The Erie Community Foundation

Consolidated Financial Statements

December 31, 2012 and 2011

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Malin, Bergquist & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report

To the Board of Trustees of
The Erie Community Foundation
Erie, Pennsylvania

We have audited the accompanying consolidated financial statements of The Erie Community Foundation and its supporting organizations (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities 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 audits 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 consolidated financial position of The Erie Community Foundation and its supporting organizations as of December 31, 2012 and 2011, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 3, the consolidated financial statements include investments valued at $25,854,209 (14% of total assets) and $24,416,090 (15% of total assets) as of December 31, 2012 and 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Malin, Bergquist & Company, LLP

Erie, Pennsylvania
September 27, 2013

The Erie Community Foundation
Consolidated Statements of Financial Position
As of December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 2,274,789	$ 1,786,123
Investments	180,845,935	157,374,726
Other investments	201,339	169,741
Accrued interest income	136,859	218,648
Gifts receivable	985,875	607,856
Beneficial interests in trusts	792,795	1,033,599
Other assets	585,594	665,360
Cash value of life insurance	258,955	272,733
Fixed assets	1,203,497	1,295,948
Total assets	$ 187,285,638	$ 163,424,734
LIABILITIES		
Accounts payable and accrued expenses	$ 243,593	$ 223,173
Grants payable	1,028,815	726,397
Note payable	612,431	706,320
Annuity obligations	2,446,869	2,567,039
Agency endowments	49,921,175	46,209,164
Total liabilities	54,252,883	50,432,093
NET ASSETS		
Unrestricted		
Discretionary	59,014,532	55,395,567
Donor advised	26,681,957	16,912,367
Donor designated	30,393,639	25,237,808
Field of interest	481,137	456,831
Geographic	1,995,681	1,830,658
Scholarship funds	13,787,930	12,562,684
Total unrestricted	132,354,876	112,395,915
Temporarily restricted		
Annuities and trusts	677,879	596,726
Total temporarily restricted	677,879	596,726
Total net assets	133,032,755	112,992,641
Total liabilities and net assets	$ 187,285,638	$ 163,424,734

See Notes to Consolidated Financial Statements.

The Erie Community Foundation
Consolidated Statement of Activities
Year Ended December 31, 2012

	Discretionary	Donor Advised	Donor Designated	Field of Interest
Revenues				
Public support and revenue	$ 2,164,603	$ 8,369,266	$ 3,458,436	$ 23,921
Administrative revenue from funds	1,231,525	-	-	-
Grant and other revenue	159,304	-	598	-
Change in value of split interest agreements	10,293	(63,807)	16,163	-
Investment net appreciation (depreciation)	4,832,799	1,643,422	2,240,086	39,861
Investment income	1,719,340	749,823	874,364	15,041
Investment fees	(151,533)	(60,250)	(72,632)	(1,281)
Total revenues	9,966,331	10,638,454	6,517,015	77,542
Net assets released resulting from satisfaction of restrictions	3,514	-	-	-
Expenses				
Grants, philanthropic services and special projects				
Grants	3,849,404	745,259	1,276,901	49,918
Program expense	874,127	-	-	-
Total grants, philanthropic services and special projects	4,723,531	745,259	1,276,901	49,918
Supporting Services				
Administrative costs	1,163,994	123,480	154,258	3,318
Development expense	355,847	125	783	-
Depreciation expense	107,508	-	-	-
Total supporting services	1,627,349	123,605	155,041	3,318
Total expenses	6,350,880	868,864	1,431,942	53,236
Change in net assets	3,618,965	9,769,590	5,085,073	24,306
Transfers of net assets	-	-	70,758	-
Net assets at beginning of year	55,395,567	16,912,367	25,237,808	456,831
Net assets at end of year	$ 59,014,532	$ 26,681,957	$ 30,393,639	$ 481,137

Geographic	Scholarship Funds	Annuities and Trusts	Total Before Eliminations	Less Interfund Gifts/Grants	Total 2012
$ 8,820	$ 374,546	$ 10,485	$ 14,410,077	$ (202,427)	$ 14,207,650
-	-	-	1,231,525	(982,855)	248,670
551	6,531	-	166,984	-	166,984
-	-	71,354	34,003	-	34,003
165,880	1,124,936	56,778	10,103,762	-	10,103,762
62,295	424,644	18,433	3,863,940	-	3,863,940
(5,260)	(35,857)	(1,625)	(328,438)	-	(328,438)
232,286	1,894,800	155,425	29,481,853	(1,185,282)	28,296,571
-	-	(3,514)	-	-	-
51,609	540,083	-	6,513,174	(202,427)	6,310,747
-	-	-	874,127	-	874,127
51,609	540,083	-	7,387,301	(202,427)	7,184,874
15,298	129,356	-	1,589,704	(982,855)	606,849
356	115	-	357,226	-	357,226
-	-	-	107,508	-	107,508
15,654	129,471	-	2,054,438	(982,855)	1,071,583
67,263	669,554	-	9,441,739	(1,185,282)	8,256,457
165,023	1,225,246	151,911	20,040,114	-	20,040,114
-	-	(70,758)	-	-	-
1,830,658	12,562,684	596,726	112,992,641	-	112,992,641
$ 1,995,681	$ 13,787,930	$ 677,879	$ 133,032,755	$ -	$ 133,032,755

See Notes to Consolidated Financial Statements.

The Erie Community Foundation
Consolidated Statement of Activities
Year Ended December 31, 2011

	Discretionary	Donor Advised	Donor Designated	Field of Interest
Revenues				
Public support and revenue	$ 3,611,190	$ 906,491	$ 659,811	$ 10,100
Administrative revenue from funds	1,175,698	-	-	-
Grant and other revenue	1,030,074	-	1,173	-
Change in value of split interest agreements	(10,593)	(24,378)	(17,412)	-
Investment net appreciation (depreciation)	(3,156,469)	(915,733)	(1,375,216)	(24,755)
Investment income	1,571,777	461,268	690,691	12,735
Investment fees	(141,037)	(42,937)	(64,369)	(1,190)
Total revenues	4,080,640	384,711	(105,322)	(3,110)
Net assets released resulting from satisfaction of restrictions	15,254	202,138	-	-
Expenses				
Grants, philanthropic services and special projects				
Grants	3,657,162	1,162,975	1,192,695	18,251
Program expense	1,194,866	-	-	-
Total grants, philanthropic services and special projects	4,852,028	1,162,975	1,192,695	18,251
Supporting Services				
Administrative costs	1,168,041	101,116	149,642	2,814
Development expense	359,850	433	655	-
Depreciation expense	109,790	-	-	-
Total supporting services	1,637,681	101,549	150,297	2,814
Total expenses	6,489,709	1,264,524	1,342,992	21,065
Change in net assets	(2,393,815)	(677,675)	(1,448,314)	(24,175)
Transfers of net assets	-	-	234,387	21,038
Net assets at beginning of year	57,789,382	17,590,042	26,451,735	459,968
Net assets at end of year	$ 55,395,567	$ 16,912,367	$ 25,237,808	$ 456,831

Geographic	Scholarship Funds	Annuities and Trusts	Total Before Eliminations	Less Interfund Gifts/Grants	Total 2011
$ 9,055	$ 531,914	$ 12,859	$ 5,741,420	$ (221,214)	$ 5,520,206
-	-	-	1,175,698	(925,611)	250,087
1,950	6,744	-	1,039,941	-	1,039,941
-	-	(545,284)	(597,667)	-	(597,667)
(103,235)	(672,582)	(59,664)	(6,307,654)	-	(6,307,654)
52,393	350,622	29,296	3,168,782	-	3,168,782
(4,939)	(32,751)	(2,930)	(290,153)	-	(290,153)
(44,776)	183,947	(565,723)	3,930,367	(1,146,825)	2,783,542
-	-	(217,392)	-	-	-
88,669	573,959	-	6,693,711	(221,214)	6,472,497
-	599	-	1,195,465	-	1,195,465
88,669	574,558	-	7,889,176	(221,214)	7,667,962
11,756	89,824	-	1,523,193	(925,611)	597,582
-	-	-	360,938	-	360,938
-	-	-	109,790	-	109,790
11,756	89,824	-	1,993,921	(925,611)	1,068,310
100,425	664,382	-	9,883,097	(1,146,825)	8,736,272
(145,201)	(480,435)	(783,115)	(5,952,730)	-	(5,952,730)
-	-	(255,425)	-	-	-
1,975,859	13,043,119	1,635,266	118,945,371	-	118,945,371
$ 1,830,658	$ 12,562,684	$ 596,726	$ 112,992,641	$ -	$ 112,992,641

See Notes to Consolidated Financial Statements.

The Erie Community Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	$ 20,040,114	$ (5,952,730)
Depreciation expense	107,508	109,790
Net depreciation (appreciation) in investments	(10,103,762)	6,307,654
Donated securities	(6,437,133)	(649,724)
Decrease (increase) in cash value of life insurance	13,778	(9,378)
Proceeds from sale of donated real estate	-	90,000
Changes in split interest agreement assumptions	378,977	575,934
(Increase) decrease in accrued interest income	81,789	(9,883)
(Increase) decrease in gifts receivable	(378,019)	(148,179)
(Increase) decrease in other assets	79,766	(438,558)
Increase (decrease) in accounts payable, accrued expenses and grants payable	322,838	182,363
Net cash provided by operating activities	4,105,856	57,289
Cash Flows From Investing Activities		
Purchase of investment securities	(86,242,832)	(76,087,898)
Sale of investment securities	83,399,847	74,370,035
Purchase of fixed assets	(15,057)	(1,550)
Net cash used in investing activities	(2,858,042)	(1,719,413)
Cash Flows From Financing Activities		
Proceeds from annuity obligations (non-gift portion)	14,515	12,141
Payments on long-term debt	(93,889)	(89,255)
Payments on annuity obligations	(272,858)	(274,517)
Agency endowment additions and income, excluding realized and unrealized gain (loss)	1,859,038	2,862,952
Agency endowment disbursements and expenses	(2,265,954)	(2,411,492)
Net cash provided by (used in) financing activities	(759,148)	99,829
Net increase (decrease) in cash and cash equivalents	488,666	(1,562,295)
Cash and Cash Equivalents		
Beginning	1,786,123	3,348,418
Ending	$ 2,274,789	$ 1,786,123
Supplemental Disclosure of Cash Flow Information		
Cash payments for grants	$ 6,008,329	$ 6,322,531
Cash payments for interest	34,473	39,106

See Notes to Consolidated Financial Statements.

1. ***Significant Accounting Policies***

Nature of Foundation

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.

The Foundation also currently coordinates and controls the activity of three supporting organizations; The Corry Community Foundation, The North East Community Foundation, and The Union City Community Foundation. Activity of these organizations is included in the consolidation of these financial statements.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred. Unconditional promises to give (pledges) to the Foundation are recorded as receivables and revenues. Similarly, grants pledged by the Foundation are recorded as grant expense in the year pledged. 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The net assets released from temporarily restricted net assets in 2012 and 2011 were due to satisfaction of time restrictions. There are no permanently restricted net assets.

Donors may restrict contributions for certain beneficiaries. However, the Foundation has “variance power” over these net assets; and, accordingly, they would be presented as unrestricted. 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.

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

i. Unrestricted:

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.

1. ***Significant Accounting Policies (Continued)***

Basis of Accounting (Continued)

ii. Temporarily Restricted:

Annuities and Trusts – These net assets are from charitable remainder and lead trusts and annuities in which the Foundation is the trustee and are temporarily restricted due to time restrictions. The balance in receivables from annuities and trusts is an estimated amount.

Cash and Cash Equivalents

Cash equivalents include amounts in money market accounts. Cash balances with banks generally exceed FDIC insured limits. The Foundation has not experienced any losses with these accounts in the past.

Investments

The Foundation's investments are carried at fair value.

The change between fair value and cost of investments bought, sold and held during the year (realized and unrealized) is reflected as investment net appreciation (depreciation) within the Statements of Activities.

Investment income is allocated to all funds based on each fund's participation in the pool.

Fair Value Measurement

Generally accepted accounting principles (GAAP) establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement and enhances disclosures about fair value measurements. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

Gifts Receivable

Documented unconditional promises to give from donors to contribute cash or other assets to the Foundation are recorded as gifts when the promise is made and it is determined there are no conditions that must be met. The receivables expected to be collected at December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	$ 687,011	$ 332,992
One to five years	298,864	274,864
Total gifts receivable	$ 985,875	$ 607,856

Life Insurance Policies

Certain individuals have donated investments in life insurance policies which are carried at cash values. The cash value of the life insurance investments at December 31, 2012 and 2011 was $258,955 and $272,733, respectively. The total insurance benefit of these life insurance policies, net of policy loans, as of December 31, 2012 and 2011, was $1,093,000 and $1,136,000, respectively.

1. ***Significant Accounting Policies (Continued)***

Fixed Assets

Fixed assets are recorded at cost. Furniture, equipment and software are depreciated on a straight-line basis over three to ten-year time periods. Buildings are being depreciated over forty years, and building improvements are being depreciated over ten to twenty-year time periods. Repairs and maintenance costs are expensed when incurred.

Fixed assets consist of the following at December 31:

	2012	2011
Land and land improvements	$ 85,326	$ 85,326
Buildings	285,866	285,866
Building improvements	878,741	878,741
Furniture and fixtures	467,514	452,456
Computer software	31,720	31,720
	1,749,167	1,734,109
Less: Accumulated depreciation	545,670	438,161
Net fixed assets	$ 1,203,497	$ 1,295,948

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.

Agency Endowments

These amounts represent amounts held by the Foundation on behalf of other charitable organizations. Additions and reductions of agency endowment funds do not affect amounts reflected on the Statements of Activities.

	2012	2011
Balance January 1	$ 46,209,164	$ 48,183,753
Additions	541,344	1,723,827
Net investment income (loss), net of investment fees	5,436,621	(1,286,924)
Expenses	(238,122)	(239,707)
Withdrawals	(2,027,832)	(2,171,785)
Balance December 31	$ 49,921,175	$ 46,209,164

Contributed Services

The Trustees of the Foundation 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.

1. ***Significant Accounting Policies (Continued)***

Use of Estimates

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

Tax Status

The Foundation is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation has received a determination from the Internal Revenue Service that it is a publicly supported charity described in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code of 1986, as amended. The Foundation is subject to unrelated business income tax on income generated from certain limited partnership investments. The amount of income subject to unrelated business income tax is not significant.

The Foundation has adopted accounting standards as they relate to uncertain tax positions and has evaluated its tax positions taken for all open tax years. Currently, the 2012, 2011, 2010 and 2009 tax years are open and subject to examination by the Internal Revenue Service and by the Pennsylvania Department of Revenue. However, the Foundation is not currently under audit, nor has the Foundation been contacted by any of these jurisdictions. The Foundation has not been subject to any income tax penalties or interest for all open tax years.

Based on the evaluation of the Foundation's tax positions and elections, management believes that all tax positions taken and the tax-exempt status of the Organization would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions or the revocation of the Foundation's tax-exempt status has been recorded as of and for the years ended December 31, 2012 and 2011.

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.

Subsequent Events

The Foundation has evaluated its December 31, 2012 financial statements for subsequent events through September 27, 2013, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the 2011 financial statements and related footnote disclosures have been reclassified to conform to the 2012 presentation.

2. ***Investments***

Investments, including agency endowments, at December 31, 2012 consisted of the following:

	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Cash and money market funds	$ 5,188,559	$ 5,188,559	$ -
Common stocks	42,484,119	35,839,192	6,644,927
Mutual funds	106,949,579	98,581,220	8,368,359
Corporate and treasury bonds	340,413	341,221	(808)
Mortgages	29,055	28,751	304
Limited partnerships	11,497,907	8,616,856	2,881,051
Alternative investments	14,356,303	11,447,135	2,909,168
	$ 180,845,935	$ 160,042,934	$ 20,803,001

The Foundation realized gains on the sale of investments equal to $82,609 in 2012.

Investments, including agency endowments, at December 31, 2011 consisted of the following:

	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Cash and money market funds	$ 3,838,940	$ 3,838,942	$ (2)
Common stocks	42,178,803	37,473,600	4,705,203
Mutual funds	85,441,722	87,782,321	(2,340,599)
Corporate and treasury bonds	1,462,979	1,457,955	5,024
Mortgages	36,192	32,572	3,620
Limited partnerships	10,697,456	10,028,225	669,231
Alternative investments	13,718,634	11,447,135	2,271,499
	$ 157,374,726	$ 152,060,750	$ 5,313,976

The Foundation realized losses on the sale of investments equal to $347,392 in 2011.

The Board of Trustees sets overall investment objectives after consultation with an independent investment consulting firm. Specific security buy and sell decisions are made by the custodians of Foundation funds. The Board of Trustees reviews investment performance of the advisors and also periodically meets with representatives of those advisors for the purpose of discussing investment performance and objectives. There are no significant concentrations of investments by industry, company, or fund.

The Corry Community Foundation (Corry), a supporting organization of the Foundation, has pledged investment assets as collateral of $2 million in connection with an agreement between Corry and a regional health organization. These assets are part of the Corry Memorial Hospital Agency Endowment.

3. ***Fair Value Measurement***

GAAP establishes a framework for measuring fair value and requires certain disclosures about the fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 – Inputs to the valuation methodology include: 1) Quoted prices for similar assets or liabilities in active markets, 2) Quoted prices for identical or similar assets or liabilities in inactive markets, 3) Inputs other than quoted prices that are observable for the asset or liability, and 4) Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used during the years ended December 31, 2012 and 2011.

Cash and Money Market Funds: These balances represent cash on deposit within third-party custodian accounts or public investment vehicles valued using $1 for the Net Asset Value (NAV). These investments are classified within Level 1 of the valuation hierarchy.

Common Stocks: The Foundation's valuation methodology used to measure the fair value of these investment securities is derived from quoted market prices in an active market. They are classified within Level 1 of the valuation hierarchy.

Mutual Funds: These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is often a quoted price in the active market, and is classified within Level 1 of the valuation hierarchy. When the NAV is not a quoted price in an active market, it is classified within Level 2 of the valuation hierarchy.

Corporate Bonds, Mortgages, and Treasury Bonds: These investments, which are generally long-term in nature, are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. These are classified as Level 2, as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other readily available relevant economic measures.

Limited Partnerships: These investments are privately held investment vehicles that are valued based on the Foundation's estimated portion of the partnership. These investment vehicles are maintained by third-party custodians, and the Foundation records the fair market value based upon their provided information. Based on the lack of observable inputs used in determining the value, these investments are classified within Level 3 of the valuation hierarchy.

3. ***<u>Fair Value Measurement (Continued)</u>***

Alternative Investments: These investments are valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is an estimate provided by the investment manager and, therefore, due to the lack of observable inputs, these investments are classified within Level 3 of the valuation hierarchy.

Beneficial Interests in Trusts: These investments consist of the Foundation's estimated portion of trusts of which they are 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.

Annuity Obligations: These liabilities are valued at present value based upon assumptions of the discount rate and the life expectancy of the annuitant. These liabilities are classified as Level 3.

3. ***Fair Value Measurement (Continued)***

The following table represents the fair value measurements on a recurring basis by major category of asset and liability and level of input as of December 31, 2012:

	December 31, 2012			
	Level 1	Level 2	Level 3	Totals
Assets at fair value:				
Investments:				
Cash and money market funds	$ 5,188,559	$ -	$ -	$ 5,188,559
Common stocks				
Consumer discretionary	4,553,377	-	-	4,553,377
Consumer staples	4,129,225	-	-	4,129,225
Energy	3,677,953	-	-	3,677,953
Financial	8,016,863	-	-	8,016,863
Health care	5,788,195	-	-	5,788,195
Industrials	4,663,845	-	-	4,663,845
Information technology	6,607,151	-	-	6,607,151
Materials	1,854,686	-	-	1,854,686
Other common stocks	3,192,824	-	-	3,192,824
Mutual funds				
Growth	36,352,376	-	-	36,352,376
Income	16,502,566	-	-	16,502,566
Index	7,982,339	-	-	7,982,339
Inflation protected	153,027	-	-	153,027
Total return	45,959,271	-	-	45,959,271
Corporate bonds	-	340,413	-	340,413
Mortgages	-	29,055	-	29,055
Limited partnerships	-	-	11,497,907	11,497,907
Alternative investments	-	-	14,356,303	14,356,303
Total investments at fair value	$ 154,622,257	$ 369,468	$ 25,854,210	$ 180,845,935
Other investments				
Cash and money market funds	$ 5,082	$ -	$ -	$ 5,082
Mutual funds				
Growth	28,077	-	-	28,077
Index	27,653	-	-	27,653
Total return	140,527	-	-	140,527
Total other investments at fair value	$ 201,339	$ -	$ -	$ 201,339
Beneficial interests in trusts	$ -	$ -	$ 792,795	$ 792,795
Liabilities at fair value:				
Annuity obligations	$ -	$ -	$ 2,446,869	$ 2,446,869

3. ***Fair Value Measurement (Continued)***

The following table represents the fair value measurements on a recurring basis by major category of asset and level of input as of December 31, 2011:

	December 31, 2011			
	Level 1	Level 2	Level 3	Totals
Assets at fair value:				
Investments:				
Cash and money market funds	$ 3,838,940	$ -	$ -	$ 3,838,940
Common stocks				
Consumer discretionary	5,437,686	-	-	5,437,686
Consumer staples	4,672,843	-	-	4,672,843
Energy	3,818,139	-	-	3,818,139
Financial	6,757,990	-	-	6,757,990
Health care	5,503,525	-	-	5,503,525
Industrials	4,279,278	-	-	4,279,278
Information technology	6,586,728	-	-	6,586,728
Materials	1,642,265	-	-	1,642,265
Other common stocks	3,480,349	-	-	3,480,349
Mutual funds				
Growth	35,219,542	40,619	-	35,260,161
Income	12,060,330	-	-	12,060,330
Index	5,681,984	-	-	5,681,984
Inflation protected	87,083	-	-	87,083
Total return	32,352,164	-	-	32,352,164
Corporate bonds	-	462,979	-	462,979
Mortgages	-	36,192	-	36,192
Treasury bonds	-	1,000,000	-	1,000,000
Limited partnerships	-	-	10,697,456	10,697,456
Alternative investments	-	-	13,718,634	13,718,634
Total investments at fair value	$ 131,418,846	$ 1,539,790	$ 24,416,090	$ 157,374,726
Other investments				
Cash and money market funds	$ 3,455	$ -	$ -	$ 3,455
Mutual funds				
Growth	27,742	-	-	27,742
Index	10,600	-	-	10,600
Total return	127,944	-	-	127,944
Total other investments at fair value	$ 169,741	$ -	$ -	$ 169,741
Beneficial interests in trusts	$ -	$ -	$ 1,033,599	$ 1,033,599
Liabilities at fair value:				
Annuity obligations	$ -	$ -	$ 2,567,039	$ 2,567,039

3. ***Fair Value Measurement (Continued)***

The following table provides a reconciliation of assets and liabilities measured at fair value on a recurring basis for securities using Level 3 inputs for the year ended December 31, 2012:

	Assets			Liabilities
	Limited Partnerships	Alternative Investments	Beneficial Interests in Trusts	Annuity Obligations
Beginning balance, December 31, 2011	$ 10,697,456	$ 13,718,634	$ 1,033,599	$ 2,567,039
Additions	2,447,720	-	-	14,221
Interest and dividends	243,453	-	-	-
Realized and unrealized gains	1,573,638	637,669	-	-
Withdrawals	(3,464,360)	-	(234,973)	(303,558)
Valuation adjustments	-	-	(5,831)	169,167
Ending balance, December 31, 2012	$ 11,497,907	$ 14,356,303	$ 792,795	$ 2,446,869

The following table provides a reconciliation of assets and liabilities measured at fair value on a recurring basis for securities using Level 3 inputs for the year ended December 31, 2011:

	Assets			Liabilities
	Limited Partnerships	Alternative Investments	Beneficial Interests in Trusts	Annuity Obligations
Beginning balance, December 31, 2010	$ 8,535,535	$ 13,555,802	$ 1,440,364	$ 2,660,247
Additions	3,671,024	-	-	12,141
Realized and unrealized gains (losses)	(8,241)	162,832	(10,540)	-
Withdrawals	(1,500,862)	-	(354,435)	(274,517)
Valuation adjustments	-	-	(41,790)	169,168
Ending balance, December 31, 2011	$ 10,697,456	$ 13,718,634	$ 1,033,599	$ 2,567,039

The Foundation has adopted a policy of recording any transfers of investment securities between the different levels in the fair value hierarchy as of the end of the year, unless circumstances dictate otherwise. There were no significant transfers between the fair value hierarchy levels for the years ended December 31, 2012 and 2011.

3. ***Fair Value Measurement (Continued)***

Level 3 assets and liabilities are being valued as follows:

Alternative investments are being valued using the NAV as provided by the administrator of the investments. The NAV is an estimate and is based on the underlying assets, liabilities, and shares outstanding of the fund. Because the quantitative unobservable inputs used in the valuation of the NAV are not developed by ECF when measuring the fair value, they are not included in the quantitative information table below.

Limited partnerships are being valued based on ECF's estimated portion of the partnership. The limited partnership value is provided by the third-party custodians who maintain these investment vehicles. Because the quantitative unobservable inputs used in the valuation of the limited partnerships are not developed by ECF when measuring the fair value, they are not included in the quantitative information table below.

Beneficial interests in trusts are being valued based on the expected present value of cash flows. Under generally accepted accounting principles, the fair market value of these investments are valued as the Foundation's proportionate share of the trust multiplied by the underlying fair market value of the trust.

In order to initially determine the fair value of the charitable gift annuities and charitable remainder annuity trusts, management utilized discount rates under Internal Revenue Code (IRC) Section 7520(a), the present value for the annuity payments as provided in Table S of the Internal Revenue Service's (IRS) Publication 1457 based upon the age of the annuitant and the discount rate, and adjustments made for the payment frequency and discount rate as provided in Table K of the IRS Publication 1457. In order to initially determine the fair value of the charitable remainder unitrusts, management utilized discount rates under Internal Revenue Code (IRC) Section 7520(a), the present value for the annuity payments as provided in Table F of the Internal Revenue Service's (IRS) Publication 1457 based upon the age of the annuitant and the discount rate, and adjustments made for the payment frequency and discount rate as provided in Table U of the IRS Publication 1457. Management has a policy of reviewing the value of the annuity within three years of the end of the annuity, unless there is a change in status.

The following table provides the quantitative information used by management to determine fair value of Level 3 assets and liabilities as of December 31, 2012:

Instrument	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
Charitable gift annuities	$ 619,341	Income Approach	Discount rates	1.2%	8.4%	5.7%
			IRS Table S factor	1.8982	11.5874	3.6429
			IRS Table K factor	1.0045	1.0310	1.0210
Charitable remainder annuity trust	$ 1,466,640	Income Approach	Discount rates	5.4%	6.0%	5.8%
			IRS Table S factor	9.6802	14.1646	12.6924
			IRS Table K factor	1.0200	1.0222	1.0215
Charitable remainder unitrust	$ 360,888	Income Approach	Discount rates	6.0%	8.0%	6.9%
			IRS Table F factor	0.9718	0.9785	0.9754
			IRS Table U factor	0.3412	0.6059	0.3750

3. ***Fair Value Measurement (Continued)***

At December 31, 2012 and 2011, the Foundation's alternative and limited partnership investments are subject to various withdrawal restrictions as follows:

	2012	2011
Available for redemption:		
Semi-annually	$ 6,938,615	$ 6,781,947
Annually	7,417,688	6,936,687
Subtotal	14,356,303	13,718,634
Subject to distribution	5,229,836	3,540,938
Total	$ 19,586,139	$ 17,259,572

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 or limited partnership 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.

4. ***Program Expenses***

The Erie Community Foundation also provides a number of services and programs designed to enhance the governance and management of nonprofit organizations and to improve the lives of Erie County residents. These services are delivered directly through staff participation in grant making, community-based initiatives, partnerships and coalitions. The following is a detail of program expenses for the years ended December 31, 2012 and 2011:

	2012	2011
Salaries	$ 395,120	$ 425,615
Payroll taxes	24,779	29,237
Employee benefits	76,914	72,750
Meetings and conferences	46,775	76,606
Dues	-	50
Marketing	20,170	37,388
Professional services	-	120,512
Occupancy	19,958	16,387
Vehicle costs	2,700	2,700
Office supplies and expense	9,862	24,918
Fund expenses	-	599
Equipment purchased/rental and maintenance	24,786	19,938
Bayfront Beautification Project	253,063	368,765
Total	$ 874,127	$ 1,195,465

5. ***Supporting Services***

	Administrative	Development	Total 2012	Total 2011
Salaries	$ 255,244	$ 181,521	$ 436,765	$ 429,028
Payroll taxes	20,721	15,159	35,880	33,449
Employee benefits	64,318	47,052	111,370	90,876
Meetings and conferences	39,115	28,614	67,729	63,006
Dues and subscriptions	12,964	-	12,964	13,991
Marketing	20,780	41,179	61,959	100,215
Professional services	65,394	6,189	71,583	68,616
Rent and occupancy	16,689	12,209	28,898	22,684
Equipment purchased/rental and maintenance	30,667	15,163	45,830	30,880
Insurances	31,983	-	31,983	33,485
Vehicle costs	600	2,700	3,300	3,300
Office supplies and expense	13,451	6,034	19,485	28,787
Interest expense	34,473	-	34,473	39,106
Fund administrative and fundraising expenses	450	1,406	1,856	1,097
Total	$ 606,849	$ 357,226	$ 964,075	$ 958,520

6. ***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 statement of activities as a temporarily restricted contribution in the period the trust or annuity is established. There was a new liability established in 2012 for a total of $14,514, and one contribution was received in 2011 for $12,141. Assets held in these trusts totaled $3,124,748 and $3,166,765 at December 31, 2012 and 2011, respectively, and are reported in investments at fair market value in the 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 8.4% and applicable mortality tables. The annuity obligation at December 31, 2012 and 2011 is estimated to be $2,446,869 and $2,567,039, respectively.

Beneficial Interests in Trusts

The Foundation is also the beneficiary of charitable remainder and lead trusts, where the Foundation does not hold the trust assets. For these trusts, the Foundation records an estimated fair value amount for these beneficial interests equal to the present value of estimated expected cash flows to be received. The estimated value of the beneficial interests totaled $792,795 and $1,033,599 as of December 31, 2012 and 2011, respectively.

7. ***Retirement and Deferred Compensation Plans***

The Foundation has established a 401(k) retirement plan that provides for an employer matching contribution. For the years ended December 31, 2012 and 2011, the employer matching contribution was equal to 100% of employee deferral amounts up to 7% of the participant's salary. There are no eligibility or service requirements for employees to participate in making elective deferrals to the plan. Employees who meet certain eligibility requirements are available to receive employer matching contributions. In 2012 and 2011, the expense related to this plan totaled $63,130 and $61,730, respectively.

The Foundation established a deferred compensation plan for the President during 2004. The expense for 2012 was $31,598, and the expense for 2011 was $6,325. The liability of $201,339 and $169,741 at December 31, 2012 and 2011, respectively, is included in accounts payable and accrued expenses.

8. ***Note Payable***

In 2008, the Foundation obtained a note payable with PNC Bank in the amount of $1,000,000, with a fixed interest rate of 5.11% per annum and a monthly payment of $10,697. Principal outstanding at December 31, 2012 and 2011 totaled $612,431 and $706,320, respectively. The loan is collateralized by the PNC Mutual Funds Investment Account, with a current market value of $63.9 million. The following table represents the current and future obligations of the note:

Current	$ 99,688
2014	104,596
2015	110,068
2016	115,826
2017	121,886
Years thereafter	60,367

9. ***Commitments***

As of December 31, 2012, the Foundation has commitments to five private equity funds to invest funds totaling $24,000,000. As of December 31, 2012, the Foundation made capital contributions of $13,922,541, leaving a remaining commitment of $10,077,459.