# Permanent Endowment Fund for Martha's Vineyard

Financial Statements
&
Independent Auditor's Report

December 31, 2012 and 2011

**Permanent Endowment Fund for Martha's Vineyard**
**Financial Statements**
**December 31, 2012 and 2011**

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## Independent Auditor's Report

To the Board of Directors of
Permanent Endowment Fund for Martha's Vineyard

We have audited the accompanying financial statements of Permanent Endowment Fund for Martha's Vineyard (a nonprofit Foundation), which comprise the balance sheets as of December 31, 2012 and 2011, 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 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.

AUDIT
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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Permanent Endowment Fund for Martha's Vineyard as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Anstiss + Co., P.C.

Anstiss & Co., P.C.
Lowell, MA
June 28, 2013

**Permanent Endowment Fund for Martha's Vineyard**
**Statements of Financial Position**
**December 31, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 12,335 | $ 43,302 |
| Investments | 7,726,020 | 7,268,243 |
| Unconditional promises to give | 1,000 | - |
| Property and equipment - net | 1,580 | 362 |
| TOTAL ASSETS | $ 7,740,935 | $ 7,311,907 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 21,972 | $ 10,062 |
| TOTAL LIABILITIES | 21,972 | 10,062 |
| NET ASSETS | | |
| Unrestricted | 3,242,581 | 3,023,108 |
| Temporarily restricted | 4,426,382 | 4,228,737 |
| Permanently restricted | 50,000 | 50,000 |
| TOTAL NET ASSETS | 7,718,963 | 7,301,845 |
| TOTAL LIABILITIES AND NET ASSETS | $ 7,740,935 | $ 7,311,907 |

The accompanying notes and auditor's report are an integral part of these financial statements. 

**Permanent Endowment Fund for Martha's Vineyard**
**Statement of Activities**
**For the Year Ended December 31, 2012**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2012 |
|---|---|---|---|---|
| SUPPORT AND REVENUE | | | | |
| Contributions, grants and gifts | $ 196,291 | $ 3,272 | $ - | $ 199,563 |
| Investment income (loss) | 243,763 | 354,141 | - | 597,904 |
| Net assets released from restriction | 159,768 | (159,768) | - | - |
| Total support and revenue | 599,822 | 197,645 | - | 797,467 |
| EXPENSES | | | | |
| Grants and scholarships | 252,152 | - | - | 252,152 |
| Investment management | 57,945 | - | - | 57,945 |
| Administrative expenses | 70,252 | - | - | 70,252 |
| Total expenses | 380,349 | - | - | 380,349 |
| CHANGE IN NET ASSETS | 219,473 | 197,645 | - | 417,118 |
| NET ASSETS AT BEGINNING OF YEAR | 3,023,108 | 4,228,737 | 50,000 | 7,301,845 |
| NET ASSETS AT END OF YEAR | $ 3,242,581 | $ 4,426,382 | $ 50,000 | $ 7,718,963 |

**Permanent Endowment Fund for Martha's Vineyard**
**Statement of Activities**
**For the Year Ended December 31, 2011**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2011 |
|---|---|---|---|---|
| SUPPORT AND REVENUE | | | | |
| Contributions, grants and gifts | $ 215,462 | $ 2,265 | $ - | $ 217,727 |
| Investment income (loss) | 23,396 | 22,170 | - | 45,566 |
| Net assets released from restriction | 173,325 | (173,325) | - | - |
| Total support and revenue | 412,183 | (148,890) | - | 263,293 |
| EXPENSES | | | | |
| Grants and scholarships | 248,808 | - | - | 248,808 |
| Investment management | 35,655 | - | - | 35,655 |
| Administrative expenses | 84,531 | - | - | 84,531 |
| Total expenses | 368,994 | - | - | 368,994 |
| CHANGE IN NET ASSETS | 43,189 | (148,890) | - | (105,701) |
| NET ASSETS AT BEGINNING OF YEAR | 2,979,919 | 4,377,627 | 50,000 | 7,407,546 |
| NET ASSETS AT END OF YEAR | $ 3,023,108 | $ 4,228,737 | $ 50,000 | $ 7,301,845 |

The accompanying notes and auditor's report are an integral part these financial statements.

**Permanent Endowment Fund for Martha's Vineyard**
**Statements of Cash Flows**
**For the Years Ended December 31, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 417,118 | $ (105,701) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 350 | 727 |
| Donated securities | (23,079) | (20,538) |
| (Gain) loss on investments | (380,324) | 142,544 |
| Changes in assets and liabilities | | |
| Increase in unconditional promises to give | (1,000) | - |
| Increase (decrease) in accounts payable and accrued expenses | 11,910 | (11,288) |
| Decrease in grants payable | - | (4,057) |
| Net cash provided by operating activities | 24,975 | 1,687 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,568) | - |
| Purchase of Investments | (3,285,996) | (7,613,305) |
| Sale of investments | 3,231,622 | 7,629,328 |
| Net cash (used) provided by investing activities | (55,942) | 16,023 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (30,967) | 17,710 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 43,302 | 25,592 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 12,335 | $ 43,302 |

| | 2012 | 2011 |
|---|---|---|
| Supplemental cash flow information: | | |
| In-kind contributions | $ 23,079 | $ 20,538 |
| Interest paid | $ - | $ - |
| Taxes paid | $ - | $ - |

The accompanying notes and auditor's report are an integral part of these financial statements.

NOTE 1 –THE ORGANIZATION

Permanent Endowment Fund for Martha's Vineyard (the "PEF" or "Foundation") is a not-for-profit organization established in 1982 as a community foundation located on the island of Martha's Vineyard, Massachusetts. It operates with the responsibility to provide funds to organizations and agencies with the intent of providing benefit to the residents of the communities of Martha's Vineyard. The Board of Directors of the PEF awards grants to public and non-profit organizations that serve Martha's Vineyard as well as scholarships to Vineyard students based on a set of written guidelines.

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 FASB 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.

Temporarily Restricted Net Assets
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 temporarily restricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets
Permanently restricted net assets comprise those assets contributed to the Foundation that are to remain in perpetuity as permanent assets of the Foundation. Generally, all income and unrealized and realized net gains on investments related to these net assets are classified as temporarily restricted and released to unrestricted net assets as the Foundation appropriates its annual spending based on the use of a spending policy. At December 31, 2012 and 2011, the Foundation had permanently restricted net assets of $50,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Investments***
The Board of Directors of the Foundation is responsible for adoption and implementation of prudent investment policies, engagement of investment managers, and oversight and coordination of investment performance of third-party fiduciaries. Payout policies and guidelines on funds administered by the Foundation are determined by the Finance Committee and approved by the Board of Directors. The Foundation invests its assets in a manner designed 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.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. 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 income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the current year change in net assets. Realized and unrealized investment gains and losses are determined by comparison of the difference between market values and average cost. Dividend and interest income is recognized when earned.

***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 as of December 31, 2012 and 2011 were $1,000 and $0, 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 5% applicable to the years in which the promises are to be received.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Property and Equipment***
Capitalized 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 renewals 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 property and equipment under the straight-line method over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Furniture and equipment | 3-5 |
| Website development | 3 |

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.

***In-Kind Contributions***
No amounts have been reflected in the financial statements for donated services, as no objective basis is available to measure the value of such services. In-kind contributions of stock were valued at $23,079 and $20,538 for years ending December 31, 2012 and 2011, respectively.

***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 amounts 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Fair Value of Financial Instruments***
The PEF follows ASC 820-10, *"Fair Value Measurements and Disclosures"*. 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.

FASB 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 Permanent Endowment Fund for Martha's Vineyard 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, unconditional promises to give, accounts payable, and accrued expenses are substantially equivalent to their carrying values as of December 31, 2012 and 2011 because of their relatively short-term nature.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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 PEF 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 - CONCENTRATIONS OF CREDIT RISK

The Foundation places its cash and investments with a high quality financial institution. Such deposits are generally covered by Federal Deposit Insurance Corporation (FDIC) insurance and by state level insurance for balances in excess of FDIC limits. Investments are primarily managed by one institution. The finance committee routinely assesses the financial strength of the institution in order to minimize risk.

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following for the years ended December 31:

| | 2012 | 2011 |
|---|---|---|
| Due within one year | $ 1,000 | $ - |
| | $ 1,000 | $ - |

NOTE 5 – INVESTMENTS AND 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 31, 2012 and 2011:

| | 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 | $ 244,079 | $ 244,079 | $ - | $ - |
| Certificates of Deposit | 120,000 | 120,000 | - | - |
| Equity securities | | | | |
| Basic materials | 662,095 | 662,095 | - | - |
| Conglomerates | - | - | - | - |
| Consumer goods | 399,488 | 399,488 | - | - |
| Financial | 536,863 | 536,863 | - | - |
| Healthcare | 513,638 | 513,638 | - | - |
| Industrial goods | 440,367 | 440,367 | - | - |
| Services | 370,142 | 370,142 | - | - |
| Technology | 940,451 | 940,451 | - | - |
| Utilities | 303,226 | 303,226 | - | - |
| Equity Funds | | | | |
| Foreign | 313,277 | 313,277 | - | - |
| Mid cap | 208,663 | 208,663 | - | - |
| Small Cap | 135,668 | 135,668 | - | - |
| Fixed income securities | | | | |
| Corporate bonds | 1,010,964 | - | 1,010,964 | - |
| Government bonds | - | - | - | - |
| Short term funds | 354,164 | 354,164 | - | - |
| Intermediate funds | 1,172,935 | 1,172,935 | - | - |
| Total | $ 7,726,020 | $ 6,715,056 | $ 1,010,964 | $ - |

NOTE 5 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| | 2011 | | | |
|---|---|---|---|---|
| | Total | Quoted prices in active markets for identical assets Level 1 | Significant other observable inputs Level 2 | Significant unobservable inputs Level 3 |
| Cash equivalents | $ 938,848 | $ 938,848 | $ - | $ - |
| Equity securities | | | | |
| Basic materials | 751,098 | 751,098 | - | - |
| Conglomerates | 130,513 | 130,513 | - | - |
| Consumer goods | 345,518 | 345,518 | - | - |
| Financial | 645,413 | 645,413 | - | - |
| Healthcare | 329,106 | 329,106 | - | - |
| Industrial goods | 262,096 | 262,096 | - | - |
| Services | 447,267 | 447,267 | - | - |
| Technology | 816,871 | 816,871 | - | - |
| Utilities | 127,655 | 127,655 | - | - |
| Equity Funds | | | | |
| Foreign | 316,668 | 316,668 | - | - |
| Mid cap | 138,585 | 138,585 | - | - |
| Small Cap | 136,953 | 136,953 | - | - |
| Fixed income securities | | | | |
| Corporate bonds | 632,581 | - | 632,581 | - |
| Government bonds | 80,356 | - | 80,356 | - |
| Short term funds | 380,527 | 380,527 | - | - |
| Intermediate funds | 788,188 | 788,188 | - | - |
| Total | $ 7,268,243 | $ 6,555,306 | $ 712,937 | $ - |

NOTE 6 – INVESTMENT RETURN

Investment return consisted of the following for the years ended December 31:

| | 2012 | 2011 |
|---|---|---|
| Interest and dividends | $ 217,580 | $ 188,110 |
| Realized (loss) gain | (61,583) | 510,518 |
| Unrealized gain (loss) | 441,907 | (653,062) |
| | $ 597,904 | $ 45,566 |

Investment custodial fees paid directly to the investment managers were included in investment management expenses. These amounts were $57,945 and $35,656 for the years ended December 31, 2012 and 2011, respectively. There were additional investment fees that were not paid directly to the managers but rather are netted from the return on certain investments.

NOTE 7 – PROPERTY AND EQUIPMENT

Depreciation expense was $350 and $727 for years ending December 31, 2012 and 2011, respectively.

Property and Equipment is composed of the following as of December 31:

| | 2012 | 2011 |
|---|---|---|
| Furniture and equipment | $ 4,767 | $ 3,199 |
| Website development | 9,163 | 9,163 |
| Total property and equipment | 13,930 | 12,362 |
| Less accumulated depreciation | 12,350 | 12,000 |
| Property and equipment - net | $ 1,580 | $ 362 |

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2012 and 2011, temporarily restricted net assets of $4,426,382 and $4,228,737 represent donations received from various entities that are primarily restricted as to purpose.

NOTE 9 – ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 24 individual funds established for a variety of purposes. Its endowment funds consist of both donor restricted funds and funds established by the Board of Directors to function as endowments.

NOTE 9 – ENDOWMENT FUNDS (continued)

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were \$3,280 and \$6,231 as of December 31, 2012 and 2011. These deficiencies can result from unfavorable market fluctuations that occur in newer endowment funds, shortly after the investment of new permanently restricted contributions and when there was continued appropriation for certain programs that were deemed prudent by the Board of Directors.

NOTE 9 – ENDOWMENT FUNDS (continued)

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Directors, 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 an average rate of return of 5% or more over the rate of inflation, defined as the Consumer Price Index, as measured over a 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.

The Foundation has a spending policy of appropriating for distribution each year from 2.25 to 5.5 percent, net of investment management fees, 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 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. Net asset composition by endowment fund type as of December 31, 2012 and 2011 was:

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor created endowments | $1,742,020 | $4,423,756 | $50,000 | $6,215,776 |
| Board created endowments | 1,331,660 | - | - | 1,331,660 |
| Total | $3,073,680 | $4,423,756 | $50,000 | $7,547,436 |

NOTE 9 – ENDOWMENT FUNDS (continued)

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor created endowments | $1,633,173 | $4,227,112 | $50,000 | $5,910,285 |
| Board created endowments | 1,240,286 | - | - | 1,240,286 |
| Total | $2,873,459 | $4,227,112 | $50,000 | $7,150,571 |

Changes in endowment net assets for the year ended December 31, 2012 were as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $2,873,459 | $4,227,112 | $50,000 | $7,150,571 |
| Investment return: | | | | |
| Investment income | 57,250 | 98,436 | - | 155,686 |
| Appreciation/depreciation | 183,949 | 255,704 | - | 439,653 |
| Total investment return | 241,199 | 354,140 | - | 595,339 |
| Contributions | 102,786 | 2,272 | - | 105,058 |
| Appropriation of assets for expenditure | (94,211) | (88,874) | - | (183,085) |
| Other changes | (49,553) | (70,894) | - | (120,447) |
| Endowment net assets, end of year | $3,073,680 | $4,423,756 | $50,000 | $7,547,436 |

NOTE 10 – SUBSEQUENT EVENTS

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 December 31, 2012 through June 28, 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.