

**Essex County Community  
Foundation, Inc.**

Financial Statements  
&  
Independent Auditor's Report

June 30, 2016 and 2015

**Essex County Community Foundation, Inc.**  
**Financial Statements**  
**June 30, 2016**

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## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of Essex County Community Foundation, Inc. (the Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

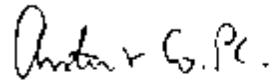
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Anstiss & Co., P.C.

August 29, 2016

**Essex County Community Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 598,877	\$ 471,229
Investments at fair value	50,086,796	37,237,384
Accrued interest	41,801	-
Unconditional promises to give - net	4,020,000	29,057
Prepaid expenses and other assets	6,144	8,455
Fixed assets - net	14,985	4,480
Annuitized split-interest agreements	642,182	739,810
Total assets	<u>\$ 55,410,785</u>	<u>\$ 38,490,415</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 25,849	\$ 99,167
Grants payable	98,900	750,168
Deferred rent	-	1,369
Fiscal agency liability	196,549	182,068
Split-interest obligations	642,182	739,810
Agency endowment funds	11,427,221	11,285,362
Total liabilities	<u>12,390,701</u>	<u>13,057,944</u>
<b>Net assets</b>		
Unrestricted	36,220,791	22,529,881
Temporarily restricted	4,817,512	923,149
Permanently restricted	1,981,781	1,979,441
Total net assets	<u>43,020,084</u>	<u>25,432,471</u>
Total liabilities and net assets	<u>\$ 55,410,785</u>	<u>\$ 38,490,415</u>

See the accompanying notes to these financial statements.

**Essex County Community Foundation, Inc.**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**

	<u>Unrestricted</u>	Temporarily Restricted	Permanently <u>Restricted</u>	Total <u>2015</u>
Support and revenue				
Contributions, grants, and gifts	\$ 5,995,746	\$ 293,084	\$ 25,110	\$ 6,313,940
Special event revenue, net of cost of direct benefit to donors of \$129,491	188,619	-	-	188,619
Program fees	120,031	-	-	120,031
Investment income - net	342,106	(11,858)	-	330,248
Net assets released from restrictions	296,083	(296,083)	-	-
<b>Total support and revenue</b>	<u>6,942,585</u>	<u>(14,857)</u>	<u>25,110</u>	<u>6,952,838</u>
Expenses				
Program services	5,312,861	-	-	5,312,861
Management and general	332,800	-	-	332,800
Fundraising	419,674	-	-	419,674
<b>Total expenses</b>	<u>6,065,335</u>	<u>-</u>	<u>-</u>	<u>6,065,335</u>
Change in net assets	877,250	(14,857)	25,110	887,503
Net assets at beginning of year	21,652,631	938,006	1,954,331	24,544,968
<b>Net assets at end of year</b>	<u>\$ 22,529,881</u>	<u>\$ 923,149</u>	<u>\$ 1,979,441</u>	<u>\$ 25,432,471</u>

**Essex County Community Foundation, Inc.**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
<b>Support and revenue</b>				
Contributions, grants, and gifts	\$ 18,908,602	\$ 4,068,532	\$ 2,340	\$ 22,979,474
Special event revenue, net of cost of direct benefit to donors of \$86,553	250,065	-	-	250,065
Program fees	15,583	-	-	15,583
Investment income (loss) - net	(4,476)	(91,055)	-	(95,531)
Net assets released from restrictions	83,114	(83,114)	-	-
<b>Total support and revenue</b>	<u>19,252,888</u>	<u>3,894,363</u>	<u>2,340</u>	<u>23,149,591</u>
<b>Expenses</b>				
Program services	4,947,214	-	-	4,947,214
Management and general	330,703	-	-	330,703
Fundraising	281,061	-	-	284,061
<b>Total expenses</b>	<u>5,561,978</u>	<u>-</u>	<u>-</u>	<u>5,561,978</u>
<b>Change in net assets</b>	<u>13,690,910</u>	<u>3,894,363</u>	<u>2,340</u>	<u>17,587,613</u>
<b>Net assets at beginning of year</b>	<u>22,529,881</u>	<u>923,149</u>	<u>1,979,441</u>	<u>25,432,471</u>
<b>Net assets at end of year</b>	<u>\$ 36,220,791</u>	<u>\$ 4,817,512</u>	<u>\$ 1,981,781</u>	<u>\$ 43,020,084</u>

**Essex County Community Foundation, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 17,587,613	\$ 887,503
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,599	1,029
Loss on investments	523,856	50,860
Donations to permanently restricted funds	(2,340)	(25,110)
Changes in assets and liabilities		
(Increase) decrease in unconditional promises to give - net	(3,990,943)	63,000
Increase in accrued interest	(41,801)	-
Decrease in prepaid expenses and other assets	2,311	7,993
(Decrease) increase in accounts payable and accrued expenses	(73,318)	20,870
(Decrease) increase in grants payable	(651,268)	589,168
Decrease in deferred rent	(1,369)	(1,174)
Increase in fiscal agency liability	14,481	13,118
Decrease in split-interest obligations	(97,628)	(97,628)
Increase in agency endowment funds	141,859	93,286
Net cash provided by operating activities	<u>13,413,052</u>	<u>1,602,915</u>
Cash flows from investing activities		
Purchase of fixed assets	(12,104)	(5,265)
Purchase of investments	(28,003,793)	(5,094,127)
Sale of investments	14,728,153	3,889,785
Net cash used by investing activities	<u>(13,287,744)</u>	<u>(1,209,607)</u>
Cash flows from financing activities		
Donations to permanently restricted funds	2,340	25,110
Net cash provided by financing activities	<u>2,340</u>	<u>25,110</u>
Net change in cash and cash equivalents	127,648	418,418
Cash and cash equivalents at beginning of year	<u>471,229</u>	<u>52,811</u>
Cash and cash equivalents at end of year	<u>\$ 598,877</u>	<u>\$ 471,229</u>

See the accompanying notes to these financial statements.



**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 1 - ORGANIZATION**

Essex County Community Foundation, Inc. (the Foundation) is a nonprofit organization established in 1998 as a broad-based public foundation. Its purpose is to promote and expand philanthropy primarily in Essex County, Massachusetts, by collaborating with donors and by connecting them to the vital and effective work of the non-profit agencies serving Essex County communities. The 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.

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.

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 1 – ORGANIZATION (continued)**

Donor Advised Funds

Donor advised funds are used by community foundations to provide donors with a compelling alternative to establishing their own private foundation or charitable trust. With a donor advised fund, there is no requirement for the donor to establish a tax exempt entity, which takes time, administrative effort and money. Through a designated committee, the donor retains advisory privileges with respect to the distributions of funds and the investment of accounts.

Scholarship Funds

The Foundation provides an opportunity for donors to establish scholarship funds to benefit individuals who might otherwise be unable to complete or continue their education at the secondary level or beyond.

Internal Funds

Internal funds have been established to support the operations of the Foundation, including discretionary grant making, youth and environmental programs.

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

***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Foundation reports information regarding its financial position and activities in three classes of net assets based upon the existence or absence of donor-imposed restrictions as follows:

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 \$4,817,512 and \$923,149 as of June 30, 2016 and 2015, respectively, represent donations received from various entities that are restricted as to time and purpose (See Note 7).

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

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

***Basis of Presentation (continued)***

**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 are released to unrestricted net assets as the Foundation appropriates its annual spending based on the use of a spending policy or in accordance with donor restrictions. At June 30, 2016 and 2015, the Foundation had permanently restricted net assets of \$1,981,781 and \$1,979,441, 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.

***Fair Value Measurements***

GAAP defines fair value measurements applied to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. Under GAAP, fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

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

Level 2 -- Inputs that include quoted prices for similar assets and liabilities in active 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.

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

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

***Fair Value Measurements (continued)***

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.

***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 and are included in level 1 of the fair value hierarchy. Fair value is based on market value in the case of marketable securities. The market value of publicly traded securities is based upon quotes from the principal exchanges on which the securities are traded. Investment 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 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, 2016**

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

***Investments (continued)***

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 alternative investments reported in the fair value hierarchy as level 3. There were no alternative investments as of June 30, 2016 and 2015.

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. These assets are included in level 2 of the fair value hierarchy. The Foundation has implemented policies and procedures to assess the reasonableness of the fair values provided. The Foundation believes that reported fair values of non-marketable securities at the statement of financial position dates are reasonable.

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

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

***Unconditional 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, 2016 and 2015 were \$4,020,000 and \$29,057, respectively. Promises to give due within the next twelve months are recorded at their net realizable value. Promises to give due subsequent to June 30, 2017 are reported at the present value of their net realizable value, using a risk-free interest rate of 5% applicable to the years in which the promises are to be received. Of the outstanding pledges as of June 30, 2016, 99% are due from one donor. Management considers all pledges to be fully collectible, therefore no allowance for doubtful accounts has been recorded as of June 30, 2016 and 2015.

***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 as follows:

	<u>Years</u>
Software	4
Furniture and equipment	4-7

***Revenue Recognition***

Program service fees, which consist of workshops and training classes, are recognized when evidence of an arrangement exists, delivery of services has occurred, the fee is fixed or determinable, and collectability is probable. Program services fees billed or collected in advance are recorded as deferred revenue until the services are performed.

***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.

***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.

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

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

***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.

***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.

The Foundation has elected, under IRC Sec. 501(h), to make limited expenditures to influence legislation. The Foundation is subject to excise tax of 25% on lobbying expenditures in excess of allowable limits. Excise tax on excess lobbying expenditures was \$0 for the years ending June 30, 2016 and 2015.

The Foundation is required 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.

***Accounting updates***

In February 2016, the FASB issued Accounting Standards Update (ASU) ASU 2016-02, "Leases," amending Financial Accounting Standards Board Accounting Standards Codification (ASC) by adding topic 842. The new ASU requires that lessees recognize on the statement of financial position the assets and liabilities for the rights and obligations created by all leases with terms of more than twelve months, regardless of their classification as either operating or capital leases. For non-profit organizations, this ASU takes effect for fiscal years beginning after December 15, 2019.

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

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

In August 2016, the FASB issued Accounting Standards Update (ASU) ASU 2016-14, *"Presentation of Financial Statements for Not-for-Profit Entities,"* replacing Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205. The new ASU will change the way all not-for-profit entities classify net assets and prepare financial statements. Under the new standard, the three existing classes of net assets (unrestricted, temporarily restricted, and permanently restricted) will now become two classes: Net assets without donor restrictions, and Net Assets with donor restrictions. The new ASU requires enhanced reporting of liquidity information, performance measures, investment expenses, functional expenses, and cash flow information. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The adoption of this ASU is not expected to have a material impact on 2016's financial statements.

There were no other accounting standards recently issued that had or are expected to have a material impact on 2016's financial statements and associated disclosures.

***Subsequent Events***

Subsequent events have been evaluated through August 29, 2016, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

**NOTE 3 - UNCONDITIONAL PROMISES TO GIVE**

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

	2016	2015
Due within one year	\$ 4,020,000	\$ 30,000
Due in two to five years	-	-
Total pledges receivable	4,020,000	30,000
Less: unamortized discount	-	943
Net pledges receivable	\$ 4,020,000	\$ 29,057



**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures (see Note 2). The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	Total	2016		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	\$ 3,436,302	\$ 3,436,302	\$ -	\$ -
Equity securities	-	-	-	-
Equity Funds				
Large Cap	19,943,625	19,943,625	-	-
Mid Cap	2,893,006	2,893,006	-	-
Small Cap	2,113,162	2,113,162	-	-
Emerging Markets	2,611,417	2,611,417	-	-
International	4,160,747	4,160,747	-	-
Fixed income securities				
Investment Grade	6,045,654	6,045,654	-	-
High Yield	1,142,592	-	1,142,592	-
Corporate	307,239	-	307,239	-
Government	26,357	-	26,357	-
Municipal	98,630	-	98,630	-
Bond Funds	3,635,227	3,635,227	-	-
International	1,032,517	-	1,032,517	-
Exchange traded funds				
Commodities	890,233	890,233	-	-
Other	15,440	15,440	-	-
REITs	1,734,648	1,734,648	-	-
Total	\$ 50,086,796	\$ 47,479,461	\$ 2,607,335	\$ -

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	Total	2015		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	\$ 12,670,672	\$ 12,670,672	\$ -	\$ -
Equity securities	1,051,119	1,051,119	-	-
Equity Funds				
Large Cap	9,915,241	9,915,241	-	-
Mid Cap	1,600,536	1,600,536	-	-
Small Cap	1,833,840	1,833,840	-	-
Convertibles	21,621	21,621	-	-
International	3,239,604	3,239,604	-	-
Fixed income securities				
Investment Grade	3,240,385	3,240,385	-	-
High Yield	910,995	-	910,995	-
Corporate	356,274	-	356,274	-
Government	302,863	-	302,863	-
Municipal	97,854	-	97,854	-
Bond Funds	31,631	31,631	-	-
Other	333,928	-	333,928	-
Exchange traded funds				
Commodities	391,789	391,789	-	-
Private equity	23,463	23,463	-	-
REITs	1,215,569	1,215,569	-	-
<b>Total</b>	<b>\$ 37,237,384</b>	<b>\$ 35,235,470</b>	<b>\$ 2,001,914</b>	<b>\$ -</b>

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Investments classified in Level 2 consist of bonds which may be thinly traded. Their classification in Level 2 is based on quoted prices in secondary markets for these investments. 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.

**NOTE 5 – INVESTMENT RETURN**

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

	2016	2015
Interest and dividends	\$ 614,473	\$ 528,263
Realized gains and losses	281,583	1,293,718
Unrealized gains and losses	(815,886)	(1,344,578)
Investment fees	(175,701)	(147,155)
	\$ (95,531)	\$ 330,248

Investment return is shown net of investment management and custody fees paid directly to the investment managers in the amount of \$136,041 and \$144,730 for the years ended June 30, 2016 and 2015, respectively. There were additional investment fees that were not paid directly to the managers, but rather are netted from the return on certain investments.

**NOTE 6 – FIXED ASSETS**

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

	2016	2015
Furniture and equipment	\$ 61,217	\$ 52,236
Software	42,792	39,277
Total fixed assets	104,009	91,513
Less: accumulated depreciation	89,024	87,033
Fixed assets - net	\$ 14,985	\$ 4,480

Depreciation expense was \$1,599 and \$1,029 for the years ending June 30, 2016 and 2015, respectively.

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
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**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

As of June 30, 2016 and 2015, temporarily restricted net assets consisted of temporarily restricted contributions and earnings on permanently restricted endowment funds subject to time restrictions under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Commonwealth of Massachusetts as follows:

	2016	2015
Cumulative earnings - permanent endowment funds		
Without purpose restrictions	\$ 195,689	\$ 212,839
With purpose restrictions	547,348	621,253
Subtotal	743,037	834,092
Other funds temporarily restricted for purpose	74,475	60,000
Other funds temporarily restricted for time	4,000,000	29,057
Total temporarily restricted net assets	<u>\$4,817,512</u>	<u>\$ 923,149</u>

Earnings on permanently restricted endowment funds with purpose restrictions consist of funds restricted for a variety of uses within and outside Essex County, Massachusetts which meet the charitable needs of the community.

**NOTE 8 – ENDOWMENT FUNDS**

The Foundation's endowment consists of approximately 44 individual funds established for a variety of purposes, and includes both donor-restricted endowment funds and funds established by the Board of Trustees to function as endowments.

Under UPMIFA, the Board of Trustees has discretion to determine appropriate expenditure of a donor-restricted endowment fund in accordance with specific guidelines about what constitutes prudent spending. UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes, and duration for which the endowment is established. Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of the funds suggests that a donor-restricted endowment fund is perpetual in nature. Although the Foundation is permitted to continue a prudent payout even if the market value of the fund is below historic principal value, there is an expectation that over time, the permanently restricted amount will remain intact.

**Essex County Community Foundation, Inc.**  
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**NOTE 8 – ENDOWMENT FUNDS (continued)**

The Foundation's Board of Trustees' interpretation of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date has resulted in the classification of permanently restricted net assets as (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 appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) General economic conditions
- (2) The possible effect of inflation and deflation
- (3) The expected tax consequences, if any, of investment decisions
- (4) The effect of each investment or course of action on the overall investment portfolio
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the organization
- (7) The needs of the Foundation and the fund to make distributions and to preserve capital
- (8) An asset's special relationship or value, if any, to the Foundation's charitable purpose.
- (9) The duration and preservation of the fund
- (10) The investment policy of the Foundation

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain in a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur in newer endowment funds, shortly after the investment of new permanently restricted contributions, or when there was continued appropriation for certain programs that were deemed prudent by the Board of Trustees. There were no deficiencies of this nature that are reported in unrestricted net assets in accordance with GAAP, as of June 30, 2016 and 2015.

**Essex County Community Foundation, Inc.**  
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**June 30, 2016**

**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 the assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s) as well as board-designated funds.

Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield 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's spending policy is determined each year and allows for appropriating up to 5 percent of its endowments fair market 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, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor created funds	\$4,539,593	\$ 743,037	\$1,981,781	\$7,264,411
Board designated funds	981,036	-	-	981,036
	<u>\$5,520,629</u>	<u>\$ 743,037</u>	<u>\$1,981,781</u>	<u>\$8,245,447</u>

**Essex County Community Foundation, Inc.**  
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**NOTE 8 – ENDOWMENT FUNDS (continued)**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor created funds	\$4,890,381	\$ 834,092	\$1,979,441	\$7,703,914
Board designated funds	1,036,556	-	-	1,036,556
	<u>\$5,926,937</u>	<u>\$ 834,092</u>	<u>\$1,979,441</u>	<u>\$8,740,470</u>

Changes in endowment net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$5,926,937	\$ 834,092	\$1,979,441	\$8,740,470
Investment return:				
Investment income	138,691	67,636	-	206,327
Appreciation/depreciation	(233,048)	(34,103)	-	(267,151)
Total investment return	(94,357)	33,533	-	(60,824)
Contributions	361,264	-	2,340	363,604
Appropriation of assets for expenditure	(682,965)	(124,588)	-	(807,553)
Other changes	9,750	-	-	9,750
Endowment net assets, end of year	<u>\$5,520,629</u>	<u>\$ 743,037</u>	<u>\$1,981,781</u>	<u>\$8,245,447</u>

Changes in endowment net assets for the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$6,213,904	\$ 845,949	\$1,954,331	\$9,014,184
Investment return:				
Investment income	147,747	60,037	-	207,784
Appreciation/depreciation	(79,954)	(8,239)	-	(88,193)
Total investment return	67,793	51,798	-	119,591
Contributions	583,390	-	25,110	608,500
Appropriation of assets for expenditure	(938,814)	(63,655)	-	(1,002,469)
Other changes	664	-	-	664
Endowment net assets, end of year	<u>\$5,926,937</u>	<u>\$ 834,092</u>	<u>\$1,979,441</u>	<u>\$8,740,470</u>

**Essex County Community Foundation, Inc.**  
**Notes to Financial Statements**  
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**NOTE 9 – FISCAL AGENCY LIABILITY**

The Foundation acts as a fiscal agent for other organizations in the service area. The organizations place funds with the Foundation and direct the Foundation to disburse funds from time to time on the organizations' behalf. Fiscal agency funds reported in the statement of financial position represent undisbursed funds held by the Foundation on behalf of Community Health Network Areas (CHNA) 13 (Beverly/Gloucester) and 14 (North Shore) of \$196,549 and \$182,068 as of June 30, 2016 and 2015, respectively.

**NOTE 10 – AGENCY ENDOWMENT FUNDS**

Agency endowment arises when a transfer is received from a not-for-profit organization that specifies itself as the beneficiary. GAAP requires that the transfers received by a community foundation be accounted for as a liability as the transaction is deemed to be reciprocal. The agency endowments held by the Foundation as of June 30, 2016 and 2015 were \$11,427,221 and \$11,285,362, respectively.

**NOTE 11 – SPLIT-INTEREST OBLIGATIONS**

Split-interest agreements of \$642,182 and \$739,810 as of June 30, 2016 and 2015, respectively, consist of charitable gift annuities in which donors have contributed assets to the Foundation and have designated themselves as beneficiaries of an annuity payment over a specified period of time. The Foundation recorded revenue representing its share of the split-interest agreements and purchased annuity certificates covering 100% of the split-interest obligations due to the beneficiaries. The annuity obligations and related expected proceeds from the annuity certificates are estimates that may differ from amounts actually paid and received. The decrease in split-interest obligations and annuitized split-interest agreements over time is the result of annuity payments made and received.

**NOTE 12 – RELATED PARTY ACTIVITY**

Several of the Foundation's board members also serve on the boards of, or otherwise have a business relationship with, other area non-profit organizations. During the years ended June 30, 2016 and 2015, the Foundation made grants of \$732,580 and \$170,480 to those organizations, respectively.



**Essex County Community Foundation, Inc.**  
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**NOTE 13 – EMPLOYEE BENEFIT PLANS**

The Foundation sponsors a defined contribution 403(b) 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. The Foundation is not required to make any contributions to the plan. No employer contributions were made for the years ending June 30, 2016 and 2015.

**NOTE 14 - 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 \$6,087 for 2016, subject to annual increases. Rent expense for the years ending June 30, 2016 and 2015 was \$78,446 and \$74,709, respectively. The Foundation received the first two month's rent free of charge, the cost of which was amortized over the life of the lease. Effective October 1, 2016 a seven year lease was signed for the same space, expiring in October 1, 2023. The minimum required lease payments are as follows for fiscal years ending June 30:

2017	\$ 44,723
2018	65,689
2019	70,508
2020	72,537
2021	74,566
Thereafter	168,914
Total	\$ 496,937