



# The Erie Community Foundation

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

**THE ERIE COMMUNITY FOUNDATION**  
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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, 2020 and 2019, 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, 2020 and 2019, 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.

*McGill, Power, Bell & Associates, LLP*

McGill, Power, Bell & Associates, LLP  
Erie, Pennsylvania  
October 6, 2021

## **CONSOLIDATED FINANCIAL STATEMENTS**

**THE ERIE COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 4,702,455	\$ 2,990,946
Investments	305,993,227	279,676,817
Program Related Investments	3,700,000	-
Other Investments - Deferred Compensation	479,754	432,672
Beneficial Interests in Trusts	2,894,009	447,349
Other Assets	461,030	482,833
Property Held for Rental and Investment, Net	2,182,487	-
Property and Equipment, Net	<u>2,915,744</u>	<u>2,549,093</u>
<b>TOTAL ASSETS</b>	<u>\$ 323,328,706</u>	<u>\$ 286,579,710</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Grants Payable	\$ 1,915,265	\$ 5,239,875
Accounts Payable and Accrued Expenses	735,739	560,535
Annuity Obligations	1,666,722	1,704,291
Amounts Held for Others	<u>63,148,079</u>	<u>58,687,112</u>
<b>TOTAL LIABILITIES</b>	<u>67,465,805</u>	<u>66,191,813</u>
<b>Net Assets</b>		
Without Donor Restrictions	252,918,917	219,911,306
With Donor Restrictions	<u>2,943,984</u>	<u>476,591</u>
<b>TOTAL NET ASSETS</b>	<u>255,862,901</u>	<u>220,387,897</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 323,328,706</u>	<u>\$ 286,579,710</u>

See notes to consolidated financial statements.

**THE ERIE COMMUNITY FOUNDATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Public Support and Revenue	\$ 22,902,469	\$ 2,389,677	\$ 25,292,146
Administrative Revenue from Funds	318,152	-	318,152
Change in Value of Split Interest Agreements	10,288	46,833	57,121
Net Realized and Unrealized Gains on Investments	25,359,333	24,943	25,384,276
Investment Income, Net of Fees of \$1,334,311	1,103,701	5,940	1,109,641
Other Revenue	38,152	-	38,152
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>49,732,095</b>	<b>2,467,393</b>	<b>52,199,488</b>
<b>EXPENSES</b>			
Grants Awarded	13,876,409	-	13,876,409
Other Program Expenses	1,386,650	-	1,386,650
<b>TOTAL PROGRAM EXPENSES</b>	<b>15,263,059</b>	<b>-</b>	<b>15,263,059</b>
Management and General	768,276	-	768,276
Development and Fundraising	693,149	-	693,149
<b>TOTAL SUPPORTING SERVICES</b>	<b>1,461,425</b>	<b>-</b>	<b>1,461,425</b>
<b>TOTAL EXPENSES</b>	<b>16,724,484</b>	<b>-</b>	<b>16,724,484</b>
<b>CHANGE IN NET ASSETS</b>	<b>33,007,611</b>	<b>2,467,393</b>	<b>35,475,004</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>219,911,306</b>	<b>476,591</b>	<b>220,387,897</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 252,918,917</b>	<b>\$ 2,943,984</b>	<b>\$ 255,862,901</b>

See notes to consolidated financial statements.

**THE ERIE COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Public Support and Revenue	\$ 19,895,256	\$ -	\$ 19,895,256
Administrative Revenue from Funds	277,879	-	277,879
Change in Value of Split Interest Agreements	19,079	210,415	229,494
Net Realized and Unrealized Gains on Investments	29,882,078	45,791	29,927,869
Investment Income, Net of Fees of \$1,231,423	1,749,727	11,884	1,761,611
Other Revenue	168,975	-	168,975
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<u>51,992,994</u>	<u>268,090</u>	<u>52,261,084</u>
<b>NET ASSETS RELEASED RESULTING FROM SATISFACTION OF RESTRICTIONS</b>	<u>80,806</u>	<u>(80,806)</u>	<u>-</u>
<b>EXPENSES</b>			
Grants Awarded	19,234,016	-	19,234,016
Other Program Expenses	1,073,245	-	1,073,245
<b>TOTAL PROGRAM EXPENSES</b>	<u>20,307,261</u>	<u>-</u>	<u>20,307,261</u>
Management and General	741,022	-	741,022
Development and Fundraising	721,923	-	721,923
<b>TOTAL SUPPORTING SERVICES</b>	<u>1,462,945</u>	<u>-</u>	<u>1,462,945</u>
<b>TOTAL EXPENSES</b>	<u>21,770,206</u>	<u>-</u>	<u>21,770,206</u>
<b>CHANGE IN NET ASSETS</b>	30,303,594	187,284	30,490,878
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>189,607,712</u>	<u>289,307</u>	<u>189,897,019</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 219,911,306</u>	<u>\$ 476,591</u>	<u>\$ 220,387,897</u>

See notes to consolidated financial statements.



**THE ERIE COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020				2019			
	Program Expenses	Management & General	Development & Fundraising	Total	Program Expenses	Management & General	Development & Fundraising	Total
Grants Awarded	\$ 13,876,409	\$ -	\$ -	\$ 13,876,409	\$ 19,234,016	\$ -	\$ -	\$ 19,234,016
Salaries	521,241	395,722	356,619	1,273,582	491,663	396,497	347,130	1,235,290
Payroll Taxes	35,363	27,368	22,119	84,850	34,403	28,191	22,721	85,315
Employee Benefits	131,558	98,227	118,530	348,315	141,456	100,144	129,447	371,047
Professional Services	337,371	84,955	54,300	476,626	56,255	37,698	33,740	127,693
Rent and Occupancy	26,921	24,430	14,891	66,242	22,250	20,833	16,297	59,380
Vehicle Costs	3,120	1,561	3,120	7,801	3,102	1,551	3,101	7,754
Equipment Purchased/Rental and Maintenance	63,123	29,806	27,236	120,165	36,054	26,573	25,864	88,491
Office Supplies and Expense	10,438	9,788	8,703	28,929	12,610	10,714	11,010	34,334
Marketing	34,057	34,665	37,684	106,406	53,744	55,140	60,796	169,680
Meetings and Conferences	22,573	16,305	14,793	53,671	28,836	16,586	29,031	74,453
Professional Development	1,595	1,211	1,091	3,897	7,998	6,357	6,152	20,507
Dues and Subscriptions	6,293	4,925	4,458	15,676	5,488	5,907	5,777	17,172
Insurances	27,283	13,001	11,716	52,000	14,933	11,870	11,487	38,290
Interest	-	-	-	-	-	500	-	500
Depreciation	165,714	26,312	17,889	209,915	164,453	22,461	19,370	206,284
<b>Total</b>	<b>\$ 15,263,059</b>	<b>\$ 768,276</b>	<b>\$ 693,149</b>	<b>\$ 16,724,484</b>	<b>\$ 20,307,261</b>	<b>\$ 741,022</b>	<b>\$ 721,923</b>	<b>\$ 21,770,206</b>

See notes to consolidated financial statements.

**THE ERIE COMMUNITY FOUNDATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 35,475,004	\$ 30,490,878
Items not Requiring (Providing) Cash		
Depreciation	209,915	206,284
Net Realized and Unrealized Gains on Investments	(25,384,276)	(29,927,869)
Donated Securities	(362,546)	(8,847,680)
Noncash Contributions - Split Interest Agreements	(2,389,677)	-
Changes in		
Other Assets and Other Investments	132,968	130,747
Accounts Payable, Accrued Expenses and Grants Payable	(3,149,406)	982,511
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>4,531,982</u>	<u>(6,965,129)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(76,735,477)	(73,477,651)
Proceeds from Sale of Investments	72,418,807	73,929,526
Purchase of Real Estate for Rental and Investment	(2,759,053)	(234,081)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(7,075,723)</u>	<u>217,794</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Annuity Obligations	(205,717)	(207,289)
Change in Amounts Held for Others	4,460,967	7,008,717
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>4,255,250</u>	<u>6,801,428</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,711,509	54,093
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,990,946</u>	<u>2,936,853</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,702,455</u>	<u>\$ 2,990,946</u>
<b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>		
Interest Paid	\$ -	\$ 500

See notes to consolidated financial statements.

# THE ERIE COMMUNITY FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A 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 two supporting organizations: The Corry Community Foundation, The North East Community Foundation, The Union City Community Foundation, and the Historic Erie Preservation Trust. 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.

## THE ERIE COMMUNITY FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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, 2020 and 2019, cash equivalents consisted primarily of money market funds.

At December 31, 2020, the Foundation's cash accounts exceeded federally insured limits by approximately \$4,397,000.

#### 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.

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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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:

	<u>Years</u>
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 its fair value.

No asset impairment was recognized during the years ended December 31, 2020 or 2019.

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.

	<u>2020</u>	<u>2019</u>
<b>Balance, January 1</b>	\$ 58,687,112	\$ 51,678,395
Additions	935,058	1,309,346
Net Investment Income, Net of Investment Fees	7,063,252	9,259,328
Expenses	(328,145)	(278,805)
Withdrawals	(3,209,198)	(3,281,152)
<b>Balance, December 31</b>	<u>\$ 63,148,079</u>	<u>\$ 58,687,112</u>

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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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:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
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
<i>Unconditional gifts, with or without restriction</i>	
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 consolidated 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.

## THE ERIE COMMUNITY FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 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 2017.

#### 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 2019 consolidated financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net assets.

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE B 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



**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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, 2020 and 2019:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>December 31, 2020</b>				
Cash and Money Market Funds	\$ 8,339,599	\$ 8,339,599	\$ -	\$ -
Common Stocks	23,404,423	23,404,423	-	-
Mutual Funds	91,874,118	91,874,118	-	-
Common Trust Funds	42,281,452	-	42,281,452	-
Total Investments at Fair Value	165,899,592	\$ 123,618,140	\$ 42,281,452	\$ -
Alternative Investments Measured at Net Asset Value (a)	140,093,635			
Total Investments	\$ 305,993,227			
Other Investments				
Cash and Money Market Funds	\$ 9,058	\$ 9,058	\$ -	\$ -
Common Stock	7,247	7,247	-	-
Mutual Funds	463,449	463,449	-	-
Total Other Investments at Fair Value	\$ 479,754	\$ 479,754	\$ -	\$ -
Beneficial Interests in Trusts	\$ 2,894,009	\$ -	\$ -	\$ 2,894,009

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>December 31, 2019</b>				
Cash and Money Market Funds	\$ 6,724,004	\$ 6,724,004	\$ -	\$ -
Common Stocks	20,911,210	20,911,210	-	-
Mutual Funds	87,152,993	87,152,993	-	-
Common Trust Funds	37,175,617	-	37,175,617	-
Total Investments at Fair Value	151,963,824	\$ 114,788,207	\$ 37,175,617	\$ -
Alternative Investments Measured at Net Asset Value (a)	127,712,993			
Total Investments	\$ 279,676,817			
Other Investments				
Cash and Money Market Funds	\$ 11,938	\$ 11,938	\$ -	\$ -
Common Stock	5,785	5,785	-	-
Mutual Funds	414,949	414,949	-	-
Total Other Investments at Fair Value	\$ 432,672	\$ 432,672	\$ -	\$ -
Beneficial Interests in Trusts	\$ 447,349	\$ -	\$ -	\$ 447,349

(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 years ended December 31, 2020 and 2019. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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:

	<b>2020</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>ASSETS</b>				
Private Equity (a)	\$ 42,638,522	\$ 25,428,514	N/A	N/A
International Equity (b)	28,304,130	1,483,333	Daily/Monthly	30 days
Real Assets (c)	36,205,813	14,955,930	N/A	N/A
Absolute Return (d)	9,089,916	-	Quarterly	65 days
Hedge Equity (e)	23,855,254	-	Monthly	30 days
	<u>\$ 140,093,635</u>	<u>\$ 41,867,777</u>		
	<b>2019</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>ASSETS</b>				
Private Equity (a)	\$ 39,327,709	\$ 18,211,774	N/A	N/A
International Equity (b)	30,508,307	-	Daily/Monthly	30 days
Real Assets (c)	28,932,045	15,496,433	N/A	N/A
Absolute Return (d)	8,438,974	-	Quarterly	65 days
Hedge Equity (e)	20,505,958	-	Monthly	30 days
	<u>\$ 127,712,993</u>	<u>\$ 33,708,207</u>		

(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.

## THE ERIE COMMUNITY FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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- (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 asset class can be long or short equity positions and utilize options, futures, and other derivatives.

At December 31, 2020 and 2019, 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. For the year ended December 31, 2020, the only Level 3 activity was purchases of beneficial interests in trusts of \$2,389,677, and for the year ended December 31, 2019, there were no reportable activity or transfers.

# THE ERIE COMMUNITY FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

**Programmatic Investments:** The carrying value is cost which approximates fair value.

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

**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 C 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.

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Net Assets Without Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
<b>Program Support</b>	\$ 83,516,575	\$ 72,494,163
<b>Designated</b>		
Donor Advised	72,737,599	64,065,713
Donor Designated	64,386,225	57,298,935
Field of Interest	7,291,624	4,588,293
Geographic	2,460,455	2,251,572
Scholarship	22,526,439	19,212,630
	<u>169,402,342</u>	<u>147,417,143</u>
Net Assets Without Donor Restrictions	<u>\$ 252,918,917</u>	<u>\$ 219,911,306</u>

Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Beneficial Interest in Charitable Trusts Held by Others	<u>\$ 2,943,984</u>	<u>\$ 476,591</u>

**NOTE D ENDOWMENTS**

The Foundation's endowments consist of over 850 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.

## THE ERIE COMMUNITY FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 percent 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, 2020 and 2019, 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.

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At December 31, 2020 and 2019, the Foundation's endowment funds without donor restriction were \$250,802,353 and \$219,911,306, respectively.

Changes in endowment net assets for the years ended December 31, 2020 and 2019 were:

	<b>Without Donor Restriction</b>	
	<b>2020</b>	<b>2019</b>
<b>Endowment Net Assets, Beginning of Year</b>	\$ 219,911,306	\$ 189,607,712
Investment Return		
Investment Income, Net of Fees	1,103,693	1,749,727
Net Appreciation (Depreciation)	25,359,333	29,882,078
Total Investment Return	26,463,026	31,631,805
Contributions	20,490,470	19,895,256
Appropriation of Endowment Assets for Expenditure	(16,062,449)	(21,223,467)
<b>Endowment Net Assets, End of Year</b>	<b>\$ 250,802,353</b>	<b>\$ 219,911,306</b>

**NOTE E 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, 2020 and 2019, comprise the following:

	<b>2020</b>	<b>2019</b>
Cash and Cash Equivalents	\$ 4,702,455	\$ 2,990,946
Short-Term Investments	8,339,599	6,724,004
Payout on Quasi-Endowments for Use Over Next 12 Months	10,212,616	9,631,034
	<b>\$ 23,254,670</b>	<b>\$ 19,345,984</b>

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 ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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The board-designated endowment of \$245,212,928 is subject to an annual spending rate of 4 percent as described in Note D. 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 L 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 F PROGRAM RELATED INVESTMENTS**

The Foundation holds program related investments (PRI) in local entities (notes receivable that support certain program initiatives). A PRI is defined in Section 4944 of the Internal Revenue Code as an investment in which its primary purpose is to accomplish one or more of the Foundation’s exempt purposes, the production of income or capital appreciation is not a significant purpose, and influencing legislation or political campaigns on behalf of candidates is not a purpose. These investments are carried at cost, which approximates fair value and were \$3,700,000 and \$0 for the years ended December 31, 2020 and 2019, respectively. Notes receivable are due at various dates from August 2027 through June 2035. These loans carry fixed interest rates between 1.01% and 2.00%; principal and interest payment arrangements vary by note.

**NOTE G PROPERTY AND EQUIPMENT**

Property and equipment at December 31 consists of:

	<u>2020</u>	<u>2019</u>
Land and Land Improvements	\$ 532,263	\$ 532,263
Buildings	285,866	285,866
Building Improvements	2,385,257	2,385,257
Furniture and Fixtures	893,166	893,570
Computer Software	48,455	48,455
Construction in Progress	<u>573,119</u>	<u>-</u>
	4,718,126	4,145,411
Less Accumulated Depreciation	<u>1,802,382</u>	<u>1,596,318</u>
	<u>\$ 2,915,744</u>	<u>\$ 2,549,093</u>

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE H PROPERTY HELD FOR RENTAL AND INVESTMENT**

The Historic Erie Preservation Trust (the "Trust") was established on October 1, 2019, and is organized and operated exclusively for charitable purposes, as described in Section 501(c)(3) of the Code. The Trust was formed for the charitable purpose of supporting the Foundation, specifically those programs aimed at the acquisition, restoration, preservation, maintenance and operation of historically important or architecturally significant houses, buildings, and other structures located in Erie County, Pennsylvania. The balance held at December 31, 2020 of \$2,182,487 consists of construction in progress and is included in property held for rental and investment held at cost on the consolidated statements of financial position.

**NOTE I GRANTS PAYABLE**

As of December 31, 2020 and 2019, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of \$1,915,265 and \$5,239,875, respectively. Grant activities detailed during the years are as follows:

	<u>2020</u>	<u>2019</u>
Grants Payable, Beginning of Year	\$ 5,239,875	\$ 4,333,312
Grants Paid	17,201,019	18,327,453
Grants Approved	<u>13,876,409</u>	<u>19,234,016</u>
Grants Payable, End of Year	<u>\$ 1,915,265</u>	<u>\$ 5,239,875</u>

Future maturities of grants payable are as follows:

2021	\$ 433,395
2022	1,452,120
2023	<u>29,750</u>
Total Grants Payable	<u>\$ 1,915,265</u>

**NOTE J 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

## THE ERIE COMMUNITY FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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established. There were no contributions received in 2020 or 2019. Assets held in these trusts totaled \$1,972,936 and \$2,182,882 at December 31, 2020 and 2019, 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, 2020 and 2019 is estimated to be \$1,666,722 and \$1,704,291, 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. Contributions received during the years ended December 31, 2020 and 2019 totaled \$2,389,677 and \$0, respectively. The estimated value of the beneficial interests totaled \$2,894,009 and \$447,349 as of December 31, 2020 and 2019, respectively. The increase in value of these trusts for 2020 and 2019 was \$56,983 and \$56,646, respectively.

#### **NOTE K 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 \$92,609 and \$89,017 for 2020 and 2019, respectively.

The Foundation established a deferred compensation plan for the Foundation's president during 2004. The liability of \$479,754 and \$432,672 at December 31, 2020 and 2019, respectively, is included in accounts payable and accrued expenses.

#### **NOTE L NOTE PAYABLE**

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 (3.25% at December 31, 2020) less 1.00%. At December 31, 2020 and 2019, 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 \$3,900,000.

#### **NOTE M COMMITMENTS AND CONTINGENCIES**

As of December 31, 2020, the Foundation has outstanding capital contribution commitments with several alternative investment funds of approximately \$41,867,777.

#### Current Economic Conditions

The Foundation continues to face uncertainty due to the impact of the Covid-19 pandemic on the current economic environment. This has presented a number of challenges and circumstances worldwide. Given the volatility of these economic conditions, management is evaluating the impact to the Foundation and their consolidated financial statements and believes the impact and duration cannot be reasonably estimated at this time.

# THE ERIE COMMUNITY FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE N 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 O REVENUE FROM CONTRACTS WITH CUSTOMERS

#### Revenue Recognition Policy

While substantially all the Foundation's revenues and support is derived from contributions from donors and income and return from investments, which are both outside of the scope of ASC 606, the Foundation also has revenue and support from customers. These revenues and support are derived from the Administrative Revenue from funds.

#### Transaction Price

Revenue is recognized when services are provided to the Foundation's investment fund holders or affiliates, in an amount that reflects the consideration that it expects to be entitled to in exchange for those services. The amount and timing of revenue recognition varies based on the nature of the services provided and the terms and conditions of the agreements with the fund holders or affiliates. There are no finance components with these services, and consideration received is based on fixed percentage of average investment balances.

#### Contract Balances

Contract assets or receivables will be recognized if the services have been performed for the fund holder or affiliate, but they have not yet paid. When the timing of the Foundation's provision of services are different from the timing of the payments made, the Foundation recognizes a contract asset (performance precedes contractual due date) or a contract liability (Foundation's obligation to provide services when consideration has already been received). A receivable will be recognized when the services are performed and the customer has not yet paid. A deferred revenue will be recognized when the payment is received in advance of the service performed. The Foundation had no contract assets or liabilities recorded as of December 31, 2020 and 2019.

#### Performance Obligations and Revenue Recognition

#### **Administrative Revenue**

The Foundation's performance obligation for administrating the funds is to provide administrative services related to the fund's investments with the Foundation. These services include, but are not limited to, recordkeeping of, managing, investing, and reinvesting assets comprising the fund in common with and in the same manner as the other assets held at the Foundation. The performance obligation is to provide the services. The fee for these services is charged quarterly and revenue is recognized as the services are provided over-time.

**THE ERIE COMMUNITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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*Disaggregation of Revenue*

As noted above, the Foundation's in-scope material revenue sources are recognized over time and are disaggregated on the face of the consolidated statement of activities.

**NOTE P SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 6, 2021, which is the date the consolidated financial statements were available to be issued.