The Erie Community Foundation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2017 and 2016

BKD LLP
CPAs & Advisors

The Erie Community Foundation

December 31, 2017 and 2016

Contents

BKD
CPAs & Advisors

2402 W. 8th Street | Erie, PA 16505-4444
814.454.4008 | Fax 814.454.4018 | bkd.com

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, 2017 and 2016, 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Erie Community Foundation and its affiliated organizations as of December 31, 2017 and 2016, 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
September 24, 2018

The Erie Community Foundation

Consolidated Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 5,800,021	$ 2,499,726
Investments	249,692,043	215,213,646
Other investments - deferred compensation	359,179	304,333
Accrued interest income	57,763	25,535
Contributions receivable	30,775	651,129
Beneficial interests in trusts	479,734	434,022
Other assets	460,624	517,092
Property and equipment, net	2,624,648	2,453,290
Total assets	$ 259,504,787	$ 222,098,773
Liabilities and Net Assets		
Liabilities		
Grants payable	$ 2,078,576	$ 4,321,547
Accounts payable and accrued expenses	478,985	791,466
Note payable	62,237	183,944
Annuity obligations	1,880,102	1,985,550
Amounts held for others	58,216,839	56,754,882
Total liabilities	62,716,739	64,037,389
Net Assets		
Unrestricted	196,196,594	157,661,484
Temporarily restricted	591,454	399,900
Total net assets	196,788,048	158,061,384
Total liabilities and net assets	$ 259,504,787	$ 222,098,773

The Erie Community Foundation

Consolidated Statement of Activities

Year Ended December 31, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Public support and revenue	$ 26,027,619	$ -	$ 26,027,619
Administrative revenue from funds	292,985	-	292,985
Grant and other revenue	353,133	-	353,133
Change in value of split interest agreements	(2,159)	143,621	141,462
Net realized and unrealized gains on investments	23,357,732	39,729	23,397,461
Investment income, net of fees of $959,248	1,773,178	8,852	1,782,030
Total revenue and support	51,802,488	192,202	51,994,690
Net Assets Released Resulting From Satisfaction of Restrictions	648	(648)	-
Expenses			
Grants, philanthropic services and special projects			
Grants	10,753,660	-	10,753,660
Program expense	897,878	-	897,878
Total grants, philanthropic services and special projects	11,651,538	-	11,651,538
Supporting Services			
Administrative costs	777,245	-	777,245
Development expense	481,257	-	481,257
Loss on impairment	126,491	-	126,491
Depreciation expense	231,495	-	231,495
Total supporting services	1,616,488	-	1,616,488
Total expenses	13,268,026	-	13,268,026
Change in Net Assets	38,535,110	191,554	38,726,664
Net Assets, Beginning of Year	157,661,484	399,900	158,061,384
Net Assets, End of Year	$ 196,196,594	$ 591,454	$ 196,788,048

The Erie Community Foundation

Consolidated Statement of Activities

Year Ended December 31, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
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
Total revenue and support	21,585,969	2,958	21,588,927
Net Assets Released Resulting From Satisfaction of Restrictions	2,252	(2,252)	-
Expenses			
Grants, philanthropic services and special projects			
Grants	11,893,201	-	11,893,201
Program expense	721,752	-	721,752
Total grants, philanthropic services and special projects	12,614,953	-	12,614,953
Supporting Services			
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
Total supporting services	1,574,452	-	1,574,452
Total expenses	14,189,405	-	14,189,405
Change in Net Assets	7,398,816	706	7,399,522
Net Assets, Beginning of Year	150,262,668	399,194	150,661,862
Net Assets, End of Year	$ 157,661,484	$ 399,900	$ 158,061,384

The Erie Community Foundation

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	$ 38,726,664	$ 7,399,522
Items not requiring (providing) operating activities cash flows		
Depreciation expense	231,495	182,183
Net realized and unrealized gains on investments	(23,397,461)	(10,602,629)
Donated securities	(8,663,902)	(2,262,790)
Loss on impairment of long-lived assets	126,491	288,967
Changes in split interest agreements	104,329	134,124
Changes in		
Accrued interest income	(32,228)	210,974
Contributions receivable	620,354	3,876,140
Other assets	56,468	52,788
Accounts payable, accrued expenses and grants payable	(2,555,452)	3,432,817
Net cash provided by operating activities	5,216,758	2,712,096
Investing Activities		
Purchase of investments	(79,957,252)	(70,914,197)
Proceeds from sale of investments	77,485,372	70,053,599
Purchase of property and equipment	(529,344)	(1,952,191)
Net cash used in investing activities	(3,001,224)	(2,812,789)
Financing Activities		
Principal payments on long-term debt	(121,707)	(115,536)
Payments on annuity obligations	(255,489)	(233,699)
Change in amounts held for others	1,461,957	928,249
Net cash provided by financing activities	1,084,761	579,014
Net Increase in Cash and Cash Equivalents	3,300,295	478,321
Cash and Cash Equivalents, Beginning of Year	2,499,726	2,021,405
Cash and Cash Equivalents, End of Year	$ 5,800,021	$ 2,499,726
Supplemental Cash Flows Information		
Interest paid	$ 10,175	$ 13,246

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 2017 and 2016 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.

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, 2017 and 2016, cash equivalents consisted primarily of money market funds.

At December 31, 2017, the Foundation's cash accounts exceeded federally insured limits by approximately $2,807,000.

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:

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

Long-Lived Asset Impairment

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

Impairment losses of $126,491 and $288,967 were recognized for the purchase and demolition of a building, for the years ended December 31, 2017 and 2016, respectively. The loss is included under supporting services in the accompanying statements of activities.

Grants Payable

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

Amounts Held for Others

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

	2017	2016
Balance, January 1	$ 56,754,882	$ 55,826,633
Additions	4,968,945	1,859,691
Net investment income, net of investment fees	8,989,931	4,133,389
Expenses	(612,286)	(281,613)
Withdrawals	(11,884,633)	(4,783,218)
Balance, December 31	$ 58,216,839	$ 56,754,882

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 2014.

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.

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:

	2017	2016
Cash and money market funds	$ 11,491,332	$ 2,626,547
Common stocks	13,494,717	18,690,632
Mutual funds	111,759,894	94,697,064
Corporate and treasury bonds	-	8,716
Common trust funds	35,702,331	29,272,719
Alternative investments and other		
Private equity	17,541,691	14,604,827
International equity	17,115,436	13,917,369
Real assets	19,772,807	18,968,224
Absolute return	11,455,083	12,375,280
Hedge equity	11,358,752	10,052,268
Total investments	$ 249,692,043	$ 215,213,646

Other Investments – Deferred Compensation

	2017	2016
Cash and money market funds	$ 3,679	$ 4,538
Common stock	4,300	4,169
Mutual funds	351,200	295,626
Total other investments	$ 359,179	$ 304,333

Total investment return is comprised of the following:

	2017	2016
Investment and dividend income	$ 1,782,030	$ 1,419,850
Net realized and unrealized gains on investments reported at fair value	23,397,461	10,602,629
Investment return for the Foundation	$ 25,179,491	$ 12,022,479
Investment return for amounts held for others	$ 8,989,931	$ 4,133,389

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.

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:

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Private equity (A)	$ 17,541,691	$ 20,942,358	N/A	N/A
International equity (B)	17,115,436	-	Daily/Monthly	30 days
Real assets (C)	19,772,807	14,338,107	Monthly	30 days
Absolute return (D)	11,455,083	-	Monthly/Quarterly	30/65 days
Hedge equity (E)	11,358,752	-	Monthly	30 days

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
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)	12,375,280	-	Monthly	30 days
Hedge equity (E)	10,052,268	-	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.

(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, 2017 and 2016, 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.

The Erie Community Foundation
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 3: Contributions Receivable

The receivables expected to be collected at December 31, 2017 and 2016 are summarized as follows:

	Temporarily Restricted	
	2017	2016
Contributions receivable expected to be collected in:		
Less than one year	$ 30,775	$ 651,129
Total contributions receivable	$ 30,775	$ 651,129

The discount rates for December 31, 2017 and 2016 were 4.50% and 3.75%, respectively. The Foundation's management has determined that no allowance for doubtful accounts was necessary as of December 31, 2017 and 2016.

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

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, 2017 and 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Cash and money market funds	$ 11,491,332	$ 11,491,332	$ -	$ -
Common stocks	13,494,717	13,494,717	-	-
Mutual funds	111,759,894	111,759,894	-	-
Common trust funds	35,702,331	-	35,702,331	-
Total investments at fair value	172,448,274	$ 136,745,943	$ 35,702,331	$ -
Alternative investments measured at net asset value (A)	77,243,769			
Total investments	$ 249,692,043			
Other investments				
Cash and money market funds	$ 3,679	$ 3,679	$ -	$ -
Common stock	4,300	4,300	-	-
Mutual funds	351,200	351,200	-	-
Total other investments at fair value	$ 359,179	$ 359,179	$ -	$ -
Beneficial interests in trusts	$ 479,734	$ -	$ -	$ 479,734

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
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	295,626	295,626	-	-
Total other investments at fair value	$ 304,333	$ 304,333	$ -	$ -
Beneficial interests in trusts	$ 434,022	$ -	$ -	$ 434,022

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

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017. 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.

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:

	Beneficial Interest in Trusts
Balance, January 1, 2016	$ 429,739
Valuation adjustments	4,283
Balance, December 31, 2016	$ 434,022
Balance, January 1, 2017	$ 434,022
Valuation adjustments	45,712
Balance, December 31, 2017	$ 479,734

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, 2017 and 2016.

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.

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

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

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

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment, while seeking to maintain the purchasing power of the endowment. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed each investment strategy's respective index, while assuming a moderate level of investment risk.

The primary investment objective of the Foundation is to achieve an annualized total return (net of fees and expenses), equal to or greater than the rate of inflation plus any spending and administrative expenses thus, at a minimum, maintaining the purchasing power of the funds. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending. Actual returns in any given year may vary from this amount.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 4% 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, 2017 and 2016, substantially all of the net assets of the Foundation consist of the endowment funds. The activity of the endowment funds is substantially represented by the consolidated statements of activities.

At December 31, 2017 and 2016, the Foundation's unrestricted endowment funds were $196,196,594 and $157,661,484, respectively.

Changes in endowment net assets for the years ended December 31, 2017 and 2016 were:

	Unrestricted	
	2017	**2016**
Endowment Net Assets, Beginning of Year	$ 157,661,484	$ 150,262,668
Investment return		
Investment income, net of fees	1,773,178	1,415,955
Net appreciation	23,357,732	10,573,167
Total investment return	25,130,910	11,989,122
Contributions	26,027,619	9,303,472
Appropriation of endowment assets for expenditure	(12,623,419)	(13,893,778)
Endowment Net Assets, End of Year	$ 196,196,594	$ 157,661,484

Note 6: Property and Equipment

Property and equipment at December 31 consists of:

	2017	2016
Land and land improvements	$ 436,401	$ 104,410
Buildings	285,866	285,866
Building improvements	2,157,605	2,092,762
Furniture and fixtures	875,861	867,284
Computer software	48,455	48,455
Construction-in-process	-	2,558
	3,804,188	3,401,335
Less accumulated depreciation	1,179,540	948,045
	$ 2,624,648	$ 2,453,290

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, 2017 and 2016:

	2017	2016
Salaries	$ 435,970	$ 418,023
Payroll taxes	31,882	28,622
Employee benefits	100,620	91,525
Professional services	177,540	-
Rent and occupancy	23,949	22,459
Equipment purchased/rental and maintenance	31,759	30,909
Office supplies and expense	10,735	12,458
Marketing	44,817	40,686
Meetings and conferences	28,165	28,936
Professional development	9,741	9,099
Vehicle costs	2,700	2,700
Bayfront Beautification Project	-	36,335
Total	$ 897,878	$ 721,752

Note 8: Supporting Services

The following table represents the supporting services expenses:

	Administrative	Development	Total 2017	Total 2016
Salaries	$ 344,031	$ 247,555	$ 591,586	$ 531,780
Payroll taxes	25,376	17,865	43,241	35,710
Employee benefits	80,088	56,379	136,467	114,195
Professional services	122,072	11,267	133,339	105,896
Rent and occupancy	19,062	13,419	32,481	28,021
Equipment purchased/rental and maintenance	35,541	17,333	52,874	39,904
Office supplies and expense	14,434	6,015	20,449	17,816
Marketing	44,088	55,598	99,686	96,335
Meetings and conferences	22,418	47,668	70,086	55,291
Professional development	7,792	5,458	13,250	11,352
Dues and subscriptions	13,231	-	13,231	13,758
Insurances	36,931	-	36,931	36,698
Vehicle costs	600	2,700	3,300	3,300
Interest expense	10,175	-	10,175	13,246
Miscellaneous expense	1,406	-	1,406	-
Total	$ 777,245	$ 481,257	$ 1,258,502	$ 1,103,302

Note 9: Grants Payable

As of December 31, 2017 and 2016, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of $2,078,576 and $4,321,547, respectively. Grant activities detailed during the years are as follows:

	2017	2016
Grants payable, beginning of year	$ 4,321,547	$ 1,362,587
Grants paid	12,996,631	8,934,241
Grants approved	10,753,660	11,893,201
Grants payable, end of year	$ 2,078,576	$ 4,321,547

Future maturities of grants payable are as follows:

2018	$ 1,736,076
2019	192,500
2020	150,000
Thereafter	-
Total grants payable	$ 2,078,576

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 2017 or 2016. Assets held in these trusts totaled $2,471,556 and $2,385,450 at December 31, 2017 and 2016, 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, 2017 and 2016 is estimated to be $1,880,102 and $1,985,550, 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 $479,734 and $434,022 as of December 31, 2017 and 2016, respectively. The income from these trusts for 2017 and 2016 was $45,712 and $4,283, respectively.

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 $58,169 and $57,593 for 2017 and 2016, respectively.

The Foundation established a deferred compensation plan for the Foundation's president during 2004. The expense was $57,755 and $37,227 in 2017 and 2016, respectively. The liability of $359,179 and $304,333 at December 31, 2017 and 2016, 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, 2017 and 2016 totaled $62,237 and $183,944, respectively. The loan is collateralized by the PNC Mutual Funds Investment Account, with a current market value of $69.5 million. The current obligations of the note total $62,237 at December 31, 2017.

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 (4.50% at December 31, 2017) less an applicable margin of 1.00%. At December 31, 2017, 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 $4.0 million.

Note 13: Commitments

As of December 31, 2017, the Foundation has commitments to thirty private equity funds to invest funds totaling $86,270,475. As of December 31, 2017, the Foundation made capital contributions of $48,831,420, leaving a remaining commitment of $37,439,055.

Note 14: Litigation

The Foundation is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, change in net assets and cash flows of the Foundation. Events could occur that would change this estimate materially in the near term.

Note 15: Subsequent Events

Subsequent events have been evaluated through September 24, 2018, which is the date the consolidated financial statements were available to be issued.

Note 16: Future Changes in Accounting Principles

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to the Foundation are as follows:

Statement of financial position

- The statement of financial position will distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the financial statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- Amounts and purposes of governing board designations and appropriations as of the end of the period are disclosed.

The Foundation is in the process of evaluating the impact the amendment will have on the financial statements.

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities. The Foundation is in the process of evaluating the impact the amendment will have on the financial statements.