



The Erie
Community
Foundation

The Erie Community Foundation

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

THE ERIE COMMUNITY FOUNDATION
TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....1

CONSOLIDATED FINANCIAL STATEMENTS

 Statements of Financial Position.....3

 Statements of Activities4

 Statements of Functional Expenses.....6

 Statements of Cash Flows.....7

 Notes to Financial Statements.....8



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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, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Erie Community Foundation (Foundation) and its affiliated organizations (nonprofit organizations) as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The Erie Community Foundation (Foundation) and its affiliated organizations (nonprofit organizations) and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

McGill, Power, Bell & Associates, LLP

McGill, Power, Bell & Associates, LLP
Erie, Pennsylvania
September 29, 2022

CONSOLIDATED FINANCIAL STATEMENTS

THE ERIE COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents	\$ 9,569,695	\$ 4,702,455
Investments	348,229,137	305,993,227
Program Related Investments	5,870,000	3,700,000
Other Investments - Deferred Compensation	544,916	479,754
Gifts Receivable	492,778	-
Beneficial Interests in Trusts	5,870,743	2,894,009
Other Assets	860,606	461,030
Property Held for Rental and Investment, Net	983,337	2,182,487
Property and Equipment, Net	<u>3,467,768</u>	<u>2,915,744</u>
TOTAL ASSETS	<u><u>\$ 375,888,980</u></u>	<u><u>\$ 323,328,706</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants Payable	\$ 5,489,309	\$ 1,915,265
Accounts Payable and Accrued Expenses	971,320	735,739
Annuity Obligations	1,630,062	1,666,722
Amounts Held for Others	<u>72,994,581</u>	<u>63,148,079</u>
TOTAL LIABILITIES	<u>81,085,272</u>	<u>67,465,805</u>
Net Assets		
Without Donor Restrictions	288,714,439	252,918,917
With Donor Restrictions	<u>6,089,269</u>	<u>2,943,984</u>
TOTAL NET ASSETS	<u>294,803,708</u>	<u>255,862,901</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 375,888,980</u></u>	<u><u>\$ 323,328,706</u></u>

See notes to consolidated financial statements.

THE ERIE COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Public Support and Revenue	\$ 18,795,342	\$ 3,861,216	\$ 22,656,558
Administrative Revenue from Funds	369,827	-	369,827
HEPT Property Income	54,754	-	54,754
Change in Value of Split Interest Agreements	8,294	267,267	275,561
Net Realized and Unrealized Gains on Investments	40,378,651	83,911	40,462,562
Investment Income, Net of Fees of \$2,616,733	2,448,547	(382)	2,448,165
Other Revenue	66,055	-	66,055
TOTAL REVENUES, GAINS AND OTHER SUPPORT	62,121,470	4,212,012	66,333,482
NET ASSETS RELEASED RESULTING FROM SATISFACTION OF RESTRICTIONS	1,066,727	(1,066,727)	-
EXPENSES			
Grants Awarded	24,218,525	-	24,218,525
Other Program Expenses	1,506,335	-	1,506,335
TOTAL PROGRAM EXPENSES	25,724,860	-	25,724,860
Management and General	874,455	-	874,455
Development and Fundraising	793,360	-	793,360
TOTAL SUPPORTING SERVICES	1,667,815	-	1,667,815
TOTAL EXPENSES	27,392,675	-	27,392,675
CHANGE IN NET ASSETS	35,795,522	3,145,285	38,940,807
NET ASSETS, BEGINNING OF YEAR	252,918,917	2,943,984	255,862,901
NET ASSETS, END OF YEAR	\$ 288,714,439	\$ 6,089,269	\$ 294,803,708

See notes to consolidated financial statements.

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
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
TOTAL REVENUES, GAINS AND OTHER SUPPORT	49,732,095	2,467,393	52,199,488
EXPENSES			
Grants Awarded	13,876,409	-	13,876,409
Other Program Expenses	1,386,650	-	1,386,650
TOTAL PROGRAM EXPENSES	15,263,059	-	15,263,059
Management and General	768,276	-	768,276
Development and Fundraising	693,149	-	693,149
TOTAL SUPPORTING SERVICES	1,461,425	-	1,461,425
TOTAL EXPENSES	16,724,484	-	16,724,484
CHANGE IN NET ASSETS	33,007,611	2,467,393	35,475,004
NET ASSETS, BEGINNING OF YEAR	219,911,306	476,591	220,387,897
NET ASSETS, END OF YEAR	\$ 252,918,917	\$ 2,943,984	\$ 255,862,901

See notes to consolidated financial statements.

THE ERIE COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021				2020			
	Program Expenses	Management & General	Development & Fundraising	Total	Program Expenses	Management & General	Development & Fundraising	Total
Grants Awarded	\$ 24,218,525	\$ -	\$ -	\$ 24,218,525	\$ 13,876,409	\$ -	\$ -	\$ 13,876,409
Salaries	504,541	452,111	400,912	1,357,564	521,241	395,722	356,619	1,273,582
Payroll Taxes	33,825	31,940	26,682	92,447	35,363	27,368	22,119	84,850
Employee Benefits	146,513	120,520	146,779	413,812	131,558	98,227	118,530	348,315
Professional Services	357,544	86,684	39,897	484,125	337,371	84,955	54,300	476,626
Rent and Occupancy	91,038	16,788	13,862	121,688	26,921	24,430	14,891	66,242
Vehicle Costs	3,087	2,765	2,451	8,303	3,120	1,561	3,120	7,801
Equipment Purchased/Rental and Maintenance	48,095	37,009	32,808	117,912	63,123	29,806	27,236	120,165
Office Supplies and Expense	10,703	9,946	9,242	29,891	10,438	9,788	8,703	28,929
Marketing	49,688	43,082	47,936	140,706	34,057	34,665	37,684	106,406
Meetings and Conferences	27,759	22,381	33,081	83,221	22,573	16,305	14,793	53,671
Professional Development	3,170	2,839	2,517	8,526	1,595	1,211	1,091	3,897
Dues and Subscriptions	6,936	6,221	5,538	18,695	6,293	4,925	4,458	15,676
Insurances	33,558	14,727	13,056	61,341	27,283	13,001	11,716	52,000
Loss on Sale of Asset	23,351	-	-	23,351	-	-	-	-
Depreciation	166,527	27,442	18,599	212,568	165,714	26,312	17,889	209,915
Total	\$ 25,724,860	\$ 874,455	\$ 793,360	\$ 27,392,675	\$ 15,263,059	\$ 768,276	\$ 693,149	\$ 16,724,484

See notes to consolidated financial statements.

**THE ERIE COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 38,940,807	\$ 35,475,004
Items not Requiring (Providing) Cash		
Depreciation	212,568	209,915
Net Realized and Unrealized Gains on Investments	(40,462,562)	(25,384,276)
Donated Securities	(2,218,262)	(362,546)
Noncash Contributions - Split Interest Agreements	(4,070,871)	(2,389,677)
Changes in		
Gifts Receivable	(492,778)	-
Accounts Payable, Accrued Expenses and Grants Payable	3,809,625	(3,149,406)
Other Assets and Other Investments	(422,526)	132,968
	<u>(4,703,999)</u>	<u>4,531,982</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	<u>(4,703,999)</u>	<u>4,531,982</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(81,930,815)	(76,735,477)
Proceeds from Sale of Investments	81,406,164	72,418,807
Loss on Sale of Real Estate for Rental and Investment	23,351	-
Purchase of Property and Equipment	(761,054)	-
Purchase of Real Estate for Rental and Investment	(631,223)	(2,759,053)
Proceeds from Sale of Real Estate and Investment	1,803,485	-
	<u>(90,092)</u>	<u>(7,075,723)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
	<u>(90,092)</u>	<u>(7,075,723)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Annuity Obligations	12,879	-
Payments on Annuity Obligations	(198,050)	(205,717)
Change in Amounts Held for Others	9,846,502	4,460,967
	<u>9,661,331</u>	<u>4,255,250</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	<u>9,661,331</u>	<u>4,255,250</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,867,240	1,711,509
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,702,455</u>	<u>2,990,946</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,569,695</u>	<u>\$ 4,702,455</u>

See notes to consolidated financial statements.

THE ERIE COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2021 and 2020, cash equivalents consisted primarily of money market funds.

At December 31, 2021, the Foundation's cash accounts exceeded federally insured limits by approximately \$11,488,000.

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

Property and Equipment

Property and equipment acquisitions over \$2,500 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, 2021 or 2020.

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>2021</u>	<u>2020</u>
Balance, January 1	\$ 63,148,079	\$ 58,687,112
Additions	4,234,137	935,058
Net Investment Income, Net of Investment Fees	10,672,337	7,063,252
Expenses	(369,314)	(328,145)
Withdrawals	(4,690,658)	(3,209,198)
Balance, December 31	<u>\$ 72,994,581</u>	<u>\$ 63,148,079</u>

THE ERIE COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
<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>i.e.</i> 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

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 2018.

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. Market risks include global events, which could impact the value of investment securities, such as a pandemic or international conflict. 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.

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, 2021 and 2020:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Cash and Money Market Funds	\$ 7,002,236	\$ 7,002,236	\$ -	\$ -
Common Stocks	26,697,968	26,697,968	-	-
Mutual Funds	103,005,633	103,005,633	-	-
Common Trust Funds	37,393,376	-	37,393,376	-
Total Investments at Fair Value	174,099,213	\$ 136,705,837	\$ 37,393,376	\$ -
Alternative Investments Measured at Net Asset Value (a)	174,129,924			
Total Investments	\$ 348,229,137			
Other Investments				
Cash and Money Market Funds	\$ 20,173	\$ 20,173	\$ -	\$ -
Mutual Funds	524,743	524,743	-	-
Total Other Investments at Fair Value	\$ 544,916	\$ 544,916	\$ -	\$ -
Beneficial Interests in Trusts	\$ 5,870,744	\$ -	\$ -	\$ 5,870,744

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>
December 31, 2020				
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	<u>\$ 305,993,227</u>			
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	<u>\$ 479,754</u>	<u>\$ 479,754</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interests in Trusts	<u>\$ 2,894,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,894,009</u>

(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, 2021 and 2020. 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:

	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
ASSETS				
Private Equity (a)	\$ 60,897,970	\$ 27,649,692	N/A	N/A
International Equity (b)	33,628,585	852,721	Daily/Monthly	30 days
Real Assets (c)	42,204,547	18,248,735	N/A	N/A
Absolute Return (d)	9,730,820	-	Quarterly	65 days
Hedge Equity (e)	27,668,002	-	Monthly	30 days
	<u>\$ 174,129,924</u>	<u>\$ 46,751,148</u>		
	2020			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
ASSETS				
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>		

- (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

- (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, 2021 and 2020, 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 years ended December 31, 2021 and 2020, the only Level 3 activity was receipts of beneficial interests in trusts of \$4,107,992, and \$2,389,677, respectively.

THE ERIE COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

THE ERIE COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ii. With Donor Restriction:

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

Perpetual Annuities and Trusts – These net assets are from perpetual annuities and lead trusts in which the Foundation is the beneficiary and principal balance is held in perpetuity.

Net Assets Without Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Program Support	\$ 97,291,207	\$ 83,516,575
Designated		
Donor Advised	75,388,322	72,737,599
Donor Designated	75,866,938	64,386,225
Field of Interest	9,230,787	7,291,624
Geographic	2,765,476	2,460,455
Scholarship	28,171,709	22,526,439
	<u>191,423,232</u>	<u>169,402,342</u>
Net Assets Without Donor Restrictions	<u>\$ 288,714,439</u>	<u>\$ 252,918,917</u>

Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Beneficial Interest in Charitable Remainder Trusts		
Held by Others	\$ 1,509,057	\$ 2,389,677
Beneficial Interest in Charitable Trusts		
Held by Others in Perpetuity	4,361,685	504,332
Charitable Trusts and Annuities		
Held by the Foundation	218,527	49,975
	<u>6,089,269</u>	<u>2,943,984</u>
Net Assets With Donor Restrictions	<u>\$ 6,089,269</u>	<u>\$ 2,943,984</u>

THE ERIE COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D ENDOWMENTS

The Foundation's endowments consist of over 900 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 ERIE COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2021 and 2020, 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, 2021 and 2020, the Foundation's endowment funds without donor restriction were \$285,887,065 and \$250,802,353, respectively.

Changes in endowment net assets for the years ended December 31, 2021 and 2020 were:

	Without Donor Restriction	
	2021	2020
Endowment Net Assets, Beginning of Year	\$ 250,802,353	\$ 219,911,306
Investment Return		
Investment Income, Net of Fees	2,448,530	1,103,693
Net Appreciation (Depreciation)	40,378,634	25,359,333
Total Investment Return	42,827,164	26,463,026
Contributions	17,687,342	20,490,470
Appropriation of Endowment Assets for Expenditure	(25,429,794)	(16,062,449)
Endowment Net Assets, End of Year	\$ 285,887,065	\$ 250,802,353

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, 2021 and 2020, comprise the following:

	2021	2020
Cash and Cash Equivalents	\$ 9,569,695	\$ 4,702,455
Short-Term Investments	7,002,236	8,339,599
Payout on Quasi-Endowments for Use Over Next 12 Months	11,244,338	10,212,616
	\$ 27,816,269	\$ 23,254,670

THE ERIE COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$285,887,065 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 \$5,870,000 and \$3,700,000 as of December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Land and Land Improvements	\$ 490,463	\$ 532,263
Buildings	939,997	285,866
Building Improvements	2,385,257	2,385,257
Furniture and Fixtures	897,461	893,166
Computer Software	48,455	48,455
Construction in Progress	<u>713,394</u>	<u>573,119</u>
	5,475,027	4,718,126
Less Accumulated Depreciation	<u>2,007,259</u>	<u>1,802,382</u>
	<u>\$ 3,467,768</u>	<u>\$ 2,915,744</u>

THE ERIE COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Property held for rental and investment at December 31 consists of:

	<u>2021</u>	<u>2020</u>
Land and Land Improvements	\$ 41,800	\$ 146,500
Buildings	332,744	-
Furniture and Fixtures	5,300	-
Construction in Progress	607,031	2,035,987
	986,875	2,182,487
Less Accumulated Depreciation	3,538	-
	<u>\$ 983,337</u>	<u>\$ 2,182,487</u>

NOTE I GRANTS PAYABLE

As of December 31, 2021 and 2020, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of \$5,489,309 and \$1,915,265, respectively. Grant activities detailed during the years are as follows:

	<u>2021</u>	<u>2020</u>
Grants Payable, Beginning of Year	\$ 1,915,265	\$ 5,239,875
Grants Paid	20,644,481	17,201,019
Grants Approved	24,218,525	13,876,409
Grants Payable, End of Year	<u>\$ 5,489,309</u>	<u>\$ 1,915,265</u>

Future maturities of grants payable are as follows:

2022	\$ 658,627
2023	4,365,682
2024	465,000
Total Grants Payable	<u>\$ 5,489,309</u>

THE ERIE COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 established. There were no contributions received in 2021 or 2020. Assets held in these trusts totaled \$2,148,567 and \$1,972,936 at December 31, 2021 and 2020, 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, 2021 and 2020 is estimated to be \$1,630,063 and \$1,666,722, 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, 2021 and 2020 totaled \$4,107,992 and \$2,389,677, respectively. The estimated value of the beneficial interests totaled \$6,117,519 and \$2,894,009 as of December 31, 2021 and 2020, respectively. The increase in value of these trusts for 2021 and 2020 was \$83,911 and \$56,983, 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 \$96,850 and \$92,609 for 2021 and 2020, respectively.

The Foundation established a deferred compensation plan for the Foundation's president during 2004. The liability of \$544,916 and \$479,754 at December 31, 2021 and 2020, 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, 2021) less 1.00%. At December 31, 2021 and 2020, 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 \$4,100,000.

THE ERIE COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M COMMITMENTS AND CONTINGENCIES

As of December 31, 2021, the Foundation has outstanding capital contribution commitments with several alternative investment funds of approximately \$46,751,148.

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, 2021 and 2020.

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

THE ERIE COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 September 29, 2022, which is the date the consolidated financial statements were available to be issued.