

**Essex County Community
Foundation, Inc.**

Financial Statements
&
Independent Auditor's Report

June 30, 2013 and 2012

Essex County Community Foundation, Inc.
Financial Statements
June 30, 2013

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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, 2013 and 2012, 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, 2013 and 2012, 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.

Anstiss & Co., P.C.

August 26, 2013

Essex County Community Foundation, Inc.
Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 313,609	\$ 114,109
Investments at fair value	19,924,939	17,482,286
Unconditional promises to give - net	156,641	168,109
Prepaid expenses and other assets	9,759	8,849
Fixed assets - net	2,506	7,151
Reinsured split interest agreements	935,066	983,880
Total assets	\$ 21,342,520	\$ 18,764,384
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 32,001	\$ 11,504
Grants payable	92,500	89,000
Deferred revenue	500	-
Deferred rent	3,716	4,889
Fiscal agency liability	124,528	-
Split interest agreements	935,066	983,880
Agency endowment funds	312,614	265,152
Total liabilities	1,500,925	1,354,425
Net assets		
Unrestricted	17,538,178	15,221,804
Temporarily restricted	726,719	512,105
Permanently restricted	1,576,698	1,676,050
Total net assets	19,841,595	17,409,959
Total liabilities and net assets	\$ 21,342,520	\$ 18,764,384

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2013</u>
Support and revenue				
Contributions, grants and gifts	\$ 5,986,930	\$ 10,000	\$ 2,381	\$ 5,999,311
Special event revenue, net of cost of direct benefit to donors of \$91,429	11,998	-	-	11,998
Program fees	142,815	-	-	142,815
Investment income (loss) - net	1,608,112	229,828	-	1,837,940
Net assets released from restrictions	140,057	(25,214)	(114,843)	-
Total support and revenue	<u>7,889,912</u>	<u>214,614</u>	<u>(112,462)</u>	<u>7,992,064</u>
Expenses				
Program services	4,992,491	-	-	4,992,491
Management and general	237,559	-	-	237,559
Fundraising	330,378	-	-	330,378
Total expenses	<u>5,560,428</u>	<u>-</u>	<u>-</u>	<u>5,560,428</u>
Change in net assets	2,329,484	214,614	(112,462)	2,431,636
Net assets at beginning of year	15,221,804	512,105	1,676,050	17,409,959
Reclassification of net assets	(13,110)	-	13,110	-
Net assets at end of year	<u>\$ 17,538,178</u>	<u>\$ 726,719</u>	<u>\$ 1,576,698</u>	<u>\$ 19,841,595</u>

Essex County Community Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>
Support and revenue				
Contributions, grants and gifts	\$ 3,203,369	\$ 138,038	\$ 138,909	\$ 3,480,316
Special event revenue, net of cost of direct benefit to donors of \$44,869	115,146	-	-	115,146
Program fees	137,105	-	-	137,105
Investment income (loss) - net	(146,726)	(7,423)	-	(154,149)
Net assets released from restrictions	27,623	(27,623)	-	-
Total support and revenue	<u>3,336,517</u>	<u>102,992</u>	<u>138,909</u>	<u>3,578,418</u>
Expenses				
Program services	2,609,421	-	-	2,609,421
Management and general	247,828	-	-	247,828
Fundraising	304,065	-	-	304,065
Total expenses	<u>3,161,314</u>	<u>-</u>	<u>-</u>	<u>3,161,314</u>
Change in net assets	175,203	102,992	138,909	417,104
Net assets at beginning of year	15,059,503	409,113	1,524,239	16,992,855
Reclassification of net assets	(12,902)	-	12,902	-
Net assets at end of year	<u>\$ 15,221,804</u>	<u>\$ 512,105</u>	<u>\$ 1,676,050</u>	<u>\$ 17,409,959</u>

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 2,431,636	\$ 417,104
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	4,645	5,115
Donated investments	(813,836)	(620,625)
(Gain) loss on investments	(1,538,907)	430,795
Donations to permanently restricted funds	(2,381)	(138,909)
Changes in assets and liabilities		
Decrease (increase) in unconditional promises to give	11,468	(148,693)
Increase in other assets	(910)	(2,187)
Increase (decrease) in accounts payable and accrued expenses	20,497	(10,506)
Increase in grants payable	3,500	26,500
Increase in deferred revenue	500	-
Decrease in deferred rent	(1,173)	(1,174)
Increase (decrease) in other liabilities	123,176	(10,826)
Net cash provided (used) by operating activities	<u>238,215</u>	<u>(53,406)</u>
Cash flows from investing activities		
Purchase of investments	(13,929,865)	(11,400,948)
Sale of investments	<u>13,888,769</u>	<u>11,464,873</u>
Net cash (used) provided by investing activities	<u>(41,096)</u>	<u>63,925</u>
Cash flows from financing activities		
Donations to permanently restricted funds	<u>2,381</u>	<u>138,909</u>
Net cash provided by financing activities	<u>2,381</u>	<u>138,909</u>
Net change in cash and cash equivalents	199,500	149,428
Cash and cash equivalents at beginning of year	<u>114,109</u>	<u>(35,319)</u>
Cash and cash equivalents at end of year	<u>\$ 313,609</u>	<u>\$ 114,109</u>
Supplemental information:		
Donated investments	<u>\$ 813,836</u>	<u>\$ 620,625</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, 2013

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, 2013

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:

Unrestricted Net Assets

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

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (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. Temporarily restricted net assets of \$726,719 and \$512,105 as of June 30, 2013 and 2012, respectively, 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, 2013 and 2012, the Foundation had permanently restricted net assets of \$1,576,698 and \$1,676,050, respectively. During 2013, two permanently restricted fund agreements were amended by the original donors to release the related restrictions and allow distributions in accordance with the Foundation's spending policy.

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.

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

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

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.

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 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, 2013

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, 2013 and 2012 were \$156,641 and \$168,109, 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. 75% of the outstanding pledges as of June 30, 2013, are due from two donors.

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
Office furniture and equipment	4-7

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 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, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (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.

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. Management has determined that the fair values of its financial instruments not carried at fair value, including cash, receivables, prepaid expenses, payables, and accrued expenses are substantially equivalent to their carrying values as of June 30, 2013 and 2012 because of their relatively short-term nature.

Fiscal Agency Funds

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 at June 30, 2013 and 2012.

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 also receives in-kind gifts of securities from various contributors. The value of these contributions was \$813,836 and \$620,625 for the periods ended June 30, 2013 and 2012, respectively.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

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 year ending June 30, 2013.

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.

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

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

	2013	2012
Due within one year	\$ 127,083	\$ 96,681
Due in two to five years	33,334	75,000
Total pledges receivable	160,417	171,681
Less: unamortized discount	3,776	3,572
Net pledges receivable	\$ 156,641	\$ 168,109

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

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, 2013 and 2012:

	2013			
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	\$ 2,249,799	\$ 2,249,799	\$ -	\$ -
Equity securities	2,189,596	2,189,596	-	-
Equity Funds				
Large Cap	5,174,870	5,174,870	-	-
Mid Cap	1,367,421	1,367,421	-	-
Small Cap	1,051,359	1,051,359	-	-
Convertibles	27,289	27,289	-	-
International	2,691,741	2,691,741	-	-
Fixed income securities				
Investment Grade	1,557,742	1,557,742	-	-
High Yield	603,897	-	603,897	-
Corporate	273,690	-	273,690	-
Government	521,063	-	521,063	-
Bond Funds	114,315	114,315	-	-
Other	587,238	-	587,238	-
Alternative investments:				
Commodities	501,216	501,216	-	-
Currencies	68,087	68,087	-	-
REITs	940,716	940,716	-	-
Limited partnerships	4,900	-	-	4,900
Total	\$ 19,924,939	\$ 17,934,151	\$ 1,985,888	\$ 4,900

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2012			
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	\$ 1,272,532	\$ 1,272,532	\$ -	\$ -
Equity securities	1,477,140	1,477,140	-	-
Equity Funds				
Large Cap	4,865,871	4,865,871	-	-
Mid Cap	1,027,889	1,027,889	-	-
Small Cap	587,213	587,213	-	-
Convertibles	25,057	25,057	-	-
International	2,829,708	2,829,708	-	-
Fixed income securities				
Investment Grade	1,441,348	1,441,348	-	-
High Yield	862,281	-	862,281	-
Corporate	526,271	-	526,271	-
Government	653,771	-	653,771	-
Bond Funds	241,882	241,882	-	-
Other	561,650	-	561,650	-
Alternative investments:				
Commodities	385,336	385,336	-	-
Currencies	63,214	63,214	-	-
REITs	653,408	653,408	-	-
Limited partnerships	7,715	-	-	7,715
Total	\$ 17,482,286	\$ 14,870,598	\$ 2,603,973	\$ 7,715

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, 2013 and 2012:

	2013	2012
Balance at beginning of year	\$ 7,715	\$ 7,715
Unrealized loss	(2,815)	-
Balance at end of year	<u>\$ 4,900</u>	<u>\$ 7,715</u>

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

NOTE 6 – INVESTMENT RETURN

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

	2013	2012
Interest and dividends	\$ 398,306	\$ 361,871
Realized gains and losses	1,589,801	950,585
Unrealized gains and losses	(50,895)	(1,381,380)
Investment fees	(99,272)	(85,225)
	\$ 1,837,940	\$ (154,149)

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 – FIXED ASSETS

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

	2013	2012
Furniture and equipment	\$ 46,971	\$ 46,971
Software	39,277	39,277
Total fixed assets	86,248	86,248
Less: accumulated depreciation	83,742	79,097
Fixed assets - net	\$ 2,506	\$ 7,151

Depreciation expense was \$4,645 and \$5,115 for the years ending June 30, 2013 and 2012, respectively.

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2013 and 2012, temporarily restricted net assets consisted of temporarily restricted contributions and earnings on permanently restricted endowment funds subject to time restrictions under Massachusetts Uniform Prudent Management of Institutional Funds Act (MPMIFA) as follows:

	2013	2012
Without purpose restrictions:	\$ 122,021	\$ 65,006
With purpose restrictions	410,276	262,466
Subtotal	532,297	327,472
Other funds temporarily restricted for purpose	31,531	28,205
Other funds temporarily restricted for time	162,891	156,428
Total temporarily restricted net assets	\$ 726,719	\$ 512,105

NOTE 9 – ENDOWMENT FUNDS

The Foundation’s endowment consists of approximately 43 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. 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 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 effect of each investment or course of action plays on the overall investment portfolio
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the organization

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 9 – ENDOWMENT FUNDS (continued)

- (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 MPMIFA requires the Foundation to retain in 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 \$0 and \$374 as of June 30, 2013 and 2012, respectively. 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.

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.

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Notes to Financial Statements
June 30, 2013

NOTE 9 – ENDOWMENT FUNDS (continued)

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, 2013 and 2012:

		2013			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor created funds	\$4,686,083	\$ 563,828	\$1,576,698	\$6,826,609	
Board created funds	1,000,038	-	-	1,000,038	
	<u>\$5,686,121</u>	<u>\$ 563,828</u>	<u>\$1,576,698</u>	<u>\$7,826,647</u>	
		2012			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor created funds	\$4,062,207	\$ 355,677	\$1,676,050	\$6,093,934	
Board created funds	935,927	-	-	935,927	
	<u>\$4,998,134</u>	<u>\$ 355,677</u>	<u>\$1,676,050</u>	<u>\$7,029,861</u>	

Essex County Community Foundation, Inc.
Notes to Financial Statements
June 30, 2013

NOTE 9 – ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$4,998,134	\$ 355,677	\$1,676,050	\$7,029,861
Investment return:				
Investment income	147,571	51,726	-	199,297
Appreciation/depreciation	509,221	177,728	-	686,949
Total investment return	<u>656,792</u>	<u>229,454</u>	<u>-</u>	<u>886,246</u>
Contributions	573,593	-	2,381	575,974
Appropriation of assets for expenditure	(707,335)	(47,106)	-	(754,441)
Other changes	<u>164,937</u>	<u>25,803</u>	<u>(101,733)</u>	<u>89,007</u>
Endowment net assets, end of year	<u>\$5,686,121</u>	<u>\$ 563,828</u>	<u>\$1,576,698</u>	<u>\$7,826,647</u>

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. 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, 2013 and 2012 were \$312,614 and \$265,152, respectively.

NOTE 11 – 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, 2013 and 2012, the Foundation made grants of \$210,627 and \$38,500 to those organizations, respectively.

Essex County Community Foundation, Inc.
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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, 2013 and 2012, 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 – 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 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 \$5,749 for 2013, subject to annual increases. Rent expense for 2013 and 2012 was \$69,916 and \$68,863, 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:

2014	\$72,706
2015	\$73,044
2016	\$73,044
2017	\$12,174

NOTE 15 – 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, 2013 through August 26, 2013, 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.