

Essex County Community
Foundation, Inc.

Financial Statements
&
Independent Auditor's Report

June 30, 2011

Essex County Community Foundation, Inc.
Financial Statements
June 30, 2011

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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, 2011 and 2010 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, 2011 and 2010, 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.

As discussed in Note 15 to the financial statements, certain errors resulting in an overstatement of agency endowment funds and a misclassification of net assets previously reported as of June 31, 2010 were discovered during the current year. Accordingly, the 2010 financial statements have been restated to correct the error.



Anstiss & Co., P.C.

August 29, 2011

Essex County Community Foundation, Inc.

Statements of Financial Position

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 808,174	\$ 1,203,641
Investments at fair value (Notes 2 & 5)	16,512,888	13,400,509
Unconditional promises to give - net (Notes 2 & 3)	19,416	68,505
Prepaid expenses and other assets	6,662	20,944
Fixed assets - net (Note 2)	12,266	17,480
Reinsured split interest agreements (Note 13)	983,880	983,880
Total assets	<u>\$ 18,343,286</u>	<u>\$ 15,694,959</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ -	\$ 7,317
Grants payable	62,500	52,625
Accrued expenses	15,707	14,146
Deferred rent	6,063	7,236
Accrued payroll and related	6,303	28,951
Split interest agreements (Note 13)	983,880	983,880
Agency endowment funds (Note 9)	275,978	141,315
Total liabilities	<u>1,350,431</u>	<u>1,235,470</u>
Net assets		
Unrestricted	15,059,503	12,939,683
Temporarily restricted (Notes 2 & 7)	409,113	145,544
Permanently restricted (Note 2)	1,524,239	1,374,262
Total net assets	<u>16,992,855</u>	<u>14,459,489</u>
Total liabilities and net assets	<u>\$ 18,343,286</u>	<u>\$ 15,694,959</u>

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>
Support and revenue				
Contributions, grants and gifts	\$ 2,391,162	\$ -	\$ 149,977	\$ 2,541,139
Special event revenue, net of cost of direct benefit to donors of \$69,309	38,951	-	-	38,951
Program fees	73,784	-	-	73,784
Investment income (loss) - net	2,629,294	356,000	-	2,985,294
Donated services and goods	47,000	-	-	47,000
Net assets released from restrictions	92,431	(92,431)	-	-
Total support and revenue	<u>5,272,622</u>	<u>263,569</u>	<u>149,977</u>	<u>5,686,168</u>
Expenses				
Program services	2,512,260	-	-	2,512,260
Management and general	312,590	-	-	312,590
Fundraising	327,952	-	-	327,952
Total expenses	<u>3,152,802</u>	<u>-</u>	<u>-</u>	<u>3,152,802</u>
Change in net assets	<u>2,119,820</u>	<u>263,569</u>	<u>149,977</u>	<u>2,533,366</u>
Net assets at beginning of year	<u>12,939,683</u>	<u>145,544</u>	<u>1,374,262</u>	<u>14,459,489</u>
Net assets at end of year	<u>\$ 15,059,503</u>	<u>\$ 409,113</u>	<u>\$ 1,524,239</u>	<u>\$ 16,992,855</u>

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>
Support and revenue				
Contributions, grants and gifts	\$ 8,016,465	\$ 60,755	\$ 100	\$ 8,077,320
Special event revenue, net of cost of direct benefit to donors of \$59,499	48,919	-	-	48,919
Program fees	50,083	-	-	50,083
Investment income (loss) - net	745,145	95,877	-	841,022
Donated services and goods	65,000	-	-	65,000
Net assets released from restrictions	2,868	(2,868)	-	-
Total support and revenue	8,928,480	153,764	100	9,082,344
Expenses				
Program services	2,834,497	-	-	2,834,497
Management and general	337,771	-	-	337,771
Fundraising	354,638	-	-	354,638
Total expenses	3,526,906	-	-	3,526,906
Change in net assets	5,401,574	153,764	100	5,555,438
Net assets at beginning of year	7,517,454	46,800	634,222	8,198,476
Prior Period Adjustment	20,655	(55,020)	739,940	705,575
Net asset at beginning of year as restated	7,538,109	(8,220)	1,374,162	8,904,051
Net assets at end of year	\$ 12,939,683	\$ 145,544	\$ 1,374,262	\$ 14,459,489

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 2,533,366	\$ 5,555,438
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	5,214	4,615
Donated investments	(212,653)	(5,944,083)
Gain on investments	(2,692,728)	(558,305)
Donations to permanently restricted funds	(149,977)	(100)
Changes in assets and liabilities		
Decrease (increase) in unconditional promises to give	49,089	(50,755)
Decrease (increase) in other assets	14,282	(15,174)
Decrease in accounts payable and accrued expenses	(19,702)	(47,231)
Increase in other liabilities	134,663	94,744
Net cash used by operating activities	<u>(338,446)</u>	<u>(960,851)</u>
Cash flows from investing activities		
Purchase of fixed assets	-	(18,804)
Purchase of investments	(11,929,079)	(12,560,788)
Sale of investments	11,722,081	12,712,213
Net cash (used) provided by investing activities	<u>(206,998)</u>	<u>132,621</u>
Cash flows from financing activities		
Donations to permanently restricted funds	149,977	100
Net cash provided by financing activities	<u>149,977</u>	<u>100</u>
Net change in cash and cash equivalents	(395,467)	(828,130)
Cash and cash equivalents at beginning of year	<u>1,203,641</u>	<u>2,031,771</u>
Cash and cash equivalents at end of year	<u>\$ 808,174</u>	<u>\$ 1,203,641</u>
Supplemental information:		
Donated services and goods	<u>\$ 47,000</u>	<u>\$ 65,000</u>
Donated investments	<u>\$ 212,653</u>	<u>\$ 5,944,083</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, 2011

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
June 30, 2011

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

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 financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation reports net assets, revenues, expenses, gains, and losses in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205, "*Presentation of Financial Statements*". Under ASC 958-205, financial information is classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Unrestricted Net Assets

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

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. Temporarily restricted net assets of \$409,113 represent donations received from various entities that are primarily restricted as to purpose.

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. Generally, all income and unrealized and realized net gains on investments related to these net assets are classified as temporarily restricted and released to unrestricted net assets as the Foundation appropriates its annual spending based on the use of a spending policy. At June 30, 2011 and 2010, the Foundation had permanently restricted net assets of \$1,524,239 and \$1,374,262, respectively.

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.

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.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

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.

Alternative investments include non-marketable securities such as private equity, hedge funds, and real estate investment trusts, which are valued using current estimates of fair value obtained from investment managers or general partners in the absence of readily determinable public market values. Such valuations as determined by fund managers generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Because of the inherent uncertainty of valuation for these investments, the estimate of the investment manager or general partner may differ from the values that would have been used had a ready market existed, and the differences could be significant. The agreements underlying participation in non-marketable investment funds may limit the Foundation's ability to liquidate its interest in such investments for a period of time. Foundation management is responsible for the fair measurements of investments reported in the financial statements.

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

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

procedures to assess the reasonableness of the fair values provided. The Foundation believes that reported fair values of non-marketable securities at the statement of financial position dates are reasonable.

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, 2011 and 2010 were \$19,416 and \$68,505, 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 2% applicable to the years in which the promises are to be received. All of the outstanding pledges as of June 30, 2011, are due from one donor.

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. Depreciation expense was \$5,214 and \$4,615 for the years ending June 30, 2011 and 2010, respectively.

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

	2011	2010
Furniture and equipment	\$ 46,971	\$ 46,971
Software	39,277	39,277
Total fixed assets	86,248	86,248
Less: accumulated depreciation	73,984	68,768
Fixed assets - net	\$ 12,266	\$ 17,480

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Foundation follows ASC 820-10, "*Fair Value Measurements*", which applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. ASC 820-10 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:

Level 1 – Inputs that utilize quoted prices (unadjusted) in 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.

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 in the standard.

Income Taxes and Uncertain Tax Positions

The Foundation, incorporated under Chapter 180 of the Massachusetts General Laws as a tax exempt entity, has been granted tax-exempt status under Internal Revenue Code (IRC) Section 501(c)(3) and is classified as other than a private foundation as defined by section 509(a) of the IRC. Therefore, it is generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes and Uncertain Tax Positions (continued)

The Foundation is required by ASC 740-10, "Income Taxes", to evaluate and disclose tax positions that could have an effect on the Foundation's financial statements. 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. Substantially all of the Foundation's income, expenditures and activities relate to its exempt purpose. Therefore, management has determined that the Foundation is not subject to unrelated business income taxes and will continue to qualify as a tax exempt not-for-profit entity.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 Foundation received donated services from the Chief Financial Officer. The estimated value of these services, \$47,000 and \$65,000 for the year ended June 30, 2011 and 2010, respectively, has been recorded as revenue and expense in the financial statements.

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

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

	2011	2010
Due within one year	\$ 10,000	\$ 40,250
Due in two to five years	10,000	30,000
Total pledges receivable	20,000	70,250
Less: unamortized discount	584	1,745
Net pledges receivable	\$ 19,416	\$ 68,505

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 4- CONCENTRATIONS OF CREDIT RISK

The Foundation places its cash investments with high quality financial institutions. Such deposits are covered by Federal Deposit Insurance Commission (FDIC) insurance and by state level insurance for balances in excess of FDIC limits. Management routinely assesses the financial strength of the institutions in order to minimize this risk.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures (see Note 2). The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010:

	Total	2011		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	\$ 808,174	\$ 808,174	\$ -	\$ -
Equity securities	11,211,197	11,211,197		
Fixed income securities	4,490,860	2,497,903	1,992,957	-
Alternative investments:				
Commodities	291,730	291,730	-	-
Currencies	65,737	65,737	-	-
REITs	445,650	445,650		
Limited partnerships	7,715	-	-	7,715
Total	\$ 17,321,063	\$ 15,320,391	\$ 1,992,957	\$ 7,715

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Total	2010		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	\$ 1,153,387	\$ 1,153,387	\$ -	\$ -
Equity securities	7,934,972	7,934,972	-	-
Fixed income securities	5,215,441	3,873,233	1,342,208	-
Alternative investments:				
Commodities	26,781	26,781	-	-
Currencies	221,278	221,278	-	-
REITs	-	-	-	-
Limited Partnerships	2,037	-	-	2,037
Total	\$ 14,553,896	\$ 13,209,651	\$ 1,342,208	\$ 2,037

Assets classified as Level 3 consist of investments in limited partnerships valued at net asset value and upon which there are transfer restrictions. The following table is a reconciliation of the Foundation's assets classified as Level 3 for the years ended June 30, 2011 and 2010:

	2011	2010
Balance at beginning of year	\$ 2,037	\$ 2,037
Unrealized gain	5,678	-
Balance at end of year	<u>\$ 7,715</u>	<u>\$ 2,037</u>

Most investments classified in Level 2 consist of shares or units in investment funds as opposed to direct interest in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as the practical expedient to estimate the fair value of the Foundation's interest therein, its classification of Level 2 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risk, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 6 – INVESTMENT RETURN

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

	2011	2010
Interest and dividends	\$ 359,041	\$ 328,353
Realized gains and losses	1,773,694	(463,404)
Unrealized gains and losses	919,034	1,021,709
Investment fees	(66,475)	(45,635)
	\$ 2,985,394	\$ 841,022

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, 2011 and 2010:

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

	2011	2010
Without purpose restrictions:	\$ 60,726	\$ 14,068
With purpose restrictions	301,330	40,882
Subtotal	362,056	54,950
Other funds temporarily restricted for purpose	27,641	22,089
Other funds temporarily restricted for time	19,416	68,505
Total temporarily restricted net assets	\$ 409,113	\$ 145,544

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.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 8 – ENDOWMENT FUNDS (continued)

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

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 \$27 and \$16,490 as of June 30, 2011 and 2010, respectively. 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.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 8 – ENDOWMENT FUNDS (continued)

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 a minimum rate of return equal to the return obtainable by investing in one-year U.S. Treasury Bills over three years. Actual returns in any given year may vary from this amount.

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

The Foundation 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.

Endowment net asset composition by fund type as of June 30, 2011 and 2010:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor created funds	\$1,350,157	\$ 409,113	\$1,524,239	\$3,283,509
Board created funds	980,001	-	-	980,001
	<u>\$2,330,158</u>	<u>\$ 409,113</u>	<u>\$ 1,524,239</u>	<u>\$4,263,510</u>

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 8 – ENDOWMENT FUNDS (continued)

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor created funds	\$1,394,284	\$ 145,544	\$1,374,262	\$2,914,090
Board created funds	884,437	-	-	884,437
	<u>\$2,278,721</u>	<u>\$ 145,544</u>	<u>\$1,374,262</u>	<u>\$3,798,527</u>

Changes in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$2,278,721	\$ 145,544	\$1,374,262	\$3,798,527
Investment return:				
Investment income	44,916	37,561	-	82,477
Appreciation/depreciation	670,142	318,439	-	988,581
Total investment return	<u>715,058</u>	<u>356,000</u>	<u>-</u>	<u>1,071,058</u>
Contributions	200,433	-	149,977	350,410
Appropriation of assets for expenditure	<u>(864,054)</u>	<u>(92,431)</u>	<u>-</u>	<u>(956,485)</u>
Endowment net assets, end of year	<u>\$2,330,158</u>	<u>\$ 409,113</u>	<u>\$1,524,239</u>	<u>\$4,263,510</u>

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, 2011 and 2010 were \$275,978 and \$141,315, 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.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 11 - OPERATING LEASE

The Foundation occupies office space in Danvers, MA under an operating lease, which expires in August 31, 2016. The lease provides for monthly rental payments of \$5,580 for 2011, subject to annual increases. Rent expense for 2011 and 2010 was \$65,445 and \$60,456, respectively. 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 minimum required lease payments are as follows for fiscal years ending June 30:

2012	\$68,648
2013	\$70,677
2014	\$72,706
2015	\$73,044
2016	\$73,044
2017	\$12,174

NOTE 12 – RELATED PARTY ACTIVITY

Pledges receivable of \$0 and \$7,750 for years ending June 30, 2011 and 2010, respectively, were due from members of the Board of Trustees.

NOTE 13 – 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, 2011 and 2010, 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 14 – SUBSEQUENT EVENTS

FASB ASC 855-10, "*Subsequent Events*", defines further disclosure requirements for events that occur after the balance sheet date, but before financial statements are issued. In accordance with ASC 855-10, management has evaluated events subsequent to June 30, 2011 through August 29, 2011, which is the issuance date of this report. There have been no material events noted during this period that would impact the results reflected in this report.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 15 – PRIOR PERIOD ADJUSTMENT

During 2011, the financial statements for fiscal year ending June 30, 2010 were restated to correct an error in the recording of permanently restricted funds as agency endowment funds. As a result, 2010 beginning net assets were adjusted as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year, as stated	\$ 7,517,454	\$ 46,800	\$ 634,222	\$ 8,198,476
Prior period adjustment:				
Reclassification of fund types	20,655	(55,020)	739,940	705,575
Net assets at beginning of year, as restated	<u>\$ 7,538,109</u>	<u>\$ (8,220)</u>	<u>\$ 1,374,162</u>	<u>\$8,904,051</u>

As of June 30, 2010, the balance of the agency endowment fund liability was \$141,314. The affect of the restatement on the change in net assets for the year ended June 30, 2010 was an increase of \$99,936 from \$5,455,502 to \$5,555,438. The following financial statement line items as of and for the year ended June 30, 2010 were affected by this error correction:

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2011

NOTE 15 – PRIOR PERIOD ADJUSTMENT (continued)

	As Previously Stated	Effect of Correction 2009	Effect of Correction 2010	As Restated
Statement of financial position at June 30, 2010				
Agency endowment funds	\$ 946,827	\$ (705,576)	\$ (99,936)	\$ 141,315
Net assets - unrestricted	12,910,765	20,655	8,263	12,939,683
Net assets – temporarily restricted	108,890	(55,020)	91,674	145,544
Net assets – permanently restricted	634,322	739,940	-	1,374,262
Statement of activities for the year ended June 30, 2010				
Contributions, grants and gifts	8,030,774		46,546	8,077,320
Investment Income (loss) – net	767,681		73,341	841,022
Total support and revenue	8,962,457		119,887	9,082,344
Program services	2,814,816		19,681	2,834,497
Fundraising	354,368		270	354,638
Total expenses	3,506,955		19,951	3,526,906
Change in net assets	5,455,502		99,936	5,555,438
Net assets at beginning of year	8,198,476		705,575	8,904,051
Net assets at end of year	13,653,978		805,511	14,459,489
Statement of cash flows for the year ended June 30, 2010				
Change in net assets	5,455,502		99,936	5,555,438
Loss on investments	(502,132)		(56,173)	(558,305)
Decrease in accounts payable and accrued expenses	(54,467)		7,236	(47,231)
Increase in other liabilities	201,917		(107,173)	94,744
Net cash used by operating activities	(904,678)		(56,173)	(960,851)
Sale of investments	12,656,040		56,173	12,712,213
Net cash provided by investing activities	76,448		56,173	132,621