The Erie Community Foundation

Auditor's Report and Consolidated Financial Statements

December 31, 2013 and 2012

BKD LLP
CPAs & Advisors

The Erie Community Foundation

December 31, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors

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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 supporting organizations (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Erie Community Foundation and its supporting organizations as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2012 financial statements were audited by other auditors and their report thereon, dated September 27, 2013, expressed an unqualified opinion.

BKD, LLP

Erie, Pennsylvania
September 29, 2014

The Erie Community Foundation

Consolidated Statements of Financial Position

December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 1,677,821	$ 2,274,789
Investments	202,190,452	180,845,935
Other investments	242,475	201,339
Accrued interest income	446,137	136,859
Contributions receivable	702,332	985,875
Beneficial interests in trusts	834,420	792,795
Other assets	542,027	585,594
Cash value of life insurance	148,734	258,955
Property and equipment, net	1,118,854	1,203,497
Total assets	$ 207,903,252	$ 187,285,638
Liabilities		
Note payable	$ 513,458	$ 612,431
Grants payable	1,635,568	1,028,815
Accounts payable and accrued expenses	357,245	243,593
Annuity obligations	2,323,175	2,446,869
Agency endowments	55,848,591	49,921,175
Total liabilities	60,678,037	54,252,883
Net Assets		
Unrestricted		
Discretionary	63,560,368	59,014,532
Donor advised	30,598,368	26,681,957
Donor designated	34,149,400	30,393,639
Field of interest	684,298	481,137
Geographic	2,114,393	1,995,681
Scholarship funds	15,433,526	13,787,930
Total unrestricted	146,540,353	132,354,876
Temporarily Restricted		
Annuities and trusts	684,862	677,879
Total temporarily restricted	684,862	677,879
Total net assets	147,225,215	133,032,755
Total liabilities and net assets	$ 207,903,252	$ 187,285,638

The Erie Community Foundation

Consolidated Statement of Activities

Year Ended December 31, 2013

	Discretionary	Donor Advised	Donor Designated	Field of Interest
Revenues				
Public support and revenue	$ 2,166,898	$ 2,764,343	$ 1,410,186	$ 187,093
Administrative revenue from funds	1,358,630	-	-	-
Grant and other revenue	107,126	-	-	-
Change in value of split interest agreements	19,820	8,114	120,789	-
Investment net appreciation	5,582,332	3,052,963	3,381,412	54,362
Investment income	2,158,092	658,562	726,095	11,708
Investment fees	(224,440)	(91,010)	(102,455)	(1,651)
Total revenues	11,168,458	6,392,972	5,536,027	251,512
Net Assets Released Resulting From Satisfaction of Restrictions	2,994	-	-	-
Expenses				
Grants, philanthropic services and special projects				
Grants	4,201,330	2,242,362	1,733,065	30,957
Program expense	974,863	-	-	-
Total grants, philanthropic services and special projects	5,176,193	2,242,362	1,733,065	30,957
Supporting Services				
Administrative costs	1,173,700	157,658	178,497	17,394
Development expense	336,558	-	-	-
Depreciation expense	105,950	-	-	-
Total supporting services	1,616,208	157,658	178,497	17,394
Total expenses	6,792,401	2,400,020	1,911,562	48,351
Change in Net Assets	4,379,051	3,992,952	3,624,465	203,161
Transfers of Net Assets	166,785	(76,541)	131,296	-
Net Assets, Beginning of Year	59,014,532	26,681,957	30,393,639	481,137
Net Assets, End of Year	$ 63,560,368	$ 30,598,368	$ 34,149,400	$ 684,298

Geographic	Scholarship Funds	Annuities and Trusts	Total Before Eliminations	Less Interfund Gifts/Grants	Total 2013
$ 8,703	$ 584,300	$ 108,404	$ 7,229,927	$ (1,224,341)	$ 6,005,586
-	-	-	1,358,630	(1,087,047)	271,583
-	2,802	-	109,928	-	109,928
-	-	58,814	207,537	-	207,537
219,698	1,545,232	54,466	13,890,465	-	13,890,465
46,702	332,731	11,558	3,945,448	-	3,945,448
(6,713)	(47,299)	(1,725)	(475,293)	-	(475,293)
268,390	2,417,766	231,517	26,266,642	(2,311,388)	23,955,254
-	-	(2,994)	-	-	-
128,116	630,878	-	8,966,708	(1,224,341)	7,742,367
-	-	-	974,863	-	974,863
		-			
128,116	630,878	-	9,941,571	(1,224,341)	8,717,230
19,265	141,292	-	1,687,806	(1,087,047)	600,759
2,297	-	-	338,855		338,855
-	-	-	105,950		105,950
21,562	141,292	-	2,132,611	(1,087,047)	1,045,564
149,678	772,170	-	12,074,182	(2,311,388)	9,762,794
118,712	1,645,596	228,523	14,192,460	-	14,192,460
-	-	(221,540)	-		-
1,995,681	13,787,930	677,879	133,032,755	-	133,032,755
$ 2,114,393	$ 15,433,526	$ 684,862	$ 147,225,215	$ -	$ 147,225,215

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	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, Beginning of Year	55,395,567	16,912,367	25,237,808	456,831
Net Assets, End of Year	$ 59,014,532	$ 26,681,957	$ 30,393,639	$ 481,137

See Notes to Consolidated Financial Statements.

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

The Erie Community Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	$ 14,192,460	$ 20,040,114
Items not requiring (providing) operating activities cash flows		
Depreciation expense	105,950	107,508
Net appreciation in investments	(13,890,465)	(10,103,762)
Donated securities	(734,989)	(6,437,133)
Decrease (increase) in cash value of life insurance	110,221	13,778
Changes in split interest agreements	88,931	378,977
Changes in		
Accrued interest income	(309,278)	81,789
Gifts receivable	283,543	(378,019)
Other assets	43,567	79,766
Accounts payable, accrued expenses and grants payable	720,405	322,838
Net cash provided by operating activities	610,345	4,105,856
Investing Activities		
Purchase of investments	(151,473,273)	(86,242,832)
Proceeds from sale of investments	150,486,469	83,399,847
Purchase of fixed assets	(21,307)	(15,057)
Net cash used in investing activities	(1,008,111)	(2,858,042)
Financing Activities		
Proceeds from annuity obligations (non-gift portion)	-	14,515
Principle payments on long-term debt	(98,973)	(93,889)
Payments on annuity obligations	(254,250)	(272,858)
Agency endowment additions and income, excluding realized and unrealized gain	2,884,378	1,859,038
Agency endowment disbursements and expenses	(2,730,357)	(2,265,954)
Net cash used in financing activities	(199,202)	(759,148)
Net Increase (Decrease) in Cash and Cash Equivalents	(596,968)	488,666
Cash and Cash Equivalents, Beginning	2,274,789	1,786,123
Cash and Cash Equivalents, Ending	$ 1,677,821	$ 2,274,789
Supplemental Cash Flows Information		
Cash payments for grants	$ 7,135,614	$ 6,008,329
Interest paid	29,389	34,473

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

Nature of Operations

The Erie Community Foundation (Foundation) is a public charity primarily serving donors and the nonprofit sector in Erie County, Pennsylvania. The Foundation encourages the establishment of new charitable endowment funds and provides competitive, donor-advised/designated and scholarship grants to Arts and Culture, Community Development, Education, Health, Neighborhood Revitalization and Human Service organizations. The Foundation also provides a donor education program. Substantially all contributions received are from individuals with ties to Erie County.

Principles of Consolidation

The Foundation coordinates and controls the activity of three supporting organizations; The Corry Community Foundation, The North East Community Foundation, and The Union City Community Foundation. The consolidated financial statements include the financial transactions of the Foundation and these supporting 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.

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 2013 and 2012 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.

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

For purposes of reporting cash flows, the Foundation considers all investments with an original maturity of three months or less to be cash equivalents. All of the Foundation's cash and cash equivalents are maintained as a component of the Foundation's managed portfolio, and as such, are not insured by the Federal Deposit Insurance Corporation. At December 31, 2013 and 2012, cash equivalents consisted primarily of money market mutual funds.

Investments and Investment Return

Investments 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.

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.

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, 2013 and 2012 are summarized as follows:

	2013	2012
Unconditional promises expected to be collected in:		
Less than one year	$ 602,172	$ 687,011
One to five years	100,160	298,864
Total gifts receivable	$ 702,332	$ 985,875

The discount rate for December 31, 2013 and 2012 was 3.25%.

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, 2013 and 2012 was $148,734 and $258,955, respectively. The total insurance benefit of these life insurance policies, net of policy loans, as of December 31, 2013 and 2012, was $399,000 and $1,093,000, respectively.

Property and Equipment

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

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

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.

	2013	2012
Balance January 1	$ 49,921,175	$ 46,209,164
Additions	1,726,084	541,344
Net investment income, net of investment fees	6,931,689	5,436,621
Expenses	(256,005)	(238,122)
Withdrawals	(2,474,352)	(2,027,832)
Balance December 31	$ 55,848,591	$ 49,921,175

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.

Income Taxes

All of the aforementioned entities are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, all entities are subject to federal income tax on any unrelated business taxable income. The Foundation and its related entities file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

Risks and Uncertainties

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

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Investments

Investments, including agency endowments, at December 31, 2013, consisted of the following:

	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Cash and money market funds	$ 4,510,259	$ 4,510,259	$ -
Common stocks	37,637,768	34,948,409	2,689,359
Mutual funds	116,406,491	103,959,114	12,447,377
Corporate and treasury bonds	106,270	101,637	4,633
Mortgages	24,668	24,569	99
Limited partnerships	20,291,666	12,816,189	7,475,477
Alternative investments	23,213,330	25,767,784	(2,554,454)
	$ 202,190,452	$ 182,127,961	$ 20,062,491

The Foundation realized gains on the sale of investments equal to $17,926,324 in 2013 (this includes gains in agency endowments).

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 (this includes gains in agency endowments).

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.

Note 3: Disclosures About Fair Value of Assets and Liabilities

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 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

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

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.

***Comingled Investment Funds*:** These investments are 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 units outstanding. The NAV is not a quoted price in an active market, it is classified within Level 2 of the valuation hierarchy.

***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.

***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.

The Erie Community Foundation

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

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, 2013:

	December 31, 2013			
	Level 1	Level 2	Level 3	Totals
Assets at Fair Value				
Investments				
Cash and money market funds	$ 4,510,259	$ -	$ -	$ 4,510,259
Common stocks				
Consumer discretionary	970,618	-	-	970,618
Consumer staples	1,769,199	-	-	1,769,199
Energy	1,266,285	-	-	1,266,285
Financial	2,845,037	-	-	2,845,037
Health care	1,889,154	-	-	1,889,154
Industrials	2,515,923	-	-	2,515,923
Information technology	1,809,831	-	-	1,809,831
Materials	678,227	-	-	678,227
Other common stocks	158,489	-	-	158,489
Mutual funds				
Growth	40,213,762	-	-	40,213,762
Income	10,618,187	-	-	10,618,187
Index	40,780,863	-	-	40,780,863
Inflation protected	17,329	-	-	17,329
Total return	24,776,350	-	-	24,776,350
Corporate bonds	-	106,270	-	106,270
Mortgages	-	24,668	-	24,668
Comingled investment funds	-	23,735,005	-	23,735,005
Limited partnerships	-	-	20,291,666	20,291,666
Alternative investments	-	-	23,213,330	23,213,330
Total investments at fair value	$ 134,819,513	$ 23,865,943	$ 43,504,996	$ 202,190,452
Other Investments				
Cash and money market funds	$ 8,536	$ -	$ -	$ 8,536
Mutual funds				
Growth	37,163	-	-	37,163
Index	29,213	-	-	29,213
Total return	167,563	-	-	167,563
Total other investments at fair value	$ 242,475	$ -	$ -	$ 242,475
Beneficial Interests in Trusts	$ -	$ -	$ 834,420	$ 834,420
Liabilities at Fair Value				
Annuity Obligations	$ -	$ -	$ 2,323,175	$ 2,323,175

The Erie Community Foundation

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

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, 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

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, 2013:

	Assets			Liabilities
	Limited Partnerships	Alternative Investments	Beneficial Interests in Trusts	Annuity Obligations
Beginning Balance, December 31, 2012	$ 11,497,907	$ 14,356,303	$ 792,795	$ 2,446,869
Additions	10,366,161	18,200,000	-	-
Interest and dividends	389,970	66,911	-	-
Realized and unrealized gains	2,484,525	1,290,643	-	-
Withdrawals	(4,446,897)	(10,700,527)	(134,802)	(254,250)
Valuation adjustments	-	-	176,427	130,556
Ending Balance, December 31, 2013	$ 20,291,666	$ 23,213,330	$ 834,420	$ 2,323,175

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 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, 2013 and 2012.

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, 2013:

Instrument	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
Charitable Gift Annuities	$ 516,495	Income Approach	Discount Rates	1.2%	8.4%	5.67%
			IRS Table S Factor	1.7971	11.5874	3.476
			IRS Table K Factor	1.0045	1.0310	1.0210
Charitable Remainder Annuity Trust	$ 1,448,488	Income Approach	Discount Rates	5.4%	6.0%	5.81%
			IRS Table S Factor	9.4133	14.0475	12.525
			IRS Table K Factor	1.0200	1.0222	1.0215
Charitable Remainder Unitrust	$ 358,192	Income Approach	Discount Rates	6.0%	8.0%	6.97%
			IRS Table F Factor	0.9718	0.9785	0.9753
			IRS Table U Factor	0.3412	0.6059	0.3750

At December 31, 2013 and 2012, the Foundation's investments in certain limited partnership alternative investments and 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 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.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying Consolidated Statements of Financial Position at amounts other than fair value.

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

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

Accrued Investment Income: The carrying value approximates fair value.

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

Note Payable: The carrying value approximates fair value.

Note 4: Endowments

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

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

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

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment, while seeking to maintain the purchasing power of the endowment. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed each investment strategy's respective index, while assuming a moderate level of investment risk. The primary investment objective of the Fund is to achieve an annualized total return (net of fees and expenses), equal to or greater than the rate of inflation plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power of the funds. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending. Actual returns in any given year may vary from this amount.

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

At December 31, 2013 and 2012, 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.

Note 5: Property and Equipment

The Foundation's property and equipment are as follows:

	2013	2012
Land and land improvements	$ 85,326	$ 85,326
Buildings	285,866	285,866
Building improvements	878,741	878,741
Furniture and fixtures	477,346	467,514
Computer software	43,195	31,720
	1,770,474	1,749,167
Less: accumulated depreciation	651,620	545,670
	$ 1,118,854	$ 1,203,497

Note 6: Program Expenses

The Erie Community Foundation 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, 2013 and 2012:

	2013	2012
Salaries	$ 362,156	$ 395,120
Payroll taxes	25,973	24,779
Employee benefits	74,312	76,914
Meetings and conferences	41,161	46,775
Marketing	26,426	20,170
Occupancy	16,147	19,958
Vehicle costs	2,700	2,700
Office supplies and expense	12,249	9,862
Equipment purchased/rental and maintenance	25,098	24,786
Bayfront Beautification Project	388,641	253,063
Total	$ 974,863	$ 874,127

Note 7: Supporting Services

The following table represents the supporting services expenses:

	Administrative	Development	Total 2013	Total 2012
Salaries	$ 262,033	$ 165,928	$ 427,961	$ 436,765
Payroll taxes	21,719	15,889	37,608	35,880
Employee benefits	62,142	45,460	107,602	111,370
Meetings and conferences	33,022	35,066	68,088	67,729
Dues and subscriptions	11,788	-	11,788	12,964
Marketing	27,226	31,916	59,142	61,959
Professional services	63,449	6,324	69,773	71,583
Rent and occupancy	13,502	9,878	23,380	28,898
Equipment purchased/rental and maintenance	25,893	15,354	41,247	45,830
Insurances	30,720	-	30,720	31,983
Vehicle costs	600	2,700	3,300	3,300
Office supplies and expense	18,001	7,494	25,495	19,485
Interest expense	29,389	-	29,389	34,473
Fund administrative and fundraising expenses	1,275	2,846	4,121	1,856
Total	$ 600,759	$ 338,855	$ 939,614	$ 964,075

Note 8: Split-Interest Agreements

Assets Held and Annuity Obligations

The Foundation administers various charitable remainder trusts and gift annuities. These trusts and annuities provide for the payment of distributions to the grantor or other designated beneficiaries over the trust or annuity terms (usually the designated beneficiary's lifetime). At the end of the term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Consolidated Statement of Activities as a temporarily restricted contribution in the period the trust or annuity is established. There were no new liabilities established in 2013 and one contribution was received in 2012 for $14,514. Assets held in these trusts totaled $3,008,037 and $3,124,748 at December 31, 2013 and 2012, 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, 2013 and 2012 is estimated to be $2,323,175 and $2,446,869, 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 $834,420 and $792,795 as of December 31, 2013 and 2012, respectively.

Note 9: 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, 2013 and 2012, 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 2013 and 2012, the expense related to this plan totaled $50,677 and $63,130, respectively.

The Foundation established a deferred compensation plan for the President during 2004. The expense for 2013 was $41,135, and the expense for 2012 was $31,598. The liability of $242,474 and $201,339 at December 31, 2013 and 2012, respectively, is included in accounts payable and accrued expenses.

Note 10: Note Payable

In 2008, the Foundation obtained a note payable with PNC Bank in the amount of $1,000,000 (for the purchase and renovations of the Foundation's home office), with a fixed interest rate of 5.11% per annum and a monthly payment of $10,697. Principal outstanding at December 31, 2013 and 2012 totaled $513,458 and $612,431, 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	$ 104,808
2015	110,033
2016	115,789
2017	121,847
2018	60,981

Note 11: Commitments

As of December 31, 2013, the Foundation has commitments to five private equity funds to invest funds totaling $27,650,000. As of December 31, 2013, the Foundation made capital contributions of $12,037,067, leaving a remaining commitment of $15,612,933.

Note 12: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.