

Essex County Community Foundation, Inc.

Financial Statements
&
Independent Auditor's Report

June 30, 2008

Anstiss & Co., P.C.

Essex County Community Foundation, Inc.
Financial Statements
June 30, 2008

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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, 2008 and 2007 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, 2008 and 2007, 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.

Anstiss & Co., P.C.
August 14, 2008

Essex County Community Foundation, Inc.
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash and Cash Equivalents	\$ 936,456	\$ 1,242,711
Investments at Fair Value (Notes 2 & 5)	9,491,531	9,869,336
Unconditional Promises to Give - Net (Notes 2 & 3)	30,129	36,768
Prepaid Expenses and Other Assets	10,918	6,082
Fixed Assets - Net (Note 2)	4,804	2,684
Reinsured Split Interest Agreements (Note 12)	983,880	983,880
Total Assets	\$ 11,457,718	\$ 12,141,461
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable - Trade	\$ 25,344	\$ 55,598
Grants Payable	34,923	50,359
Accrued Expenses	35,600	32,500
Accrued Payroll and Related	14,859	7,809
Split Interest Agreements (Note 12)	983,880	983,880
Agency Endowment Funds (Note 11)	898,339	938,892
Total Liabilities	1,992,945	2,069,038
NET ASSETS:		
Unrestricted	8,634,616	9,238,369
Temporarily Restricted (Notes 2 & 6)	143,142	189,893
Permanently Restricted (Note 2)	687,015	644,161
Total Net Assets	9,464,773	10,072,423
Total Liabilities and Net Assets	\$ 11,457,718	\$ 12,141,461

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>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2008</u>
SUPPORT AND REVENUE:				
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 - 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 Revenues	1,181,746	(46,751)	42,854	1,177,849
EXPENSES:				
Program Services	1,455,801	-	-	1,455,801
Management and General	190,481	-	-	190,481
Fundraising	139,217	-	-	139,217
Total Expenses	1,785,499	-	-	1,785,499
CHANGE IN NET ASSETS	(603,753)	(46,751)	42,854	(607,650)
NET ASSETS AT BEGINNING OF YEAR	9,238,369	189,893	644,161	10,072,423
NET ASSETS AT END OF YEAR	\$ 8,634,616	\$ 143,142	\$ 687,015	\$ 9,464,773

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2007</u>
SUPPORT AND REVENUE:				
Contributions, Grants and Gifts	\$ 888,107	\$ 25	\$ 11,000	\$ 899,132
Special Event Revenue, net of cost of direct benefit to donors of \$40,689	128,516	-	-	128,516
Program Fees	35,358	30	-	35,388
Investment Income - Net	1,167,131	96,463	-	1,263,594
Donated Services and Goods	45,402	-	-	45,402
Net Assets Released from Restrictions	20,222	(20,222)	-	-
Total Support and Revenues	<u>2,284,736</u>	<u>76,296</u>	<u>11,000</u>	<u>2,372,032</u>
EXPENSES:				
Program Services	1,306,183	-	-	1,306,183
Management and General	169,262	-	-	169,262
Fundraising	116,221	-	-	116,221
Total Expenses	<u>1,591,666</u>	<u>-</u>	<u>-</u>	<u>1,591,666</u>
CHANGE IN NET ASSETS	693,070	76,296	11,000	780,366
NET ASSETS AT BEGINNING OF YEAR	314,971	7,115,413	1,904,068	9,334,452
Reclassification of Net Assets (Note 13)	8,230,328	(7,001,816)	(1,270,907)	(42,395)
NET ASSETS AT END OF YEAR	<u>\$ 9,238,369</u>	<u>\$ 189,893</u>	<u>\$ 644,161</u>	<u>\$ 10,072,423</u>

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (607,650)	\$ 780,366
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,381	2,622
Donated Investments	(142,120)	(86,097)
Loss (Gain) on Investments	676,846	(998,487)
Donations to Permanently Restricted Funds	(42,854)	(11,000)
Changes in Assets and Liabilities:		
Decrease in Unconditional Promises to Give	6,639	44,962
(Increase) Decrease in Other Assets	(4,836)	9,103
(Decrease) Increase in Accounts Payable and Accrued Expenses	(35,540)	71,186
(Decrease) Increase in Other Liabilities	(40,553)	245,826
Net Cash (Used) Provided by Operating Activities	<u>(188,687)</u>	<u>58,481</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	(3,501)	(995)
Purchase of Investments	(6,703,577)	(9,749,289)
Sale of Investments	6,546,656	8,755,432
Net Cash Used by Investing Activities	<u>(160,422)</u>	<u>(994,852)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Donations to Permanently Restricted Funds	42,854	11,000
Net Cash Provided by Financing Activities	<u>42,854</u>	<u>11,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(306,255)	(925,371)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,242,711	2,168,082
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 936,456</u>	<u>\$ 1,242,711</u>
 Supplemental Information:		
Donated Services and Goods	<u>\$ 90,000</u>	<u>\$ 45,402</u>
Donated Investments	<u>\$ 142,120</u>	<u>\$ 86,097</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, 2008

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, 2008

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 Directors.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2008

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. 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.

The Foundation has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time. State law allows the Board to appropriate a portion of earnings on endowment as is prudent considering the Foundation's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Currently, the Foundation records unrealized gains on the permanently restricted net assets as temporarily restricted until appropriated by the Foundation.

The By-Laws of the Foundation include a variance power provision which gives the Board of Directors 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. At June 30, 2008 and 2007 the Foundation had permanently restricted net assets of \$687,015 and \$644,161, respectively.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2008</u>	<u>2007</u>
Furniture & Equipment	\$ 47,010	\$ 54,709
Software	39,277	39,277
Total Fixed Assets	86,287	93,986
Less Accumulated Depreciation	81,483	91,302
Fixed Assets - Net	\$ 4,804	\$ 2,684

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.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Spending Policy

Generally, the Foundation manages its funds using a total return concept, which emphasized total investment return including investment income and realized and unrealized gains and losses. Annually, the Foundation's Board of Directors determines the level of grant making based on factors which serve to stabilize annual spending levels and preserve the real value of the endowment over time. In fiscal years 2008 and 2007, the spending rate was 5% of the average market value of the fund for the twelve prior quarters. The spending rate is exclusive of administrative and investment manager fees.

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 are recorded at market value in the case of marketable securities and at estimated fair value for non-marketable securities. The market value of publicly traded securities is based upon quotes from the principal exchanges on which the securities are traded.

The Foundation's financial instruments consist primarily of cash and investments that are carried at fair value. The differences between the carrying amount and market value of the short-term financial instruments are not material.

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.
Notes to Financial Statements
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2008 and 2007 were \$30,129 and \$36,768, 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, 2008, 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 services from a former President and Chief Executive Officer. The estimated value of these services, \$90,000 and \$45,000 as of June 30, 2008 and 2007, and 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:

	<u>2008</u>	<u>2007</u>
Due Within One Year	\$ 21,795	\$ 20,039
Due in Two to Five Years	8,334	16,729
	<u>\$ 30,129</u>	<u>\$ 36,768</u>

Unconditional promises to give are shown net of an unamortized discount for fiscal years 2008 and 2007 in the amount of \$1,666 and \$3,270, respectively.

NOTE 4 - 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
June 30, 2008

NOTE 5 - INVESTMENTS

Investments, targeted to consist of a mix of 45-75% equity securities, 10-45% cash and fixed income securities, and 0-10% alternative investments, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Equities	\$6,045,895	\$6,439,466
Fixed Income Securities	<u>3,445,636</u>	<u>3,429,870</u>
	<u>\$9,491,531</u>	<u>\$9,869,336</u>

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

	<u>2008</u>	<u>2007</u>
Interest and Dividends	\$ 348,849	\$ 291,075
Realized Gains and Losses	488,638	370,294
Unrealized Gains and Losses	(1,165,485)	628,193
Investment Fees	<u>(39,354)</u>	<u>(25,968)</u>
	<u>\$ (367,352)</u>	<u>\$ 1,263,594</u>

There were additional investment fees that were not paid directly to the managers, but rather are netted from the return on certain investments.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$23,398 and \$23,096 as of June 30, 2008 and 2007, respectively, are primarily restricted as to purpose. Additional temporarily restricted net assets of \$119,744 and \$166,797 as of June 30, 2008 and 2007, respectively, consist of earnings on the principal of permanently restricted contributions and unconditional promises to give that are primarily restricted as to time.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2008

NOTE 7 – 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 8 - 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 \$2,325 and \$2,250 for 2008 and 2007, subject to annual increases. Rent expense for 2008 and 2007 was \$28,350 and \$28,200, respectively. The minimum required lease payments are as follows for fiscal years ending June 30:

2009	\$ 28,575
2010	\$ 7,200

NOTE 9 – RECLASSIFICATIONS

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

NOTE 10 – RELATED PARTY ACTIVITY

Pledges receivable of \$28,750 and \$35,000 for years ending June 30, 2008 and 2007, respectively, were due from members of the Board of Trustees. In addition, legal services were provided by a member of the Board of Trustees who received compensation of \$484 for year ending June 30, 2007, for those services.

NOTE 11 – AGENCY ENDOWMENT FUNDS

Agency endowment arises when a transfer is received from a not-for-profit organization that specifies itself as the beneficiary. 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, 2008 and 2007 were \$898,339 and \$938,892, respectively.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2008

NOTE 12 – 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, 2008 and 2007, 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 13 – RECLASSIFICATION OF NET ASSETS

During 2007 certain funds were reclassified as to net asset restrictions based on current interpretation by management of the fund agreements and applicable reporting requirements. In addition, based on that interpretation, \$42,395 was reclassified to agency endowment funds as a liability.