Greater Lowell Community Foundation, Inc.

Financial Statements &
Independent Auditor's Report

December 31, 2018 and 2017

Greater Lowell Community Foundation, Inc.
Financial Statements
December 31, 2018 and 2017

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Independent Auditor's Report

To the Board Directors of
Greater Lowell Community Foundation, Inc.

We have audited the accompanying financial statements of Greater Lowell Community Foundation, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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 of 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Lowell Community Foundation, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
Change in Accounting Principle

As discussed in Notes 2 to the financial statements, during the year ended December 31, 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* As a result, the standard was retroactively applied to the financial statements for the fiscal year ending December 31, 2017. Our opinion is not modified with respect to that matter.

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Lowell, MA
June 13, 2019

Greater Lowell Community Foundation, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,264,451	$ 740,199
Investments at fair value	4,016,590	3,682,398
Accrued interest receivable	-	14,236
Accounts receivable - Other	9,000	22,778
Prepaid expenses and other assets	26,205	17,143
Fixed assets - net	1,336	5,401
Endowment investments	29,742,579	32,435,108
Total assets	$ 35,060,161	$ 36,917,263
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 10,612	$ 16,499
Grants payable	6,000	11,075
Accrued expenses	27,388	26,030
Fiscal agency liability	285,489	43,522
Split-interest obligations	1,640	1,640
Agency endowment funds	3,655,367	3,684,516
Total liabilities	3,986,496	3,783,282
Net assets		
Without donor restrictions		
Undesignated	866,062	686,768
Designated for operating reserves	455,919	-
Designated for endowment	25,818,557	28,032,575
Total without donor restrictions	27,140,538	28,719,343
With donor restrictions		
Perpetual in nature	1,583,464	1,566,722
Purpose restrictions	2,340,663	2,835,616
Time-restricted	9,000	12,300
Total with donor restrictions	3,933,127	4,414,638
Total net assets	31,073,665	33,133,981
Total liabilities and net assets	$ 35,060,161	$ 36,917,263

See the accompanying notes to these financial statements.

Greater Lowell Community Foundation, Inc.
Statements of Activities
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions, grants, and gifts	$ 2,736,459	$ 50,276	2,786,735	$ 1,763,659	$ 75,077	1,838,736
Investment return	(1,522,133)	(303,111)	(1,825,244)	4,432,806	814,074	5,246,880
Donated goods and services	10,139	-	10,139	10,503	-	10,503
Net assets released from restrictions	228,676	(228,676)	-	126,801	(126,801)	-
Total support and revenue	1,453,141	(481,511)	971,630	6,333,769	762,350	7,096,119
Expenses						
Program services	2,652,385	-	2,652,385	2,061,166	-	2,061,166
Management and general	156,939	-	156,939	118,774	-	118,774
Fundraising	222,622	-	222,622	189,492	-	189,492
Total expenses	3,031,946	-	3,031,946	2,369,432	-	2,369,432
Change in net assets	(1,578,805)	(481,511)	(2,060,316)	3,964,337	762,350	4,726,687
Net assets at beginning of year	28,719,343	4,414,638	33,133,981	24,755,006	3,652,288	28,407,294
Net assets at end of year	$ 27,140,538	$ 3,933,127	$ 31,073,665	$ 28,719,343	$ 4,414,638	$ 33,133,981

See the accompanying notes to these financial statements.

Greater Lowell Community Foundation, Inc.
Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Program	Management & General	Fundraising	Total	Program	Management & General	Fundraising	Total
Grants	$ 1,891,064	-	-	$ 1,891,064	$ 1,291,745	-	-	$ 1,291,745
Salaries and related	289,802	95,603	157,855	543,260	216,522	70,800	130,019	417,341
Project costs	255,773	13,491	550	269,814	404,797	21,335	564	426,696
Office supplies and expenses	73,374	9,609	11,301	94,284	37,087	1,200	10,216	48,503
Conferences	54,861	7,257	10,455	72,573	41,035	5,663	9,931	56,629
Occupancy	27,516	8,540	15,452	51,508	31,141	2,396	14,373	47,910
Project support	42,561	4,515	2,892	49,968	24,359	2,809	6,119	33,287
Other expenses	1,772	141	18,185	20,098	1,388	101	13,808	15,297
Legal and accounting	-	16,915	-	16,915	-	13,500	-	13,500
Travel	6,575	-	-	6,575	5,383	-	-	5,383
Insurance	3,672	282	1,694	5,648	3,508	270	1,619	5,397
Meals and entertainment	1,360	-	3,019	4,379	-	-	743	743
Depreciation	2,440	406	1,219	4,065	4,201	700	2,100	7,001
Professional fees-other	1,615	180	-	1,795	-	-	-	-
Total expenses by function	$ 2,652,385	$ 156,939	$ 222,622	$ 3,031,946	$ 2,061,166	$ 118,774	$ 189,492	$ 2,369,432

See the accompanying notes to these financial statements.

Essex County Community Foundation, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of change in net assets to net cash from operating activities		
Change in net assets	$ (2,060,316)	$ 4,726,687
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation	4,065	7,001
Realized and unrealized loss on operating investments	315,617	126,685
Contributions restricted to endowment	(2,227,918)	(1,193,439)
Change in value of fiscal agency liability	241,967	3,889
Change in value of agency endowment liability	(55,358)	539,878
Endowment net investment return	4,863,890	(5,481,954)
Changes in operating assets and liabilities		
Decrease (increase) in accrued interest receivable	14,236	(14,236)
Increase in prepaid expenses and other assets	(9,062)	(1,752)
Decrease (increase) in accounts receivable	13,778	(22,228)
(Decrease) increase in accounts payable and accrued expenses	(4,529)	8,747
Decrease in grants payable	(5,075)	(3,525)
Net cash provided (used) by operating activities	1,091,295	(1,304,247)
Cash flows from investing activities		
Purchase of operating investments	(4,016,601)	(2,382,558)
Proceeds from sale of operating investments	4,032,498	1,795,426
Withdrawals from (additions to) agency endowment funds - net	26,209	(60,612)
(Additions to) withdrawals from endowment-net	(609,149)	1,933,272
Net cash (used) provided by investing activities	(567,043)	1,285,528
Net change in cash and cash equivalents	524,252	(18,719)
Cash and cash equivalents at beginning of year	740,199	758,918
Cash and cash equivalents at end of year	$ 1,264,451	$ 740,199
Supplemental information:		
In-kind contributions	$ 1,910,086	$ 328,820

See the accompanying notes to these financial statements.

NOTE 1 - ORGANIZATION

Greater Lowell Community Foundation, Inc. (the "Foundation") is a nonprofit organization established on May 23, 1997. The mission of the Foundation is to improve the quality of life in the Greater Lowell area by developing permanent charitable endowments and by providing leadership on key community issues, as well as by providing grants and technical assistance to nonprofit organizations. The Foundation is responsible for investing and distributing charitable funds in accordance with donor instructions. On February 8, 2013, the Greater Lowell Community Foundation was granted a five-year Accreditation and Recertification of Compliance with National Standards of U.S. Community Foundations.

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 two classes of net assets based upon the existence or absence of donor-imposed restrictions as follows:

<u>Net Assets Without Donor Restrictions</u>

Net assets that are not subject to donor-imposed stipulations are classified as without donor restrictions and those subject to the Foundation's variance power and spending policy.

From time to time, the Board may vote to set aside a certain dollar amount or percentage of net assets without donor restrictions for use at a specific time, for a specific purpose, or to function as endowment, as it sees fit. These board-designated net assets may become undesignated with the passage of time or when used for their intended purpose. In addition, the Board may undesignated these net assets at its discretion if the originally intended time period or purpose is deemed no longer relevant or applicable to the needs of the Foundation.

<u>Net Assets With Donor Restrictions</u>

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time, are classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor restrictions to be maintained in perpetuity as permanent assets of the Foundation. Generally, all income and unrealized and realized net gains on investments related to these net assets can be made available for operations as the Foundation appropriates its annual spending based on the use of a spending policy or in accordance with donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and other highly liquid financial instruments with original maturities of three months or less, which are neither held, nor restricted by donors, for long-term purposes. Cash, time deposits, certificates of deposit, and other highly liquid financial instruments restricted to endowments that are perpetual in nature or other long-term purposes are excluded from this definition. As of December 31, 2018 and 2017, there was $45,827 and $43,522, respectively, of cash held for use by the organizations for which the Foundation acts as fiscal agent.

Fair Value Measurements

The Foundation follows the provisions of ASC 820-10, "*Fair Value Measurements.*" ASC 820-10 applies to reported balances that are required or permitted to be measured at fair value on a recurring basis 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 consisting 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.

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, "*Fair Value Measurements,*" 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, and payables are substantially equivalent to their carrying values as of December 31, 2018 and 2017 because of their relatively short-term nature.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Directors' 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 Directors.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements 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 quoted prices from principal exchanges on which the securities are traded. Investment return (including realized and unrealized gains and losses on investments, and interest, and dividends net of investment management fees) is included in the current period change in net assets. Realized and unrealized investment gains and losses in total are determined by changes in market value. Interest and dividend income is recognized when earned.

Alternative investments include non-marketable securities such as hedge funds 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

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.

At December 31, 2018 and 2017, there was $285,489 and $43,522 of investments held for use by the organizations for which the Foundation acts as fiscal agent.

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 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 discount interest rate of 3.5% applicable to the years in which the promises are to be received.

Fixed Assets

All fixed assets are recorded at cost if purchased or constructed, or at fair market value at the date of 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 furnishings and equipment under the straight-line method over the estimated useful lives of the assets capitalized as follows:

	Years
Software	3
Furnishings and equipment	5-8

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets (continued)

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison to the future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Agency Endowment Funds

Agency endowment arises when a transfer is received from a not-for-profit organization that specifies itself as the beneficiary. ASC 958-605-50, *"Contributions Received,"* requires that such transfers received by a community foundation be accounted for as a liability as the transaction is deemed to be reciprocal. Agency endowment funds held by the Foundation as of December 31, 2018 and 2017 were $3,655,367 and $3,684,516, respectively.

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. Earnings and market gains are maintained within net assets with donor restrictions and are used to meet current or future annuity obligations. As of December 31, 2018 and 2017, the Foundation had $2,072 and $3,788, respectively, in cash and investments to meet minimum future annuity obligations. This liability is payable in fixed amounts during the lifetime of the beneficiaries. The remainder is classified as net assets with donor restrictions. The annuity obligations are estimates that may differ from amounts actually paid.

As of December 31, 2018 and 2017, the Foundation also had $2,999 and $5,541, respectively, of future obligations on charitable gift annuities that have been insured in full. The Foundation limits its contracts to insurance companies with the strongest ranking based on nationally recognized rating agencies. No amounts are recorded in the financial statements for the value of future obligations to be paid on these reinsured charitable gift annuities or for the expected proceeds to be received from the insurance company.

Fiscal Agency Funds

The Foundation acts as a fiscal agent for other organizations in the Lowell 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 of $285,489 and $43,522, represent undisbursed funds held by the Foundation at December 31, 2018 and 2017, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Gifts of assets other than cash are recorded at their estimated fair value on the date of the gift. Pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In-Kind Contributions

Donated goods and services are recorded as contributions at their estimated fair value on the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. The value of donated goods, services and securities was $1,910,087 and $328,820 for the years ended December 31, 2018 and 2017, respectively.

The Foundation receives donated services from unpaid volunteers who assist in various activities for the Foundation. No amounts have been recognized in the financial statements because the criteria for recognition have not been met.

Functional Allocation of Expenses

The Foundation's program service is to improve the quality of community life by soliciting contributions to build endowment and donor advised funds which provide public benefit through grantmaking. The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. The statement of functional expenses is required to present the natural classification detail of expenses by function, allocated on a reasonable basis that is consistently applied. Expenses that can be identified with a specific program or support service are allocated directly. Based on management's estimates, certain costs have been allocated among major classes of program services and supporting activities. Salaries and wages, benefits, payroll taxes, are allocated based on estimates of time and effort. Professional services, office expenses and supplies, travel costs, and certain other expenses are allocated based on each program's expense to the total expense. Other unallocable costs, general and administrative, and fundraising costs are allocated to management and general or fundraising, as appropriate.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

The Foundation places its cash and cash equivalents with high quality financial institutions. Such deposits are covered by Federal Deposit Insurance Commission (FDIC) insurance and by state level insurance for balances exceeding FDIC limits. To minimize risk management routinely assesses the financial strength of the institutions.

Investments are exposed to various risks such as market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the financial statements.

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 is provided for in the accompanying financial statements.

ASC 740-10, "*Accounting for Uncertainty in Income Taxes,*" requires the Foundation 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. The Foundation's information returns for fiscal years ending December 31, 2016 through 2019 remain subject to audit and review by the Internal Revenue Service and state taxing jurisdictions to which we are subject.

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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of Recent Accounting Pronouncements

During 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): "Presentation of Financial Statements for Not-for-Profit Entities."* This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts as net assets without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. As a result of the adoption of this standard, during 2018, certain amounts from the prior year financial statements were reclassified to conform to current year presentation.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without donor restrictions**	**With donor restrictions**	**Total net assets**
As previously presented:			
Unrestricted	$28,719,343	$ (1,249)	$28,718,094
Temporarily restricted	-	2,849,165	2,849,165
Permanently restricted	-	1,566,722	1,566,722
Total net assets as reclassified	$28,719,343	$4,414,638	$33,133,981

Accounting updates

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *"Revenue from Contracts with Customers,"* amending FASB Accounting Standards Codification (ASC) topic 606. This ASU affects any entity that enters into contracts with customers to transfer goods or services and is intended to enhance the comparability of revenue recognition practices across entities. The new standard requires entities to recognize revenue when the entity has satisfied its performance obligations under contracts with customers in the amount the entity expects to be entitled to in exchange for the goods or services provided. For non-profit organizations with no public debt, this ASU takes effect for annual periods beginning after December 15, 2018. Early adoption is permitted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting updates (continued)

In June 2018, the FASB issued ASU 2018-08, *"Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,"* amending ASC 958-605. The new ASU clarifies the difference between an exchange transaction and a contribution and further defines when a contribution is considered conditional or unconditional. This will allow non-profit entities to identify when and how revenue should be recognized. For non-profit organizations without public debt, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, "*Leases,*" amending the 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 without public debt, this ASU takes effect for annual periods beginning after December 15, 2019.

The Foundation is currently evaluating the effect that these accounting pronouncements will have on the financial statements. There were no other accounting standards recently issued that had or are expected to have a material impact on the Foundation's financial statements and associated disclosures.

NOTE 3 - LIQUIDITY

Financial assets available within one year for general expenditure such as operating expenses and distributions in accordance with the Foundation's spending policy, were as follows for the years ending December 31:

	2018	2017
Cash and cash equivalents	$1,264,451	$ 694,559
Investments	75,734	-
Pledges receivable	3,000	13,778
Distributions from annuitized split-interest agreements	10,401	13,221
Endowment spending policy appropriations	1,626,895	1,522,188
Total available for general expenditure	$2,980,481	$2,243,746

To manage liquidity, the Foundation's board strives to maintain a minimum of 4 months of operating reserves to meet current liquidity needs and to address shortfalls in cash flow caused by seasonal revenue cycles. The operating reserve funds of $455,919 as of December 31, 2018 are maintained in investment accounts with asset allocations consistent with the investment policy. These operating reserves have been Board designated and are not accessible to management for operations without approval by the board. The Foundation had $697,165 and $374,015 in board designated funds functioning as endowment (quasi-endowment) as of December 31, 2018 and 2017, respectively. The annual distribution from the quasi-endowment is reviewed each year by the Finance Committee and approved by the Board. The annual distributions may be used for current operations.

NOTE 3 – LIQUIDITY (continued)

The Foundation maintains its general ledger accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. The Foundation charges each fund an annual administrative fee of 0.75-2.0% depending on the type and size of the fund, consistent with the Foundation's Fee Policy. The administrative fee serves as support for current operations. In addition, the amount for annual distributions is typically based on a spending policy amount, which is calculated as a percentage of the average market value of the fund for the twenty prior quarters. Historically, the spending policy has been 4-5% of this average value, with a minimum fee of $250. The Board sets the actual spending rate each fall following a recommendation by the Investment Committee. If upon the establishment of a fund, a donor elects to establish a nonpermanent fund, distributions may be made from principal and income. For donor-advised funds, the amount and timing of distributions are based on recommendations from donors.

NOTE 4 – FIXED ASSETS

Fixed assets are composed of the following as of December 31:

	2018	2017
Software	$ 41,031	$ 41,031
Furnishings and equipment	38,400	38,400
Total fixed assets	79,431	79,431
Less accumulated depreciation	78,095	74,030
Fixed assets - net	$ 1,336	$ 5,401

Depreciation expense is $4,065 and $7,001 for the years ending December 31, 2018 and 2017, respectively.

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 December 31st:

2018

	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	$ 1,162,829	$ 1,162,829	$ -	$ -
Certificates of deposit	583,062	583,062	-	-
Equities - mutual funds	3,646,124	3,646,124	-	-
Common stock	17,618,877	17,618,877	-	-
Fixed income	8,898,552	3,744,784	5,153,768	-
Exchange traded funds	1,849,725	1,849,725	-	-
Total	$ 33,759,169	$ 28,605,401	$ 5,153,768	$ -

2017

	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash equivalents	$ 2,106,298	$ 2,106,298	$ -	$ -
Certificates of deposit	334,043	334,043	-	-
Equities - mutual funds	10,264,263	10,264,263	-	-
Common stock	12,399,176	12,399,176	-	-
Fixed income	8,780,945	4,306,374	4,474,571	-
Exchange traded funds	2,232,781	2,232,781	-	-
Total	$ 36,117,506	$ 31,642,935	$ 4,474,571	$ -

NOTE 6 - INVESTMENT RETURN

Investment return on cash equivalents and investments consist of the following for the years ended December 31st:

	2018	2017
Unrealized gains (losses)	$ (4,770,061)	$ 3,793,539
Realized gains (losses)	2,413,385	836,133
Interest and dividends	725,994	798,591
Investment management fees	(194,562)	(181,383)
Total investment return	$ (1,825,244)	$ 5,246,880

Interest and dividends are shown net of investment management and custody fees that were not paid directly to the managers but rather are netted from the return on certain investments. The stock market rout that occurred last December hurt the Foundation's 2018 profits, at least on paper. Since then, the market has rebounded, and we look forward to a robust 2019.

NOTE 7 - NET ASSETS

Net assets consisted of the following at December 31, 2018 and 2017, respectively:

	2018		
	Without donor restrictions	With donor restrictions	Total
Other undesignated funds	$ 402,534	$ -	$ 402,534
Designated operating reserves	455,919	-	455,919
Non-endowed funds subject to variance power	462,192	105	462,297
Invested in fixed assets	1,336	-	1,336
Pledges receivable	-	9,000	9,000
Endowment funds	25,818,557	3,924,022	29,742,579
	$27,140,538	$3,933,127	$31,073,665

	2017		
	Without donor restrictions	With donor restrictions	Total
Other undesignated funds	$ 371,365	$ -	$ 371,365
Designated operating reserves	-	-	-
Non-endowed funds subject to variance power	310,002	(195)	309,807
Invested in fixed assets	5,401	-	5,401
Pledges receivable	-	12,300	12,300
Endowment funds	28,032,575	4,402,533	32,435,108
	$28,719,343	$4,414,638	$33,133,981

NOTE 7 - NET ASSETS (Continued)

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment, which amounted to $697,165 and $374,015 as of December 31, 2018 and 2017, respectively, and other donor created endowments that are subject to both the Foundation's variance power and spending policy.

As of December 31, 2018 and 2017, net assets with donor restrictions included net assets of $1,583,464 and $1,566,722, respectively, consisting of 7 individual endowment funds which must be held by the Foundation in perpetuity. Earnings on perpetual endowment funds with purpose restrictions consist of funds restricted for a variety of uses within and outside Middlesex County, Massachusetts which meet the charitable needs of the community.

In addition, there were net assets with temporary restrictions consisting of temporarily restricted contributions and earnings on perpetual 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

	2018	2017
Cumulative earnings - perpetual endowment funds		
With purpose restrictions	$ (8,196)	$ 23,620
Without purpose restrictions	239,278	470,647
Subtotal	231,082	494,267
Other funds temporarily restricted for purpose	2,109,581	2,341,349
Other funds temporarily restricted for time	9,000	12,300
Total temporarily restricted net assets	$2,349,663	$2,847,916

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Expiration of restrictions	$228,676	$126,801

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Foundation sponsors a tax-sheltered annuity plan for all its employees under Internal Revenue Code Section 403(b). The plan is funded through employee contributions.

The Foundation also maintains a premium pretax salary reduction plan available to all full-time employees. The plan is intended to qualify as a cafeteria plan under Section 125 of the Internal Revenue Code, and benefits provided under the plan are excluded from federal income tax. The Foundation is not required to make any contributions to the plan. The benefits offered are insurance premium benefits for health, other medical expenses and dependent care assistance benefits.

NOTE 9 - ENDOWMENT FUND ACTIVITY

The Foundation's endowment consists of approximately 352 individual funds established for a variety of purposes. Its endowment consists of both donor-restricted endowment funds and funds established by the Board of Directors to function as endowments.

Under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the Board of Directors 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.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

NOTE 9 - ENDOWMENT FUND ACTIVITY (Continued)

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

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 as 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 perpetually restricted contributions, or when there was continued appropriation for certain programs that were deemed prudent by the Board of Directors. As of December 31, 2018 and 2017, the fair value of the underwater endowments was $421,048 and $18,507, respectively, whereas the original endowment gifts were $432,266 and $19,756, respectively. In accordance with GAAP, the resulting deficiencies of $11,218 and $1,249 are reported in net assets with donor restrictions as of December 31, 2018 and 2017, respectively.

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 Directors, the endowment assets are invested in a manner that is intended to produce results that conform to the Total Return Concept while assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide an average rate of return of 8% as measured over a three to five-year period. 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.

NOTE 9 - ENDOWMENT FUND ACTIVITY (Continued)

The Foundation currently has a spending policy of appropriating up to 5% of its endowment fund's average fair value for distribution each year. 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 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.

Endowment net asset composition by fund type as of December 31, 2018 and 2017 was as follows:

	2018		
	Without donor restrictions	With donor restrictions	Total
Donor created funds	$25,121,607	$ 3,924,022	$29,045,629
Board created funds	696,950	-	696,950
	$25,818,557	$ 3,924,022	$29,742,579

	2017		
	Without donor restrictions	With donor restrictions	Total
Donor created funds	$27,658,560	$ 4,402,533	$32,061,093
Board created funds	374,015	-	374,015
	$28,032,575	$ 4,402,533	$32,435,108

NOTE 9 - ENDOWMENT FUND ACTIVITY (Continued)

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are:

	2018 Without donor restrictions	With donor restriction	Total
Endowment net assets, beginning of year	$28,032,575	$ 4,402,533	$32,435,108
Investment return:			
Investment income	2,520,106	352,855	2,872,961
Appreciation/depreciation	(4,022,905)	(655,966)	(4,678,871)
Total investment return	(1,502,799)	(303,111)	(1,805,910)
Contributions,	1,074,594	49,786	1,124,380
Appropriation of assets for expenditure	(1,412,962)	(186,011)	(1,598,973)
Other changes	(372,851)	(39,175)	(412,026)
Endowment net assets, end of year	$25,818,557	$ 3,924,022	$29,742,579

	2017		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$24,541,434	$ 3,652,062	$28,193,496
Investment return:			
Investment income	500,020	92,696	592,716
Appreciation/depreciation	4,069,136	820,102	4,889,238
Total investment return	4,569,156	912,798	5,481,954
Contributions	1,143,612	49,827	1,193,439
Appropriation of assets for expenditure	(1,213,997)	(127,024)	(1,341,021)
Other changes	(1,032,817)	(59,943)	(1,092,760)
Reclassification	25,187	(25,187)	-
Endowment net assets, end of year	$28,032,575	$ 4,402,533	$32,435,108

NOTE 10 - RELATED PARTY ACTIVITY

The Foundation contracts with a local bank to perform investment management services. Certain officers of the bank also serve on the Foundation's Board of Directors. During the year ending December 31, 2018 and 2017, the Foundation paid $71,182 and $64,518, respectively, to the bank in investment management fees.

NOTE 11 - OPERATING LEASE

The Foundation occupies office space in Lowell, MA under an operating lease expiring April 30, 2019. The lease provides for monthly rental payments of $3,119. Rent expense for the years ended December 31, 2018 and 2017 was $39,328 and $36,876, respectively. Subsequent to year end, the Foundation renewed this lease through April 30, 2024. The minimum required lease payments are as follows for fiscal years ending December 31:

2019	$ 12,476

In 2015, the Foundation entered into a sublease which expired February 1, 2017. The sublease continued thereafter on a month to month basis through September 30, 2017 and provided for payments of $2,400 to be received annually which were netted against rent expense.

The Foundation also maintains an operating lease with Xerox to use a copy machine for five years expiring on June 15, 2022. This lease provides for monthly payments of $193. The minimum required lease payments are as follows for the fiscal years ending December 31:

2019	2,310
2020	2,310
2021	2,310
2022	770

NOTE 12 – GRANTS

During the years ended December 31, 2018 and 2017, the Foundation issued total grants of $2,405,175 and $1,393,163, respectively. Only $1,891,064 and $1,291,745, respectively, is reported in program service expenses in the statement of activities. The remaining $514,111 and $101,418, respectively, represent agency endowment grants which are netted with all other agency endowment fund activity and reported in the statement of financial position as Agency endowment fund liability for the years ended December 31, 2018 and 2017.

NOTE 13 – INTERFUND ACTIVITY

Subject to approval by the Board of Directors, advisors to donor advised funds may, at times, recommend a transfer of funds from one named fund to the Foundation's operating fund or another named fund of the Foundation to meet the advisors' philanthropic goals. During the years ended December 31, 2018 and 2017, interfund grants of this type amounting to \$1,798,016 and \$498,512, respectively, were offset by corresponding interfund revenues. All interfund activity is eliminated for financial statement presentation.

NOTE 14 - SUBSEQUENT EVENTS

ASC 855-10, "*Subsequent Events*," defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Foundation's management has evaluated events subsequent to December 31, 2018 through June 13, 2019, which is the date this report was available to be issued. There were no material events noted during this period that would impact the results reflected in this report.