

# **The Erie Community Foundation**

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2016 and 2015



**The Erie Community Foundation**  
**December 31, 2016 and 2015**

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## Independent Auditor's Report

Board of Trustees  
The Erie Community Foundation  
Erie, Pennsylvania

We have audited the accompanying consolidated financial statements of The Erie Community Foundation (Foundation) and its affiliated organizations (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 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 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.

Board of Trustees  
The Erie Community Foundation  
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***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Erie Community Foundation and its affiliated organizations as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Erie, Pennsylvania  
October 3, 2017

**The Erie Community Foundation**  
**Consolidated Statements of Financial Position**  
**December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,499,726	\$ 2,021,405
Investments	215,213,646	201,524,856
Other investments - deferred compensation	304,333	267,106
Accrued interest income	25,535	236,509
Contributions receivable	651,129	4,527,269
Beneficial interests in trusts	434,022	429,739
Other assets	517,092	569,880
Property and equipment, net	2,453,290	972,249
Total assets	\$ 222,098,773	\$ 210,549,013
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Grants payable	\$ 4,321,547	\$ 1,362,587
Accounts payable and accrued expenses	791,466	317,609
Note payable	183,944	299,480
Annuity obligations	1,985,550	2,080,842
Amounts held for others	56,754,882	55,826,633
Total liabilities	64,037,389	59,887,151
<b>Net Assets</b>		
Unrestricted	157,661,484	150,262,668
Temporarily restricted	399,900	399,194
Total net assets	158,061,384	150,661,862
Total liabilities and net assets	\$ 222,098,773	\$ 210,549,013

**The Erie Community Foundation**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2016**

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue and Support</b>			
Public support and revenue	\$ 9,303,472	\$ -	\$ 9,303,472
Administrative revenue from funds	286,954	-	286,954
Grant and other revenue	24,562	-	24,562
Change in value of split interest agreements	(18,141)	(30,399)	(48,540)
Net realized and unrealized gains on investments	10,573,167	29,462	10,602,629
Investment income, net of fees of \$955,729	1,415,955	3,895	1,419,850
	<u>21,585,969</u>	<u>2,958</u>	<u>21,588,927</u>
<b>Total revenue and support</b>			
	<u>21,585,969</u>	<u>2,958</u>	<u>21,588,927</u>
<b>Net Assets Released Resulting From Satisfaction of Restrictions</b>	<u>2,252</u>	<u>(2,252)</u>	<u>-</u>
<b>Expenses</b>			
Grants, philanthropic services and special projects			
Grants	11,893,201	-	11,893,201
Program expense	721,752	-	721,752
	<u>12,614,953</u>	<u>-</u>	<u>12,614,953</u>
<b>Total grants, philanthropic services and special projects</b>			
	<u>12,614,953</u>	<u>-</u>	<u>12,614,953</u>
<b>Supporting Services</b>			
Administrative costs	690,274	-	690,274
Development expense	413,028	-	413,028
Loss on impairment	288,967	-	288,967
Depreciation expense	182,183	-	182,183
	<u>1,574,452</u>	<u>-</u>	<u>1,574,452</u>
<b>Total supporting services</b>			
	<u>1,574,452</u>	<u>-</u>	<u>1,574,452</u>
<b>Total expenses</b>	<u>14,189,405</u>	<u>-</u>	<u>14,189,405</u>
<b>Change in Net Assets</b>	7,398,816	706	7,399,522
<b>Net Assets, Beginning of Year</b>	<u>150,262,668</u>	<u>399,194</u>	<u>150,661,862</u>
<b>Net Assets, End of Year</b>	<u>\$ 157,661,484</u>	<u>\$ 399,900</u>	<u>\$ 158,061,384</u>

**The Erie Community Foundation**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2015**

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue and Support</b>			
Public support and revenue	\$ 18,132,356	\$ 26,451	\$ 18,158,807
Administrative revenue from funds	289,291	-	289,291
Grant and other revenue	30,259	-	30,259
Change in value of split interest agreements	(25,366)	(180,076)	(205,442)
Net realized and unrealized losses on investments	(4,755,358)	(14,345)	(4,769,703)
Investment income, net of fees of \$760,212	1,583,504	5,159	1,588,663
	<u>15,254,686</u>	<u>(162,811)</u>	<u>15,091,875</u>
<b>Total revenue and support</b>			
	<u>28,528</u>	<u>(28,528)</u>	<u>-</u>
<b>Net Assets Released Resulting From Satisfaction of Restrictions</b>			
<b>Expenses</b>			
Grants, philanthropic services and special projects			
Grants	8,477,035	-	8,477,035
Program expense	795,215	-	795,215
	<u>9,272,250</u>	<u>-</u>	<u>9,272,250</u>
<b>Total grants, philanthropic services and special projects</b>			
	<u>9,272,250</u>	<u>-</u>	<u>9,272,250</u>
<b>Supporting Services</b>			
Administrative costs	667,950	-	667,950
Development expense	391,813	-	391,813
Depreciation expense	113,880	-	113,880
	<u>1,173,643</u>	<u>-</u>	<u>1,173,643</u>
<b>Total supporting services</b>			
	<u>1,173,643</u>	<u>-</u>	<u>1,173,643</u>
<b>Total expenses</b>			
	<u>10,445,893</u>	<u>-</u>	<u>10,445,893</u>
<b>Change in Net Assets</b>	4,837,321	(191,339)	4,645,982
<b>Net Assets, Beginning of Year</b>	<u>145,425,347</u>	<u>590,533</u>	<u>146,015,880</u>
<b>Net Assets, End of Year</b>	<u>\$ 150,262,668</u>	<u>\$ 399,194</u>	<u>\$ 150,661,862</u>

**The Erie Community Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Change in net assets	\$ 7,399,522	\$ 4,645,982
Items not requiring (providing) operating activities cash flows		
Depreciation expense	182,183	113,880
Net realized and unrealized (gains) losses on investments	(10,602,629)	4,769,703
Donated securities	(2,262,790)	(7,810,180)
Loss on impairment of long-lived assets	288,967	-
Changes in split interest agreements	134,124	125,845
Changes in		
Accrued interest income	210,974	123,762
Contributions receivable	3,876,140	(3,877,081)
Other assets	52,788	63,744
Accounts payable, accrued expenses and grants payable	<u>3,432,817</u>	<u>(244,373)</u>
Net cash provided by (used in) operating activities	<u>2,712,096</u>	<u>(2,088,718)</u>
<b>Investing Activities</b>		
Purchase of investments	(70,914,197)	(50,967,114)
Proceeds from sale of investments	70,053,599	54,622,290
Purchase of property and equipment	<u>(1,952,191)</u>	<u>(58,060)</u>
Net cash provided by (used in) investing activities	<u>(2,812,789)</u>	<u>3,597,116</u>
<b>Financing Activities</b>		
Proceeds from annuity obligations (non-gift portion)	-	23,549
Principal payments on long-term debt	(115,536)	(109,754)
Payments on annuity obligations	(233,699)	(239,006)
Change in amounts held for others	<u>928,249</u>	<u>(2,410,829)</u>
Net cash provided by (used in) financing activities	<u>579,014</u>	<u>(2,736,040)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	478,321	(1,227,642)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,021,405</u>	<u>3,249,047</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,499,726</u>	<u>\$ 2,021,405</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 13,246	\$ 18,608

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

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

***Nature of Operations***

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

***Principles of Consolidation***

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

***Use of Estimates***

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

***Temporarily and Permanently Restricted Net Assets***

The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Resources are classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. The Foundation reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets to a specific time period or purpose. 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 consolidated statement of activities as net assets released from restrictions. The net assets released from temporarily restricted net assets in 2016 and 2015 were due to satisfaction of time restrictions. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. There are no permanently restricted net assets.

# The Erie Community Foundation

## Notes to Consolidated Financial Statements

### December 31, 2016 and 2015

Donors may restrict contributions for certain beneficiaries. However, the Foundation has “variance power” over these net assets and, accordingly, they are presented as unrestricted net assets. 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. Such designations are not binding on the Foundation, but are taken into consideration when making scholarship awards.

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.

### **Cash and Cash Equivalents**

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market funds.

At December 31, 2016, the Foundation’s cash accounts exceeded federally insured limits by approximately \$1,839,000.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

***Investments and Investment Return***

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

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

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

***Property and Equipment***

Property and equipment 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:

	<b><u>Years</u></b>
Land improvements	10 - 20
Buildings	40
Building improvements	10 - 20
Furniture and fixtures	5 - 20
Computer software	3

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
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***Long-Lived Asset Impairment***

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

For the year ended December 31, 2016, the Foundation purchased and demolished a building, recognizing approximately \$289,000 of impairment. No asset impairment was recognized during the year ended December 31, 2015.

***Grants Payable***

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

***Amounts Held for Others***

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

	<b>2016</b>	<b>2015</b>
<b>Balance, January 1</b>	\$ 55,826,633	\$ 58,237,462
Additions	1,859,691	3,556,261
Net investment income (loss), net of investment fees	4,133,389	(1,095,817)
Expenses	(281,613)	(278,749)
Withdrawals	(4,783,218)	(4,592,524)
<b>Balance, December 31</b>	<b>\$ 56,754,882</b>	<b>\$ 55,826,633</b>

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets. 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.

***Contributed Services***

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

***Income Taxes***

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

The Foundation and its related entities file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

***Functional Allocation of Expenses***

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

***Risks and Uncertainties***

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

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
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***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

**Note 2: Investments**

The Foundation's investments, including amounts held for others, are as follows:

	<u>2016</u>	<u>2015</u>
Cash and money market funds	\$ 2,626,547	\$ 3,206,107
Common stocks	18,690,632	18,029,261
Mutual funds	94,697,064	86,567,799
Corporate and treasury bonds	8,716	6,735,091
Common trust funds	29,272,719	28,824,193
Alternative investments and other		
Private equity	14,604,827	9,481,726
International equity	13,917,369	12,423,796
Real assets	18,968,224	13,285,464
Absolute return	10,052,268	12,591,371
Hedge equity	12,375,280	10,380,048
	<u>\$ 215,213,646</u>	<u>\$ 201,524,856</u>

***Other Investments – Deferred Compensation***

	<u>2016</u>	<u>2015</u>
Cash and money market funds	\$ 4,538	\$ 4,114
Common stock	4,169	4,203
Mutual funds		
Growth	8,756	15,062
Total return	248,295	210,312
Index	38,575	33,415
	<u>\$ 304,333</u>	<u>\$ 267,106</u>

**The Erie Community Foundation**  
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Total investment return is comprised of the following:

	<b>2016</b>	<b>2015</b>
Investment and dividend income	\$ 1,419,850	\$ 1,588,663
Net realized and unrealized gains (losses) on investments reported at fair value	10,602,629	(4,769,703)
Investment return for the Foundation	\$ 12,022,479	\$ (3,181,040)
Investment return for amounts held for others	\$ 4,133,389	\$ (1,095,817)

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.

The Corry Community Foundation (Corry), an affiliated organization of the Foundation, has pledged investment assets of approximately \$2.1 million in connection with an agreement between Corry and a regional health organization. These assets are part of the Corry Memorial Hospital Agency Endowment.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
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**Alternative Investments**

The fair values of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at December 31:

<b>2016</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Assets</b>				
Private equity (A)	\$ 14,604,827	\$ 21,331,992	N/A	N/A
International equity (B)	13,917,369	-	Monthly	30 days
Real assets (C)	18,968,224	14,490,701	Monthly	30 days
Absolute return (D)	10,052,268	-	Monthly	30 days
Hedge equity (E)	12,375,280	-	Monthly	30 days
<b>2015</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Assets</b>				
Private equity (A)	\$ 9,481,726	\$ 17,153,602	N/A	N/A
International equity (B)	12,423,796	-	Monthly	30 days
Real assets (C)	13,285,464	14,885,155	Monthly	30 days
Absolute return (D)	12,591,371	-	Monthly	30 days
Hedge equity (E)	10,380,048	-	Monthly	30 days

- (A) The investment objective for private equity is long-term capital appreciation in excess of what is available in the public markets. Private equity funds generally hold illiquid debt and equity securities of public and/or privately held companies. This asset class includes venture capital, secondary, mezzanine, buyout, and distressed funds.
- (B) The investment objective for international equity includes investing in debt or equity securities of primarily international companies at various stages within their life cycle. The partnerships are either direct, fund of funds or secondary issuances across multiple strategies expected to significantly exceed performance of traditional equity indices. It is estimated that the underlying assets of the fund will be liquidated over the next two to seven years. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Foundation's ownership interest in partners' capital.
- (C) The investment objective for real assets is long-term capital appreciation with an additional benefit of the potential to provide protection against inflation. Real assets include liquid and illiquid investments in funds that own real estate, commodities, oil and gas, natural resources, inflation-protected fixed income securities, and other assets.

**The Erie Community Foundation**  
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- (D) The investment objective for absolute return funds is long-term capital appreciation with less volatility and/or returns that are less correlated to the equity markets. Absolute return funds may include investment strategies in which some of the underlying securities may trade privately rather than on public exchanges. This asset class includes a variety of active strategies, including arbitrage, event-driven, market neutral, and distressed investing.
- (E) The investment objective for hedged equity is long-term capital appreciation with low volatility. Hedged equity funds include investment strategies where the majority of the underlying securities are traded on public exchanges. Managers in this class can be long or short equities and utilize options, futures, and other derivatives.

At December 31, 2016 and 2015, the Foundation's investments in certain alternative investments are subject to various withdrawal restrictions that impact the liquidity of the investments.

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

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

**Note 3: Contributions Receivable**

The receivables expected to be collected at December 31, 2016 and 2015 are summarized as follows:

	<b>Temporarily Restricted</b>	
	<b>2016</b>	<b>2015</b>
Contributions receivable expected to be collected in:		
Less than one year	\$ 651,129	\$ 4,520,269
One to five years	-	7,000
Total contributions receivable	\$ 651,129	\$ 4,527,269

The discount rates for December 31, 2016 and 2015 were 3.75% and 3.5%, respectively. The Foundation's management has determined that no allowance for doubtful accounts was necessary as of December 31, 2016 or 2015.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
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**Note 4: Disclosures About Fair Value of Assets and Liabilities**

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

***Recurring Measurements***

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2016</b>				
Cash and money market funds	\$ 2,626,547	\$ 2,626,547	\$ -	\$ -
Common stocks	18,690,632	18,690,632	-	-
Mutual funds	94,697,064	94,697,064	-	-
Corporate and treasury bonds	8,716	-	8,716	-
Common trust funds	29,272,719	-	29,272,719	-
Total investments at fair value	145,295,678	\$ 116,014,243	\$ 29,281,435	\$ -
Alternative investments measured at net asset value (A)	69,917,968			
Total investments	\$ 215,213,646			
Other investments				
Cash and money market funds	\$ 4,538	\$ 4,538	\$ -	\$ -
Common stock	4,169	4,169	-	-
Mutual funds				
Growth	8,756	8,756	-	-
Total return	248,295	248,295	-	-
Index	38,575	38,575	-	-
Total other investments at fair value	\$ 304,333	\$ 304,333	\$ -	\$ -
Beneficial interests in trusts	\$ 434,022	\$ -	\$ -	\$ 434,022

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2015</b>				
Cash and money market funds	\$ 3,206,107	\$ 3,206,107	\$ -	\$ -
Common stocks	18,029,261	18,029,261	-	-
Mutual funds	86,567,799	86,567,799	-	-
Corporate and treasury bonds	6,735,091	-	6,735,091	-
Common trust funds	28,824,193	-	28,824,193	-
Total investments at fair value	143,362,451	<u>\$ 107,803,167</u>	<u>\$ 35,559,284</u>	<u>\$ -</u>
Alternative investments measured at net asset value (A)	<u>58,162,405</u>			
Total investments	<u>\$ 201,524,856</u>			
Other investments				
Cash and money market funds	\$ 4,114	\$ 4,114	\$ -	\$ -
Common stock	4,203	4,203	-	-
Mutual funds				
Growth	15,062	15,062	-	-
Total return	210,312	210,312	-	-
Index	33,415	33,415	-	-
Total other investments at fair value	<u>\$ 267,106</u>	<u>\$ 267,106</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in trusts	<u>\$ 429,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429,739</u>

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

# The Erie Community Foundation

## Notes to Consolidated Financial Statements

### December 31, 2016 and 2015

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016. 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, Treasury Bonds and Mortgages:** 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.

**Common Trust 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.

#### **Beneficial Interests in Trusts**

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

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***Level 3 Reconciliation***

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	<b>Beneficial Interest in Trusts</b>
<b>Balance, January 1, 2015</b>	\$ 484,223
Valuation adjustments	(54,484)
<b>Balance, December 31, 2015</b>	<b>\$ 429,739</b>
<b>Balance, January 1, 2016</b>	\$ 429,739
Valuation adjustments	4,283
<b>Balance, December 31, 2016</b>	<b>\$ 434,022</b>

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, 2016 and 2015.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
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***Fair Value of Financial Instruments***

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

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

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

**Accrued Interest Income:** The carrying value approximates fair value.

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

**Note Payable:** The carrying value approximates fair value.

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

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

**Note 5: 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.

# **The Erie Community Foundation**

## **Notes to Consolidated Financial Statements**

### **December 31, 2016 and 2015**

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, 2016 and 2015, substantially all of the net assets of the Foundation consist of the endowment funds. The activity of the endowment funds is substantially represented by the consolidated statements of activities.

**The Erie Community Foundation**  
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At December 31, 2016 and 2015, the Foundation's unrestricted endowment funds were \$157,661,484 and \$150,262,668, respectively.

Changes in endowment net assets for the years ended December 31, 2016 and 2015 were:

	<b>Unrestricted</b>	
	<b>2016</b>	<b>2015</b>
<b>Endowment Net Assets, Beginning of Year</b>	\$ 150,262,668	\$ 145,425,347
Investment return		
Investment income, net of fees	1,415,955	1,583,504
Net appreciation (depreciation)	<u>10,573,167</u>	<u>(4,755,358)</u>
Total investment return	<u>11,989,122</u>	<u>(3,171,854)</u>
Contributions	9,303,472	18,132,356
Appropriation of endowment assets for expenditure	<u>(13,893,778)</u>	<u>(10,123,181)</u>
<b>Endowment Net Assets, End of Year</b>	<u><u>\$ 157,661,484</u></u>	<u><u>\$ 150,262,668</u></u>

**Note 6: Property and Equipment**

Property and equipment at December 31 consists of:

	<b>2016</b>	<b>2015</b>
Land and land improvements	\$ 104,410	\$ 85,326
Buildings	285,866	285,866
Building improvements	2,092,762	920,154
Furniture and fixtures	867,284	459,469
Computer software	48,455	48,455
Construction-in-process	<u>2,558</u>	<u>14,594</u>
	3,401,335	1,813,864
Less accumulated depreciation	<u>948,045</u>	<u>841,615</u>
	<u><u>\$ 2,453,290</u></u>	<u><u>\$ 972,249</u></u>

**The Erie Community Foundation**  
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**Note 7: 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Salaries	\$ 418,023	\$ 406,163
Payroll taxes	28,622	27,320
Employee benefits	91,525	71,855
Professional services	-	49,574
Rent and occupancy	22,459	17,186
Equipment purchased/rental and maintenance	30,909	31,093
Office supplies and expense	12,458	12,150
Marketing	40,686	64,350
Meetings and conferences	28,936	31,389
Professional development	9,099	13,162
Vehicle costs	2,700	2,700
Miscellaneous expenses	-	1,000
Bayfront Beautification Project	<u>36,335</u>	<u>67,273</u>
Total	<u>\$ 721,752</u>	<u>\$ 795,215</u>

**The Erie Community Foundation**  
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**Note 8: Supporting Services**

The following table represents the supporting services expenses:

	<u>Administrative</u>	<u>Development</u>	<u>Total 2016</u>	<u>Total 2015</u>
Salaries	\$ 314,355	\$ 217,425	\$ 531,780	\$ 506,980
Payroll taxes	21,718	13,992	35,710	34,084
Employee benefits	69,451	44,744	114,195	89,654
Professional services	96,994	8,902	105,896	97,401
Rent and occupancy	17,042	10,979	28,021	21,441
Equipment purchased/rental and maintenance	24,794	15,110	39,904	40,239
Office supplies and expense	11,725	6,091	17,816	18,868
Marketing	41,031	55,304	96,335	114,490
Meetings and conferences	21,958	33,333	55,291	52,311
Professional development	6,904	4,448	11,352	16,522
Dues and subscriptions	13,758	-	13,758	11,986
Insurances	36,698	-	36,698	33,879
Vehicle costs	600	2,700	3,300	3,300
Interest expense	13,246	-	13,246	18,608
Total	<u>\$ 690,274</u>	<u>\$ 413,028</u>	<u>\$ 1,103,302</u>	<u>\$ 1,059,763</u>

**Note 9: Grants Payable**

As of December 31, 2016 and 2015, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of \$4,321,547 and \$1,362,587, respectively. Grant activities detailed during the years are as follows:

	<u>2016</u>	<u>2015</u>
Grants payable, beginning of year	\$ 1,362,587	\$ 1,610,394
Grants paid	8,934,241	8,724,842
Grants approved	<u>11,893,201</u>	<u>8,477,035</u>
Grants payable, end of year	<u>\$ 4,321,547</u>	<u>\$ 1,362,587</u>

**The Erie Community Foundation**  
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Future maturities of grants payable are as follows:

2017	\$ 3,189,347
2018	1,089,700
2019	42,500
Thereafter	-
Total grants payable	\$ 4,321,547

**Note 10: Split-Interest Agreements**

***Assets Held and Annuity Obligations***

The Foundation administers various charitable remainder trusts and gift annuities. These trusts and annuities provide for the payment of distributions to the grantor or other designated beneficiaries over the trust or annuity terms (usually the designated beneficiary’s lifetime). At the end of the term, the remaining assets are available for the Foundation’s use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the consolidated statements of activities as a temporarily restricted contribution in the period the trust or annuity is established. There were no contributions received in 2016 and \$23,549 received in 2015. Assets held in these trusts totaled \$2,385,450 and \$2,480,036 at December 31, 2016 and 2015, respectively, and are reported in investments in the consolidated statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates of 1.2% to 8.2% and applicable mortality tables. The annuity obligation at December 31, 2016 and 2015 is estimated to be \$1,985,550 and \$2,080,842, 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 \$434,022 and \$429,739 as of December 31, 2016 and 2015, respectively. The income from these trusts for 2016 and 2015 was \$4,283 and (\$46,863), respectively.

**The Erie Community Foundation**  
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**Note 11: Retirement and Deferred Compensation Plans**

The Foundation has a 401(k) retirement plan covering substantially all employees. The Foundation's contributions to the plan are determined annually by the board of trustees. Contributions to this plan were \$57,593 and \$54,789 for 2016 and 2015, respectively.

The Foundation established a deferred compensation plan for the Foundation's president during 2004. The expense was \$37,227 and \$3,771 in 2016 and 2015, respectively. The liability of \$304,333 and \$267,106 at December 31, 2016 and 2015, respectively, is included in accounts payable and accrued expenses.

**Note 12: Note Payable**

In 2008, the Foundation obtained a note payable with PNC Bank in the amount of \$1,000,000 (for the purchase and renovations of the Foundation's home office), with a fixed interest rate of 5.11% per annum and a monthly payment of \$10,662. Principal outstanding at December 31, 2016 and 2015 totaled \$183,944 and \$299,480, respectively. The loan is collateralized by the PNC Mutual Funds Investment Account, with a current market value of \$52.3 million. The following table represents the current and future obligations of the note:

Current	\$	121,334
2018		62,610
Total note payable	\$	183,944

In August 2016, the Foundation entered into a revolving line of credit ("Revolver") with Marquette Savings Bank. The Revolver provides for maximum borrowings up to \$1,000,000 and bears interest at the bank's prime rate (3.75% at December 31, 2016) less an applicable margin of 1.00%. At December 31, 2016, the amount outstanding on the Revolver was \$0. The Revolver is collateralized by the Northwest Savings Bank Investment AIMS Account, with a current market value of \$4.9 million.

**Note 13: Commitments**

As of December 31, 2016, the Foundation has commitments to eleven private equity funds to invest funds totaling \$77,770,475. As of December 31, 2016, the Foundation made capital contributions of \$41,947,782, leaving a remaining commitment of \$35,822,693.

**The Erie Community Foundation**  
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**Note 14: Change in Accounting Principle**

In the year ended June 30, 2016, the Foundation changed its accounting policy on Foundation accounting disclosures and presentation for fair value of investments using the net asset value per share by adopting the provisions of ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. In accordance with this guidance, investments measured at net asset value per share as a practical expedient are not categorized within in the fair value hierarchy. This change was applied retrospectively to all periods presented.

**Note 15: Subsequent Events**

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