The Erie Community Foundation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018 and 2017

BKD LLP
CPAs & Advisors

The Erie Community Foundation

December 31, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
The Erie Community Foundation
Erie, Pennsylvania

We have audited the accompanying consolidated financial statements of The Erie Community Foundation (Foundation) and its affiliated organizations (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Erie Community Foundation and its affiliated organizations as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As described in Note 13 to the consolidated financial statements, in 2018, the Foundation and affiliated organizations adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Erie, Pennsylvania
October 28, 2019

The Erie Community Foundation

Consolidated Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 2,936,853	$ 5,800,021
Investments	241,432,615	249,692,043
Other investments - deferred compensation	353,198	359,179
Accrued interest income	54,495	57,763
Contributions receivable	10,000	30,775
Beneficial interests in trusts	390,703	479,734
Other assets	422,153	460,624
Property and equipment, net	2,521,296	2,624,648
Total assets	$ 248,121,313	$ 259,504,787
Liabilities and Net Assets		
Liabilities		
Grants payable	$ 4,333,312	$ 2,078,576
Accounts payable and accrued expenses	484,587	478,985
Note payable	-	62,237
Annuity obligations	1,728,000	1,880,102
Amounts held for others	51,678,395	58,216,839
Total liabilities	58,224,294	62,716,739
Net Assets		
Without donor restrictions	189,607,712	196,196,594
With donor restrictions	289,307	591,454
Total net assets	189,897,019	196,788,048
Total liabilities and net assets	$ 248,121,313	$ 259,504,787

The Erie Community Foundation
Consolidated Statement of Activities
Year Ended December 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Public support and revenue	$ 23,746,117	$ -	$ 23,746,117
Administrative revenue from funds	289,165	-	289,165
Grant and other revenue	26,877	-	26,877
Change in value of split interest agreements	(24,720)	(226,386)	(251,106)
Net realized and unrealized (loss) on investments	(13,239,722)	(22,707)	(13,262,429)
Investment income, net of fees of $1,050,614	1,726,689	1,667	1,728,356
Total revenues, gains and other support	12,524,406	(247,426)	12,276,980
Net Assets Released Resulting From Satisfaction of Restrictions	54,721	(54,721)	-
Expenses			
Grants awarded	16,939,418	-	16,939,418
Other program expenses	965,386	-	965,386
Total program expenses	17,904,804	-	17,904,804
Management and general	672,499	-	672,499
Development and fundraising	590,706	-	590,706
Total supporting services	1,263,205	-	1,263,205
Total expenses	19,168,009	-	19,168,009
Change in Net Assets	(6,588,882)	(302,147)	(6,891,029)
Net Assets, Beginning of Year	196,196,594	591,454	196,788,048
Net Assets, End of Year	$ 189,607,712	$ 289,307	$ 189,897,019

The Erie Community Foundation

Consolidated Statement of Activities

Year Ended December 31, 2017

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Public support and revenue	$ 26,027,619	$ -	$ 26,027,619
Administrative revenue from funds	292,985	-	292,985
Grant and other revenue	353,133	-	353,133
Change in value of split interest agreements	(2,159)	143,621	141,462
Net realized and unrealized gains on investments	23,357,732	39,729	23,397,461
Investment income, net of fees of $959,248	1,773,178	8,852	1,782,030
Total revenues, gains and other support	51,802,488	192,202	51,994,690
Net Assets Released Resulting From Satisfaction of Restrictions	648	(648)	-
Expenses			
Grants awarded	10,753,660	-	10,753,660
Other program expenses	1,212,473	-	1,212,473
Total program expenses	11,966,133	-	11,966,133
Management and general	782,111	-	782,111
Development and fundraising	519,782	-	519,782
Total supporting services	1,301,893	-	1,301,893
Total expenses	13,268,026	-	13,268,026
Change in Net Assets	38,535,110	191,554	38,726,664
Net Assets, Beginning of Year	157,661,484	399,900	158,061,384
Net Assets, End of Year	$ 196,196,594	$ 591,454	$ 196,788,048

The Erie Community Foundation

Consolidated Statements of Functional Expenses

Years Ended December 31, 2018 and 2017

	2018				2017			
	Program Expenses	Management and General	Development and Fundraising	Total	Program Expenses	Management and General	Development and Fundraising	Total
Grants awarded	$ 16,939,418	$ -	$ -	$ 16,939,418	$ 10,753,660	$ -	$ -	$ 10,753,660
Salaries	446,088	361,982	304,645	1,112,715	435,969	344,031	247,555	1,027,555
Payroll taxes	30,975	24,902	21,387	77,264	31,882	25,376	17,865	75,123
Employee benefits	92,881	74,671	64,129	231,681	100,620	80,088	56,379	237,087
Professional services	32,964	31,314	32,320	96,598	177,540	121,876	11,267	310,683
Rent and occupancy	24,595	19,773	16,982	61,350	23,949	19,062	13,419	56,430
Equipment purchased/rental								-
and maintenance	34,275	23,752	20,645	78,672	31,759	35,541	17,333	84,633
Office supplies and expense	11,535	9,342	8,718	29,595	10,735	14,629	6,015	31,379
Marketing	48,338	48,818	50,975	148,131	44,818	44,087	59,836	148,741
Meetings and conferences	37,220	18,918	20,694	76,832	28,165	22,418	43,469	94,052
Professional development	10,734	8,630	7,411	26,775	9,741	7,753	5,458	22,952
Dues and subscriptions	6,643	5,586	4,840	17,069	5,445	4,734	3,052	13,231
Insurances	14,783	11,884	10,206	36,873	15,673	12,475	8,783	36,931
Vehicle costs	2,700	600	2,700	6,000	2,700	600	2,700	6,000
Interest	-	3,155	-	3,155	-	10,175	-	10,175
Depreciation	171,655	29,172	25,054	225,881	166,986	37,858	26,651	231,495
Loss on impairment	-	-	-	-	126,491	-	-	126,491
Miscellaneous expense	-	-	-	-	-	1,408	-	1,408
Total	$ 17,904,804	$ 672,499	$ 590,706	$ 19,168,009	$ 11,966,133	$ 782,111	$ 519,782	$ 13,268,026

The Erie Community Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ (6,891,029)	$ 38,726,664
Items not requiring (providing) cash		
Depreciation	225,881	231,495
Net realized and unrealized gains (losses) on investments	13,262,429	(23,397,461)
Donated securities	(5,370,947)	(8,663,902)
Loss on impairment of long-lived assets	-	126,491
Changes in split interest agreements	206,601	104,329
Changes in		
Accrued interest income	3,268	(32,228)
Contributions receivable	20,775	620,354
Other assets	38,471	56,468
Accounts payable, accrued expenses and grants payable	2,260,338	(2,555,452)
Net cash provided by operating activities	3,755,787	5,216,758
Investing Activities		
Purchase of investments	(66,591,278)	(79,957,252)
Proceeds from sale of investments	66,965,205	77,485,372
Purchase of property and equipment	(122,529)	(529,344)
Net cash provided by (used in) investing activities	251,398	(3,001,224)
Financing Activities		
Principal payments on long-term debt	(62,237)	(121,707)
Payments on annuity obligations	(269,672)	(255,489)
Change in amounts held for others	(6,538,444)	1,461,957
Net cash provided by (used in) financing activities	(6,870,353)	1,084,761
Net Increase (Decrease) in Cash and Cash Equivalents	(2,863,168)	3,300,295
Cash and Cash Equivalents, Beginning of Year	5,800,021	2,499,726
Cash and Cash Equivalents, End of Year	$ 2,936,853	$ 5,800,021
Supplemental Cash Flows Information		
Interest paid	$ 3,155	$ 10,175

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Erie Community Foundation (Foundation) is a public charity primarily serving donors and the nonprofit sector in Erie County, Pennsylvania. The Foundation encourages the establishment of new charitable endowment funds and provides competitive, donor-advised/designated and scholarship grants to arts and culture, community development, education, health, neighborhood revitalization and human service organizations. The Foundation also provides a donor education program. Substantially all contributions received are from individuals with ties to Erie County.

Principles of Consolidation

The Foundation coordinates and controls the activity of two affiliated organizations and one supporting organization; The Corry Community Foundation, The North East Community Foundation, and The Union City Community Foundation. The consolidated financial statements include the financial transactions of the Foundation and these organizations. All material inter and intra-organizational accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There are no perpetually restricted net assets.

Donors may restrict contributions for certain beneficiaries. However, the Foundation has “variance power” over these net assets and, accordingly, they are presented as net assets without donor restrictions. The Foundation abides by donor intentions; however, it can modify donor intent when any restriction or conditions are unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market funds.

At December 31, 2018, the Foundation's cash accounts exceeded federally insured limits by $2,029,782.

Investments and Net Investment Return

Investments in equity securities having readily determinable fair values and in all debt securities are carried at fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments.

The Foundation invests in certain private equity, hedge funds, real estate and natural resource funds, which are primarily held through limited partnerships. The estimated fair values of these limited partnership investments are based on valuations provided by the external investment managers or general partners, adjusted for cash receipts, disbursements and significant known valuation changes. The Foundation believes the carrying values of these investments are a reasonable estimate of fair value. Because these investments are not readily marketable and may be subject to withdrawal restrictions, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for certain of its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts. The amounts held for others are also a component of the pooled investment fund and reflect the funds held by the Foundation for the benefit of outside parties.

Property and Equipment

Property and equipment acquisitions over $500 are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. The estimated useful lives of the assets are as follows:

	Years
Land improvements	10 - 20
Buildings	40
Building improvements	10 - 20
Furniture and fixtures	5 - 20
Computer software	3

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value.

An impairment loss of $126,491 was recognized for the purchase and demolition of a building, during the year ended December 31, 2017. The loss is included under other program services in the accompanying statements of activities. No asset impairment was recognized during the year ended December 31, 2018.

Grants Payable

Grants that are not paid in the year of award are shown as grants payable at year end and are typically paid in the subsequent year.

Amounts Held for Others

The Foundation occasionally receives contributions from other unrelated not-for-profit organizations in which the donor organization specifies itself as the beneficiary of the fund. In such instances, the Foundation records the contributed assets and any accumulated investment earnings as a liability on the consolidated statements of financial position.

	2018	2017
Balance, January 1	$ 58,216,839	$ 56,754,882
Additions	1,416,458	4,968,945
Net investment income (loss), net of investment fees	(2,874,967)	8,668,685
Expenses	(289,717)	(291,040)
Withdrawals	(4,790,218)	(11,884,633)
Balance, December 31	$ 51,678,395	$ 58,216,839

Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.* the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Resources are classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. The Foundation reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets to a specific time period or purpose.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Contributed Services

The Trustees of the Foundation and other volunteers have made contributions of their time to the development of the Foundation's growth, principally in the solicitation of donors and management of investment portfolios. The value of this contributed time is not reflected in these statements.

Income Taxes

All of the aforementioned entities are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, all entities are subject to federal income tax on any unrelated business taxable income.

The Foundation and its related entities file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2015.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, grant, administrative and development expense categories based on time and effort and other methods.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks and values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Cash and money market funds	$ 7,674,666	$ 7,674,666	$ -	$ -
Common stocks	19,987,751	19,987,751	-	-
Mutual funds	73,766,318	73,766,318	-	-
Common trust funds	33,364,050	-	33,364,050	-
Total investments at fair value	134,792,785	$ 101,428,735	$ 33,364,050	$ -
Alternative investments measured at net asset value (A)	106,639,830			
Total investments	$ 241,432,615			
Other investments				
Cash and money market funds	$ 26,316	$ 26,316	$ -	$ -
Common stock	4,386	4,386	-	-
Mutual funds	322,496	322,496	-	-
Total other investments at fair value	$ 353,198	$ 353,198	$ -	$ -
Beneficial interests in trusts	$ 390,703	$ -	$ -	$ 390,703

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Cash and money market funds	$ 11,491,332	$ 11,491,332	$ -	$ -
Common stocks	13,494,717	13,494,717	-	-
Mutual funds	111,759,894	111,759,894	-	-
Common trust funds	35,702,331	-	35,702,331	-
Total investments at fair value	172,448,274	$ 136,745,943	$ 35,702,331	$ -
Alternative investments measured at net asset value (A)	77,243,769			
Total investments	$ 249,692,043			
Other investments				
Cash and money market funds	$ 3,679	$ 3,679	$ -	$ -
Common stock	4,300	4,300	-	-
Mutual funds	351,200	351,200	-	-
Total other investments at fair value	$ 359,179	$ 359,179	$ -	$ -
Beneficial interests in trusts	$ 479,734	$ -	$ -	$ 479,734

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Alternative Investments

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Private equity (A)	$ 32,404,527	$ 17,330,383	N/A	N/A
International equity (B)	18,511,231	-	Daily/Monthly	30 days
Real assets (C)	22,291,879	16,019,957	Monthly	30 days
Absolute return (D)	13,891,189	-	Monthly/Quarterly	30/65 days
Hedge equity (E)	19,541,004	-	Monthly	30 days
	$ 106,639,830	$ 33,350,340		

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Private equity (A)	$ 17,541,691	$ 20,942,358	N/A	N/A
International equity (B)	17,115,436	-	Daily/Monthly	30 days
Real assets (C)	19,772,807	14,338,107	Monthly	30 days
Absolute return (D)	11,455,083	-	Monthly/Quarterly	30/65 days
Hedge equity (E)	11,358,752	-	Monthly	30 days
	$ 77,243,769	$ 35,280,465		

(A) The investment objective for private equity is long-term capital appreciation in excess of what is available in the public markets. Private equity funds generally hold illiquid debt and equity securities of public and/or privately held companies. This asset class includes venture capital, secondary, mezzanine, buyout, and distressed funds.

(B) The investment objective for international equity includes investing in debt or equity securities of primarily international companies at various stages within their life cycle. The partnerships are either direct, fund of funds or secondary issuances across multiple strategies expected to significantly exceed performance of traditional equity indices. It is estimated that the underlying assets of the fund will be liquidated over the next two to seven years. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Foundation's ownership interest in partners' capital.

(C) The investment objective for real assets is long-term capital appreciation with an additional benefit of the potential to provide protection against inflation. Real assets include liquid and illiquid investments in funds that own real estate, commodities, oil and gas, natural resources, inflation-protected fixed income securities, and other assets.

(D) The investment objective for absolute return funds is long-term capital appreciation with less volatility and/or returns that are less correlated to the equity markets. Absolute return funds may include investment strategies in which some of the underlying securities may trade privately rather than on public exchanges. This asset class includes a variety of active strategies, including arbitrage, event-driven, market neutral, and distressed investing.

(E) The investment objective for hedged equity is long-term capital appreciation with low volatility. Hedged equity funds include investment strategies where the majority of the underlying securities are traded on public exchanges. Managers in this class can be long or short equities and utilize options, futures, and other derivatives.

At December 31, 2018 and 2017, the Foundation's investments in certain alternative investments are subject to various withdrawal restrictions that impact the liquidity of the investments.

Investments that are available for redemption may be redeemed by the Foundation generally with 60- to 100-day advance notice on a semi-annual or annual basis subject to the terms of the investment agreement. Investments that can be redeemed on a semi-annual basis are restricted to redemption of up to 25% of the investment as of June 30th of any fiscal year, and all or any portion of the investment as of the last day of the fiscal year.

Investments subject to distribution cannot be redeemed by the Foundation, but rather will be distributed by the investment fund upon the liquidation of the underlying assets of the fund or limited partnership. Distributions are generally expected, but not guaranteed, over the next one to twelve years.

Beneficial Interests in Trusts

These investments consist of the Foundation's estimated portion of trusts of which it is named as a beneficiary. These investments are valued based upon the expected present value of cash flows. These investments are classified as Level 3, based upon the significant estimates used in calculating present value.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated statements of financial position at amounts other than fair value.

Cash and Cash Equivalents: The carrying value approximates fair value.

Contributions Receivable: The carrying value approximates fair value, which is estimated using a discounted cash flow model.

Accrued Interest Income: The carrying value approximates fair value.

Grants Payable: The carrying value approximates fair value, which is estimated using a discounted cash flow model.

Note Payable: The carrying value approximates fair value.

Annuity Obligations: The carrying value approximates fair value, which is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

Amounts Held for Others: The carrying amount approximates fair value.

Note 3: Net Assets

A description of the Foundation's net asset categories follows.

i. Without Donor Restriction:

Discretionary – Funds in which the Board has full discretion with no donor stipulations.

Donor Advised – Donor established funds whereby the donor suggests specific organizations to benefit. Such donor recommendations are not binding on the Foundation, but are taken into consideration when making grants.

Donor Designated – Funds in which the donor has named recipients to receive funds for a particular charitable purpose over a specified period of time. Such designations are not binding on the Foundation, but are taken into consideration when making grants. Upon completion of the particular charitable purpose over a specified period of time, the Fund may be reclassified.

Field of Interest – Funds which benefit charitable organizations within a specific field (e.g. health care).

Geographic – Funds which benefit a specific geographic area, generally within Erie County.

Scholarship Funds – Funds in which the donor has designated distributions for scholarship recipients. Such designations are not binding on the Foundation, but are taken into consideration when making scholarship awards.

ii. With Donor Restriction:

Annuities and Trusts – These net assets are from charitable remainder and lead trusts and annuities in which the Foundation is the trustee and are restricted due to time restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31 have been designated for the following purposes:

	2018	2017
Program Support	$ 65,560,566	$ 69,635,718
Designated		
Donor advised	54,803,196	56,461,761
Donor designated	47,862,056	48,840,096
Field of interest	2,543,766	638,298
Geographic	2,003,519	2,234,105
Scholarship	16,834,609	18,386,616
	124,047,146	126,560,876
Net assets without donor restrictions	$ 189,607,712	$ 196,196,594

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes:

	2018	2017
Beneficial interest in charitable trusts held by others	$ 289,307	$ 591,454

Note 4: Endowments

The Foundation's endowments consist of over 700 individual funds established for a variety of purposes. The endowment includes both funds established by donors and funds designated by the Board to function as endowments (board-designated endowment funds). The Foundation maintains variance power over all of the endowment funds (including those established by donors) as provided within the fund agreements. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

While the Foundation ultimately has variance power over all of the assets maintained in endowment funds, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). 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 adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment, while seeking to maintain the purchasing power of the endowment. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed each investment strategy's respective index, while assuming a moderate level of investment risk.

The primary investment objective of the Foundation is to achieve an annualized total return (net of fees and expenses), equal to or greater than the rate of inflation plus any spending and administrative expenses thus, at a minimum, maintaining the purchasing power of the funds. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending. Actual returns in any given year may vary from this amount.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 4% of its endowment funds (generally a 20-quarter rolling average of market value, adjusted to reflect material net cash flows) plus annual administrative costs. 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 at a consistent rate annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

At December 31, 2018 and 2017, substantially all of the net assets of the Foundation consist of the endowment funds. The activity of the endowment funds is substantially represented by the consolidated statements of activities.

At December 31, 2018 and 2017, the Foundation's endowment funds without donor restriction were $189,607,712 and $196,196,594, respectively.

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

	Without Donor Restriction	
	2018	**2017**
Endowment Net Assets, Beginning of Year	$ 196,196,594	$ 157,661,484
Investment return		
Investment income, net of fees	1,726,689	1,773,178
Net appreciation (depreciation)	(13,239,722)	23,357,732
Total investment return	(11,513,033)	25,130,910
Contributions	23,746,117	26,027,619
Appropriation of endowment assets for expenditure	(18,821,966)	(12,623,419)
Endowment Net Assets, End of Year	$ 189,607,712	$ 196,196,594

Note 5: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 and 2017, comprise the following:

	2018	2017
Cash and cash equivalents	$ 2,936,853	$ 5,800,021
Short-term investments	7,674,666	11,491,332
Payout on quasi-endowments for use over next 12 months	9,235,574	8,508,297
	$ 19,847,093	$ 25,799,650

The endowment includes both funds established by donors and funds designated by the Board to function as endowments (board-designated endowment funds). Donor-restricted endowment funds are not available for general expenditure. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use.

The board-designated endowment of $189,607,712 is subject to an annual spending rate of 4 percent as described in Note 4. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Foundation's Board annual budget approval and appropriation), these amounts could be made available if necessary. To help manage unanticipated liquidity needs, the Foundation has access to its line of credit, which it could draw upon. See Note 10 for further information.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation evaluates its future cash flows and monitors its liquidity and reserves regularly.

Note 6: Property and Equipment

Property and equipment at December 31 consists of:

	2018	2017
Land and land improvements	$ 509,963	$ 436,401
Buildings	285,866	285,866
Building improvements	2,179,397	2,157,605
Furniture and fixtures	887,650	875,861
Computer software	48,455	48,455
	3,911,331	3,804,188
Less accumulated depreciation	1,390,035	1,179,540
	$ 2,521,296	$ 2,624,648

Note 7: Grants Payable

As of December 31, 2018 and 2017, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of $4,333,312 and $2,078,576, respectively. Grant activities detailed during the years are as follows:

	2018	2017
Grants payable, beginning of year	$ 2,078,576	$ 4,321,547
Grants paid	14,684,682	12,996,631
Grants approved	16,939,418	10,753,660
Grants payable, end of year	$ 4,333,312	$ 2,078,576

Future maturities of grants payable are as follows:

2019	$ 3,865,084
2020	438,228
2021	30,000
Total grants payable	$ 4,333,312

Note 8: Split-Interest Agreements

Assets Held and Annuity Obligations

The Foundation administers various charitable remainder trusts and gift annuities. These trusts and annuities provide for the payment of distributions to the grantor or other designated beneficiaries over the trust or annuity terms (usually the designated beneficiary's lifetime). At the end of the term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the consolidated statements of activities as a contribution with donor restriction in the period the trust or annuity is established. There were no contributions received in 2018 or 2017. Assets held in these trusts totaled $2,017,307 and $2,471,556 at December 31, 2018 and 2017, respectively, and are reported in investments in the consolidated statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates of 1.2% to 8.0% and applicable mortality tables. The annuity obligation at December 31, 2018 and 2017 is estimated to be $1,728,000 and $1,880,102, respectively.

Beneficial Interests in Trusts

The Foundation is also the beneficiary of charitable remainder and lead trusts, where the Foundation does not hold the trust assets. For these trusts, the Foundation records an estimated fair value amount for these beneficial interests equal to the present value of estimated expected cash flows to be received. The estimated value of the beneficial interests totaled $390,703 and $479,734 as of December 31, 2018 and 2017, respectively. The increase (decrease) in value of these trusts for 2018 and 2017 was ($89,031) and $45,712, respectively.

Note 9: Retirement and Deferred Compensation Plans

The Foundation has a 401(k) retirement plan covering substantially all employees. The Foundation's contributions to the plan are determined annually by the Board of Trustees. Contributions to this plan were $73,088 and $58,169 for 2018 and 2017, respectively.

The Foundation established a deferred compensation plan for the Foundation's president during 2004. The liability of $353,198 and $359,179 at December 31, 2018 and 2017, respectively, is included in accounts payable and accrued expenses.

Note 10: Note Payable

In 2008, the Foundation obtained a note payable with PNC Bank in the amount of $1,000,000 (for the purchase and renovations of the Foundation's home office), with a fixed interest rate of 5.11% per annum and a monthly payment of $10,662. The loan was collateralized by the PNC Mutual Funds Investment Account, with a current market value of approximately $69,500,000. Principal outstanding at December 31, 2017 was $62,237. This note was paid off during 2018.

In August 2016, the Foundation entered into a revolving line of credit ("Revolver") with Marquette Savings Bank. The Revolver provides for maximum borrowings up to $1,000,000 and bears interest at the bank's prime rate (5.50% at December 31, 2018) less 1.00%. At December 31, 2018, the amount outstanding on the Revolver was $0. The Revolver is collateralized by the Northwest Savings Bank Investment AIMS Account, with a current market value of approximately $4,000,000.

Note 11: Commitments

As of December 31, 2018, the Foundation has commitments to invest approximately $139,990,170 in thirty-eight private equity funds. As of December 31, 2018, the Foundation made capital contributions of $106,639,830, leaving a remaining commitment of $33,350,340.

As of December 31, 2017, the Foundation had commitments to invest approximately $86,270,475 in thirty private equity funds. As of December 31, 2017, the Foundation made capital contributions of $48,831,420, leaving a remaining commitment of $37,439,055.

Note 12: Litigation

The Foundation is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, change in net assets and cash flows of the Foundation. Events could occur that would change this estimate materially in the near term.

Note 13: Changes in Accounting Principles

In 2018, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Consolidated Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Consolidated Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.
- Expenses are reported by both nature and function in one location.

Notes to the Consolidated Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position (Note 5).
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

Additionally, in 2018, the Foundation early adopted *ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This change eliminated certain Level 3 disclosure requirements for fair value measurements previously included in the fair value disclosure of the financial statements. This change had no impact on previously reported total change in net assets.

Note 14: Subsequent Events

Subsequent events have been evaluated through October 28, 2019, which is the date the consolidated financial statements were available to be issued.

Note 15: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This standard replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities. The Foundation is in the process of evaluating the impact the standard will have on the financial statements.