises to give are shown net of an unamortized discount for fiscal years 2009 and 2008 in the amount of \$0 and \$1,666, respectively.

Essex County Community Foundation, Inc.  
Notes to Financial Statements  
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**NOTE 4 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures (see Note 2). The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and 2008:

	2009			
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Equity securities	\$ 4,368,204	\$ 4,368,204	\$ -	\$ -
Fixed income securities	2,679,305	2,679,305	-	-
Alternative investments: Limited Partnerships	2,037	-	-	2,037
<b>Total</b>	<b>\$ 7,049,546</b>	<b>\$ 7,047,509</b>	<b>\$ -</b>	<b>\$ 2,037</b>

	2008			
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Equity securities	\$ 6,045,895	\$ 6,045,895	\$ -	\$ -
Fixed income securities	3,445,636	3,445,636	-	-
Alternative investments: Limited Partnerships	-	-	-	-
<b>Total</b>	<b>\$ 9,491,531</b>	<b>\$ 9,491,531</b>	<b>\$ -</b>	<b>\$ -</b>

**NOTE 5 - CONCENTRATIONS OF CREDIT RISK**

The Foundation places its cash investments with high quality financial institutions. At times such investments may exceed Federal Deposit Insurance Commission (FDIC) insurance limits. Management routinely assesses the financial strength of the institutions in order to minimize this risk.

Essex County Community Foundation, Inc.  
Notes to Financial Statements  
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**NOTE 6 – INVESTMENT RETURN**

Investment return on cash equivalents and investments consisted of the following for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 250,362	\$ 348,849
Realized gains and losses	(234,377)	488,638
Unrealized gains and losses	(1,405,591)	(1,165,485)
Investment fees	(33,121)	(39,354)
	<u>\$ (1,422,727)</u>	<u>\$ (367,352)</u>

Investment return is shown net of investment management and custody fees paid directly to the investment managers. There were additional investment fees that were not paid directly to the managers, but rather are netted from the return on certain investments.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following as of June 30, 2009 and 2008.

Earnings on permanently restricted endowment funds subject to time restrictions under Massachusetts Uniform Prudent Management of Institutional Funds Act (MPMIFA) consist of the following:

	<u>2009</u>	<u>2008</u>
Without purpose restrictions:	\$ 8,890	\$ 34,024
With purpose restrictions	-	55,591
Subtotal	<u>8,890</u>	<u>89,615</u>
Other funds temporarily restricted for purpose	20,160	23,398
Other funds temporarily restricted for time	17,750	30,129
Total temporarily restricted net assets	<u>\$ 46,800</u>	<u>\$ 143,142</u>

Essex County Community Foundation, Inc.  
Notes to Financial Statements  
June 30, 2009

**NOTE 8 – ENDOWMENT FUNDS**

The Foundation's endowment consists of approximately 22 individual funds established for a variety of purposes. Its endowment consists of both donor-restricted endowment funds and funds established by the Board of Directors to function as endowments.

The Board of Trustees of the Foundation has interpreted MPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MPMIFA. In accordance with MPMIFA, 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 role that each investment or course of action plays within the overall investment portfolio of the fund
- (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 special value, if any, to the charitable purposes of the Foundation.
- (9) The duration and preservation of the fund
- (10) The investment policy of the Foundation

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**NOTE 8 – ENDOWMENT FUNDS** (continued)

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 MPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were \$41,810 as of June 30, 2009. These deficiencies can result from unfavorable market fluctuations that occur in newer endowment funds, shortly after the investment of new permanently restricted contributions and when there was continued appropriation for certain programs that were deemed prudent by the Board of Trustees. There were no such deficiencies as of June 30, 2008.

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 those assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Consumer Price Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately the Consumer Price Index plus 4% annually. 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 has a spending policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value. 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 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.  
Notes to Financial Statements  
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**NOTE 8 – ENDOWMENT FUNDS (continued)**

Endowment net asset composition by fund type as of June 30, 2009 and 2008:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor created funds	\$1,041,351	\$ 8,890	\$ 634,222	\$1,684,463
Board created funds	797,974	-	-	797,974
	<u>\$1,839,325</u>	<u>\$ 8,890</u>	<u>\$ 634,222</u>	<u>\$2,482,437</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor created funds	\$1,199,265	\$ 89,615	\$ 687,015	\$1,975,895
Board created funds	999,258	-	-	999,258
	<u>\$2,198,523</u>	<u>\$ 89,615</u>	<u>\$ 687,015</u>	<u>\$2,975,153</u>

Changes in endowment net assets for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$2,198,523	\$ 89,615	\$ 687,015	\$2,975,153
Investment return:				
Investment income	59,806	20,564	-	80,370
appreciation/depreciation	(365,767)	(81,713)	-	(447,480)
Total investment return	<u>(305,961)</u>	<u>(61,149)</u>	<u>-</u>	<u>(367,110)</u>
Contributions	34,670	-	-	34,670
Appropriation of assets for expenditure	(140,700)	(19,576)	-	(160,276)
Reclassification of net assets	52,793	-	(52,793)	-
Endowment net assets, end of year	<u>\$1,839,325</u>	<u>\$ 8,890</u>	<u>\$ 634,222</u>	<u>\$2,482,437</u>

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**NOTE 9 – AGENCY ENDOWMENT FUNDS**

Agency endowment arises when a transfer is received from a not-for-profit organization that specifies itself as the beneficiary. Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, requires that the transfers received by a community foundation be accounted for as a liability, as the transaction is deemed to be reciprocal. The agency endowments held by the Foundation as of June 30, 2009 and 2008 were \$752,146 and \$898,339, respectively.

**NOTE 10 – EMPLOYEE BENEFIT PLANS**

The Foundation sponsors a defined contribution salary deferral plan covering substantially all employees. Under the Plan, participants may defer a portion of their compensation on a pre-tax basis subject to statutory limitations.

**NOTE 11 - OPERATING LEASE**

The Foundation occupies office space in Danvers, MA under an operating lease, which expires in September 2009. The lease provides for monthly rental payments of \$2,400 and \$2,325 for 2009 and 2008, subject to annual increases. Rent expense for 2009 and 2008 was \$28,575 and \$28,350, respectively. The minimum required lease payments are as follows for fiscal years ending June 30:

2010	\$ 7,200
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Subsequent to year end, the Foundation entered into an operating lease for the occupancy of new office space in Danvers, MA. This new lease expires August 31, 2016 and provides for monthly rental payments of \$5,411, subject to annual increases. The Foundation received the first two month's rent free of charge, the cost of which will be amortized over the life of the lease. The future minimum required lease payments under this lease are as follows for fiscal years ending June 30:

2010	\$48,696
2011	\$66,619
2012	\$68,648
2013	\$70,677
2014	\$72,706
2015	\$73,044
2016	\$73,044
2017	\$12,174

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**NOTE 12 – RECLASSIFICATIONS**

During 2008 certain amounts from the prior year financial statements were reclassified to conform to the current year's presentation.

**NOTE 13 – RELATED PARTY ACTIVITY**

Pledges receivable of \$17,750 and \$28,750 for years ending June 30, 2009 and 2008, respectively, were due from members of the Board of Trustees.

**NOTE 14 – SPLIT INTEREST AGREEMENTS**

Split interest agreements are created to provide an annuity-type payment to a beneficiary with the principal transferred to the Foundation at the death of the beneficiary. As of June 30, 2009 and 2008, the Foundation had reinsured 100% of its split interest agreements. The annuity obligations and related expected reinsurance proceeds are estimates that may differ from amounts actually paid and received.

**NOTE 15 – RECLASSIFICATION OF NET ASSETS**

During 2009 certain funds were reclassified as to net asset restrictions based on current interpretation by management of the fund agreements and applicable reporting requirements.