The Erie Community Foundation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

BKD LLP
CPAs & Advisors

The Erie Community Foundation
December 31, 2015 and 2014

Contents

BKD LLP
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, 2015 and 2014, 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.

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, 2015 and 2014, 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
August 19, 2016

The Erie Community Foundation
Consolidated Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 2,021,405	$ 3,249,047
Investments	201,524,856	202,143,326
Other investments - deferred compensation	267,106	263,335
Accrued interest income	236,509	360,271
Contributions receivable	4,527,269	650,188
Beneficial interests in trusts	429,739	484,223
Other assets	569,880	633,624
Property and equipment, net	972,249	1,028,068
Total assets	$ 210,549,013	$ 208,812,082
Liabilities and Net Assets		
Liabilities		
Grants payable	$ 1,362,587	$ 1,610,394
Accounts payable and accrued expenses	317,609	314,175
Note payable	299,480	409,234
Annuity obligations	2,080,842	2,224,937
Amounts held for others	55,826,633	58,237,462
Total liabilities	59,887,151	62,796,202
Net Assets		
Unrestricted	150,262,668	145,425,347
Temporarily restricted	399,194	590,533
Total net assets	150,661,862	146,015,880
Total liabilities and net assets	$ 210,549,013	$ 208,812,082

The Erie Community Foundation

Consolidated Statement of Activities

Year Ended December 31, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
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
Total revenue and support	15,254,686	(162,811)	15,091,875
Net Assets Released Resulting From Satisfaction of Restrictions	28,528	(28,528)	-
Expenses			
Grants, philanthropic services and special projects			
Grants	8,477,035	-	8,477,035
Program expense	795,215	-	795,215
Total grants, philanthropic services and special projects	9,272,250	-	9,272,250
Supporting Services			
Administrative costs	667,950	-	667,950
Development expense	391,813	-	391,813
Depreciation expense	113,880	-	113,880
Total supporting services	1,173,643	-	1,173,643
Total expenses	10,445,893	-	10,445,893
Change in Net Assets	4,837,321	(191,339)	4,645,982
Net Assets, Beginning of Year	145,425,347	590,533	146,015,880
Net Assets, End of Year	$ 150,262,668	$ 399,194	$ 150,661,862

The Erie Community Foundation
Consolidated Statement of Activities
Year Ended December 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Public support and revenue	$ 5,343,214	$ 13,837	$ 5,357,051
Administrative revenue from funds	291,682	-	291,682
Grant and other revenue	73,079	-	73,079
Change in value of split interest agreements	20,071	(119,165)	(99,094)
Net realized and unrealized gains on investments	1,742,101	5,822	1,747,923
Investment income, net of fees of $779,180	2,456,901	7,891	2,464,792
Total revenue and support	9,927,048	(91,615)	9,835,433
Net Assets Released Resulting From Satisfaction of Restrictions	2,714	(2,714)	-
Expenses			
Grants, philanthropic services and special projects			
Grants	9,096,144	-	9,096,144
Program expense	848,061	-	848,061
Total grants, philanthropic services and special projects	9,944,205	-	9,944,205
Supporting Services			
Administrative costs	619,095	-	619,095
Development expense	370,175	-	370,175
Depreciation expense	111,293	-	111,293
Total supporting services	1,100,563	-	1,100,563
Total expenses	11,044,768	-	11,044,768
Change in Net Assets	(1,115,006)	(94,329)	(1,209,335)
Net Assets, Beginning of Year	146,540,353	684,862	147,225,215
Net Assets, End of Year	$ 145,425,347	$ 590,533	$ 146,015,880

The Erie Community Foundation

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	$ 4,645,982	$ (1,209,335)
Items not requiring (providing) operating activities cash flows		
Depreciation expense	113,880	111,293
Net realized and unrealized (gains) losses on investments	4,769,703	(1,747,923)
Donated securities	(7,810,180)	(979,374)
Changes in split interest agreements	125,845	486,471
Changes in		
Accrued interest income	123,762	85,866
Contributions receivable	(3,877,081)	52,144
Other assets	63,744	57,137
Accounts payable, accrued expenses and grants payable	(244,373)	(68,244)
Net cash used in operating activities	(2,088,718)	(3,211,965)
Investing Activities		
Purchase of investments	(50,967,114)	(65,711,478)
Proceeds from sale of investments	54,622,290	68,465,040
Purchase of property and equipment	(58,060)	(20,506)
Net cash provided by investing activities	3,597,116	2,733,056
Financing Activities		
Proceeds from annuity obligations (non-gift portion)	23,549	11,163
Principal payments on long-term debt	(109,754)	(104,224)
Payments on annuity obligations	(239,006)	(245,675)
Change in amounts held for others	(2,410,829)	2,388,871
Net cash provided by (used in) financing activities	(2,736,040)	2,050,135
Net Increase (Decrease) in Cash and Cash Equivalents	(1,227,642)	1,571,226
Cash and Cash Equivalents, Beginning of Year	3,249,047	1,677,821
Cash and Cash Equivalents, End of Year	$ 2,021,405	$ 3,249,047
Supplemental Cash Flows Information		
Interest paid	$ 18,608	$ 24,138

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 2015 and 2014 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, 2015 and 2014, cash equivalents consisted primarily of money market funds.

At December 31, 2015, the Foundation’s cash accounts exceeded federally insured limits by approximately $2,020,000.

Investments and Investment Return

Investments in equity securities having a 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.

No asset impairment was recognized during the years ended December 31, 2015 and 2014.

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.

	2015	2014
Balance, January 1	$ 58,237,462	$ 55,848,591
Additions	3,556,261	3,475,237
Net investment income (loss), net of investment fees	(1,095,817)	1,992,370
Expenses	(278,749)	(281,675)
Withdrawals	(4,592,524)	(2,797,061)
Balance, December 31	$ 55,826,633	$ 58,237,462

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 2012.

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.

Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Investments

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

	2015	2014
Cash and money market funds	$ 3,206,107	$ 2,995,050
Common stocks	18,029,261	13,554,548
Mutual funds	86,567,799	102,660,824
Corporate and treasury bonds	6,735,091	101,978
Mortgages	-	20,095
Common trust funds	28,824,193	18,852,023
Alternative investments and other		
Private equity	9,481,726	7,172,691
International equity	12,423,796	13,425,254
Real assets	13,285,464	13,817,037
Absolute return	12,591,371	9,500,000
Hedge equity	10,380,048	20,043,826
Total investments	$ 201,524,856	$ 202,143,326

Other Investments – Deferred Compensation

	2015	2014
Cash and money market funds	$ 4,114	$ 5,249
Common stock	4,203	-
Mutual funds		
Growth	15,062	39,497
Total return	210,312	186,834
Index	33,415	31,755
Total other investments	$ 267,106	$ 263,335

Total investment return is comprised of the following:

	2015	2014
Investment and dividend income	$ 1,588,663	$ 1,747,923
Net realized and unrealized gains (losses) on investments reported at fair value	(4,769,703)	2,464,792
Investment return for the Foundation	$ (3,181,040)	$ 4,212,715
Investment return for amounts held for others	$ (1,095,817)	$ 1,992,370

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 $1.9 million in connection with an agreement between Corry and a regional health organization. These assets are part of the Corry Memorial Hospital Agency Endowment.

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:

	2015			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
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

	2014			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Private equity (A)	$ 7,172,691	$ 12,610,016	N/A	N/A
International equity (B)	13,425,254	-	Monthly	30 days
Real assets (C)	13,817,037	6,183,940	Monthly	30 days
Absolute return (D)	9,500,000	-	Monthly	30 days
Hedge equity (E)	20,043,826	-	Monthly, quarterly	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 2 to 7 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, 2015 and 2014, 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, 2015 and 2014 are summarized as follows:

	Temporarily Restricted	
	2015	**2014**
Contributions receivable expected to be collected in:		
Less than one year	$ 4,520,269	$ 636,188
One to five years	7,000	14,000
Total contributions receivable	$ 4,527,269	$ 650,188

The discount rate for December 31, 2015 and 2014 was 3.5%. The Foundation's management has determined that no allowance for doubtful accounts was necessary as of December 31, 2015 or 2014.

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 and liabilities 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, 2015 and 2014:

		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, 2015				
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	-
Alternative investments and other				
Private equity	9,481,726	-	-	9,481,726
International equity	12,423,796	-	-	12,423,796
Real assets	13,285,464	-	-	13,285,464
Absolute return	12,591,371	-	-	12,591,371
Hedge equity	10,380,048	-	-	10,380,048
Total investments at fair value	$ 201,524,856	$ 107,803,167	$ 35,559,284	$ 58,162,405
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	$ 267,106	$ 267,106	$ -	$ -
Beneficial interests in trusts	$ 429,739	$ -	$ -	$ 429,739

		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, 2014				
Cash and money market funds	$ 2,995,050	$ 2,995,050	$ -	$ -
Common stocks	13,554,548	13,554,548	-	-
Mutual funds	102,660,824	102,660,824	-	-
Corporate and treasury bonds	101,978	-	101,978	-
Mortgages	20,095	-	20,095	-
Common trust funds	18,852,023	-	18,852,023	-
Alternative investments and other				
Private equity	7,172,691	-	-	7,172,691
International equity	13,425,254	-	-	13,425,254
Real assets	13,817,037	-	-	13,817,037
Absolute return	9,500,000	-	-	9,500,000
Hedge equity	20,043,826	-	-	20,043,826
Total investments at fair value	$ 202,143,326	$ 119,210,422	$ 18,974,096	$ 63,958,808
Other investments				
Cash and money market funds	$ 5,249	$ 5,249	$ -	$ -
Mutual funds				
Growth	39,497	39,497	-	-
Total return	186,834	186,834	-	-
Index	31,755	31,755	-	-
Total other investments at fair value	$ 263,335	$ 263,335	$ -	$ -
Beneficial interests in trusts	$ 484,223	$ -	$ -	$ 484,223

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2015. 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.

Alternative Investments**:** As a practical expedient, fair value of alternative investments is determined using the net asset value (or its equivalent) supplied by the respective fund managers. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is an estimate provided by the investment manager and, therefore, due to the lack of observable inputs, these investments are classified within Level 3 of the valuation hierarchy.

Beneficial Interests in Trusts

These investments consist of the Foundation's estimated portion of trusts of which 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:

	Alternative Investments and Other					
	Private Equity	International Equity	Real Assets	Absolute Return	Hedge Equity	Beneficial Interest in Trusts
Balance, January 1, 2014	$ 6,642,473	$ 13,223,349	$ 4,579,542	$ -	$ 19,059,633	$ 834,420
Additions	1,793,844	-	8,126,311	9,500,000	5,595,718	-
Interest and dividends	16,343	165,634	57,164	-	-	-
Realized and unrealized gains (losses)	1,042,351	176,305	1,165,027	-	(324,557)	-
Withdrawals	(2,322,320)	(140,034)	(111,007)	-	(4,286,968)	(374,754)
Valuation adjustments	-	-	-	-	-	24,557
Balance, December 31, 2014	$ 7,172,691	$ 13,425,254	$ 13,817,037	$ 9,500,000	$ 20,043,826	$ 484,223
Balance, January 1, 2015	$ 7,172,691	$ 13,425,254	$ 13,817,037	$ 9,500,000	$ 20,043,826	$ 484,223
Additions	2,958,814	-	778,811	2,600,000	-	-
Interest and dividends	1,121	165,938	204,979	-	-	-
Realized and unrealized gains (losses)	835,308	(1,106,941)	281,695	520,344	519,026	-
Withdrawals	(1,486,208)	(60,455)	(1,797,058)	(28,973)	(10,182,804)	-
Valuation adjustments	-	-	-	-	-	(54,484)
Balance, December 31, 2015	$ 9,481,726	$ 12,423,796	$ 13,285,464	$ 12,591,371	$ 10,380,048	$ 429,739

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, 2015 and 2014.

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 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, 2015 and 2014, 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, 2015 and 2014, the Foundation's unrestricted endowment funds were $150,262,668 and $145,425,347, respectively.

Changes in endowment net assets for the years ended December 31, 2015 and 2014 were:

	Unrestricted	
	2015	**2014**
Endowment Net Assets, Beginning of Year	$ 145,425,347	$ 146,540,353
Investment return		
Investment income, net of fees	1,583,504	2,456,901
Net appreciation (depreciation)	(4,755,358)	1,742,101
Total investment return	(3,171,854)	4,199,002
Contributions	18,132,356	5,343,214
Appropriation of endowment assets for expenditure	(10,123,181)	(10,657,222)
Endowment Net Assets, End of Year	$ 150,262,668	$ 145,425,347

Note 6: Property and Equipment

Property and equipment at December 31 consists of:

	2015	2014
Land and land improvements	$ 85,326	$ 85,326
Buildings	285,866	285,866
Building improvements	920,154	885,658
Furniture and fixtures	459,469	461,100
Computer software	48,455	48,230
Construction-in-process	14,594	-
	1,813,864	1,766,180
Less accumulated depreciation	841,615	738,112
	$ 972,249	$ 1,028,068

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, 2015 and 2014:

	2015	2014
Salaries	$ 406,163	$ 419,039
Payroll taxes	27,320	28,832
Employee benefits	71,855	74,963
Professional services	49,574	83,265
Rent and occupancy	17,186	19,564
Equipment purchased/rental and maintenance	31,093	28,425
Office supplies and expense	12,150	12,303
Marketing	64,350	62,739
Meetings and conferences	31,389	23,942
Professional development	13,162	6,928
Vehicle costs	2,700	2,700
Miscellaneous expenses	1,000	-
Bayfront Beautification Project	67,273	85,361
Total	$ 795,215	$ 848,061

Note 8: Supporting Services

The following table represents the supporting services expenses:

	Administrative	Development	Total 2015	Total 2014
Salaries	$ 308,295	$ 198,685	$ 506,980	$ 451,998
Payroll taxes	20,729	13,355	34,084	41,746
Employee benefits	54,526	35,128	89,654	108,546
Professional services	88,788	8,613	97,401	82,781
Rent and occupancy	13,040	8,401	21,441	28,329
Equipment purchased/rental and maintenance	25,039	15,200	40,239	41,809
Office supplies and expense	12,929	5,939	18,868	19,391
Marketing	46,014	68,476	114,490	81,866
Meetings and conferences	23,430	28,881	52,311	50,914
Professional development	10,087	6,435	16,522	10,028
Dues and subscriptions	11,986	-	11,986	11,898
Insurances	33,879	-	33,879	32,526
Vehicle costs	600	2,700	3,300	3,300
Interest expense	18,608	-	18,608	24,138
Total	$ 667,950	$ 391,813	$ 1,059,763	$ 989,270

Note 9: Grants Payable

As of December 31, 2015 and 2014, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of $1,362,587 and $1,610,394, respectively. Grant activities detailed during the years are as follows:

	2015	2014
Grants payable, beginning of year	$ 1,610,394	$ 1,635,568
Grants paid	8,229,228	9,070,970
Grants approved	8,477,035	9,096,144
Grants payable, end of year	$ 1,362,587	$ 1,610,394

Future maturities of grants payable are as follows:

2016	$ 1,233,920
2017	122,667
2018	6,000
Thereafter	-
Total grants payable	$ 1,362,587

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 was one contribution received in 2015 for $23,549 and $11,163 in 2014. Assets held in these trusts totaled $2,480,036 and $2,815,470 at December 31, 2015 and 2014, 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, 2015 and 2014 is estimated to be $2,080,842 and $2,224,937, 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 $429,739 and $484,223 as of December 31, 2015 and 2014, respectively. The income from these trusts for 2015 and 2014 was ($46,863) and $24,557, 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 $54,789 and $51,478 for 2015 and 2014, respectively.

The Foundation established a deferred compensation plan for the Foundation's president during 2004. The expense was $3,771 and $20,881 in 2015 and 2014, respectively. The liability of $267,106 and $263,335 at December 31, 2015 and 2014, 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, 2015 and 2014 totaled $299,480 and $409,234, respectively. The loan is collateralized by the PNC Mutual Funds Investment Account, with a current market value of $54.2 million. The following table represents the current and future obligations of the note:

Current	$	115,302
2017		121,334
2018		62,844
Total note payable	$	299,480

Note 13: Commitments

As of December 31, 2015, the Foundation has commitments to eleven private equity funds to invest funds totaling $58,825,000. As of December 31, 2015, the Foundation made capital contributions of $22,786,243, leaving a remaining commitment of $32,038,757.

Note 14: 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.