

# **The Erie Community Foundation**

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2014 and 2013



**The Erie Community Foundation**  
**December 31, 2014 and 2013**

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## Independent Auditor's Report

Board of Trustees  
The Erie Community Foundation  
Erie, Pennsylvania

We have audited the accompanying consolidated financial statements of The Erie Community Foundation (Foundation) and its affiliated organizations (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Erie Community Foundation and its affiliated organizations as of December 31, 2014 and 2013, 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  
November 10, 2015

**The Erie Community Foundation**  
**Consolidated Statements of Financial Position**  
**December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,249,047	\$ 1,677,821
Investments - pooled	202,143,326	202,190,452
Other investments	263,335	242,475
Accrued interest income	360,271	446,137
Contributions receivable	650,188	702,332
Beneficial interests in trusts	484,223	834,420
Other assets	633,624	690,761
Property and equipment, net	1,028,068	1,118,854
Total assets	\$ 208,812,082	\$ 207,903,252
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Grants payable	\$ 1,610,394	\$ 1,635,568
Accounts payable and accrued expenses	314,175	357,245
Note payable	409,234	513,458
Annuity obligations	2,224,937	2,323,175
Amounts held for others	58,237,462	55,848,591
Total liabilities	62,796,202	60,678,037
<b>Net Assets</b>		
<b>Unrestricted</b>		
Discretionary	62,445,701	63,560,368
Donor advised	30,646,313	30,598,368
Donor designated	34,122,539	34,149,400
Field of interest	659,852	684,298
Geographic	2,089,444	2,114,393
Scholarship funds	15,461,498	15,433,526
Total unrestricted	145,425,347	146,540,353
<b>Temporarily Restricted</b>		
Annuities and trusts	590,533	684,862
Total temporarily restricted	590,533	684,862
Total net assets	146,015,880	147,225,215
Total liabilities and net assets	\$ 208,812,082	\$ 207,903,252

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

	2014			
	Unrestricted			
	Discretionary	Donor Advised	Donor Designated	Field of Interest
<b>Revenue and Support</b>				
Public support and revenue	\$ 2,791,548	\$ 1,637,496	\$ 766,163	\$ 37,972
Administrative revenue from funds	1,489,531	-	-	-
Grant and other revenue	69,457	-	-	-
Change in value of split interest agreements	(3,887)	23,958	-	-
Investment net appreciation	738,785	368,004	402,646	6,084
Investment income	1,368,354	691,227	765,572	12,526
Investment fees	(331,283)	(165,058)	(182,540)	(2,966)
Total revenue and support	<u>6,122,505</u>	<u>2,555,627</u>	<u>1,751,841</u>	<u>53,616</u>
<b>Net Assets Released Resulting From Satisfaction of Restrictions</b>	<u>2,714</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>				
Grants, philanthropic services and special projects				
Grants	4,982,127	2,052,062	1,577,789	26,168
Program expense	845,322	-	-	-
Total grants, philanthropic services and special projects	<u>5,827,449</u>	<u>2,052,062</u>	<u>1,577,789</u>	<u>26,168</u>
<b>Supporting Services</b>				
Administrative costs	1,205,213	182,917	200,913	51,869
Development expense	368,364	270	-	25
Depreciation expense	111,293	-	-	-
Total supporting services	<u>1,684,870</u>	<u>183,187</u>	<u>200,913</u>	<u>51,894</u>
Total expenses	<u>7,512,319</u>	<u>2,235,249</u>	<u>1,778,702</u>	<u>78,062</u>
<b>Change in Net Assets</b>	(1,387,100)	320,378	(26,861)	(24,446)
<b>Transfers of Net Assets</b>	272,433	(272,433)	-	-
<b>Net Assets, Beginning of Year</b>	<u>63,560,368</u>	<u>30,598,368</u>	<u>34,149,400</u>	<u>684,298</u>
<b>Net Assets, End of Year</b>	<u>\$ 62,445,701</u>	<u>\$ 30,646,313</u>	<u>\$ 34,122,539</u>	<u>\$ 659,852</u>

See Notes to Consolidated Financial Statements

Geographic	Scholarship Funds	Temporarily Restricted	Total Before Eliminations	Less	Total
		Annuities and Trusts		Interfund Gifts/Grants	
\$ 10,815	\$ 365,476	\$ 13,837	\$ 5,623,307	\$ (266,256)	\$ 5,357,051
-	-	-	1,489,531	(1,197,849)	291,682
2,217	1,405	-	73,079	-	73,079
-	-	(119,165)	(99,094)	-	(99,094)
26,811	199,771	5,822	1,747,923	-	1,747,923
47,490	348,386	10,417	3,243,972	-	3,243,972
(11,416)	(83,391)	(2,526)	(779,180)	-	(779,180)
<u>75,917</u>	<u>831,647</u>	<u>(91,615)</u>	<u>11,299,538</u>	<u>(1,464,105)</u>	<u>9,835,433</u>
-	-	(2,714)	-	-	-
76,297	647,957	-	9,362,400	(266,256)	9,096,144
-	-	-	845,322	-	845,322
<u>76,297</u>	<u>647,957</u>	<u>-</u>	<u>10,207,722</u>	<u>(266,256)</u>	<u>9,941,466</u>
20,313	155,718	-	1,816,943	(1,197,849)	619,094
4,256	-	-	372,915	-	372,915
-	-	-	111,293	-	111,293
<u>24,569</u>	<u>155,718</u>	<u>-</u>	<u>2,301,151</u>	<u>(1,197,849)</u>	<u>1,103,302</u>
<u>100,866</u>	<u>803,675</u>	<u>-</u>	<u>12,508,873</u>	<u>(1,464,105)</u>	<u>11,044,768</u>
(24,949)	27,972	(94,329)	(1,209,335)	-	(1,209,335)
-	-	-	-	-	-
<u>2,114,393</u>	<u>15,433,526</u>	<u>684,862</u>	<u>147,225,215</u>	<u>-</u>	<u>147,225,215</u>
<u>\$ 2,089,444</u>	<u>\$ 15,461,498</u>	<u>\$ 590,533</u>	<u>\$ 146,015,880</u>	<u>\$ -</u>	<u>\$ 146,015,880</u>

**The Erie Community Foundation**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2013**

	2013 Unrestricted			
	Discretionary	Donor Advised	Donor Designated	Field of Interest
<b>Revenue and Support</b>				
Public support and revenue	\$ 2,166,898	\$ 2,764,343	\$ 1,410,186	\$ 187,093
Administrative revenue from funds	1,358,630	-	-	-
Grant and other revenue	107,126	-	-	-
Change in value of split interest agreements	19,820	8,114	120,789	-
Investment net appreciation	5,582,332	3,052,963	3,381,412	54,362
Investment income	2,158,092	658,562	726,095	11,708
Investment fees	(224,440)	(91,010)	(102,455)	(1,651)
Total revenue and support	<u>11,168,458</u>	<u>6,392,972</u>	<u>5,536,027</u>	<u>251,512</u>
<b>Net Assets Released Resulting From Satisfaction of Restrictions</b>	<u>2,994</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>				
Grants, philanthropic services and special projects				
Grants	4,201,330	2,242,362	1,733,065	30,957
Program expense	974,863	-	-	-
Total grants, philanthropic services and special projects	<u>5,176,193</u>	<u>2,242,362</u>	<u>1,733,065</u>	<u>30,957</u>
<b>Supporting Services</b>				
Administrative costs	1,173,700	157,658	178,497	17,394
Development expense	336,558	-	-	-
Depreciation expense	105,950	-	-	-
Total supporting services	<u>1,616,208</u>	<u>157,658</u>	<u>178,497</u>	<u>17,394</u>
Total expenses	<u>6,792,401</u>	<u>2,400,020</u>	<u>1,911,562</u>	<u>48,351</u>
<b>Change in Net Assets</b>	4,379,051	3,992,952	3,624,465	203,161
<b>Transfers of Net Assets</b>	166,785	(76,541)	131,296	-
<b>Net Assets, Beginning of Year</b>	<u>59,014,532</u>	<u>26,681,957</u>	<u>30,393,639</u>	<u>481,137</u>
<b>Net Assets, End of Year</b>	<u>\$ 63,560,368</u>	<u>\$ 30,598,368</u>	<u>\$ 34,149,400</u>	<u>\$ 684,298</u>

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

**The Erie Community Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Change in net assets	\$ (1,209,335)	\$ 14,192,460
Items not requiring (providing) operating activities cash flows		
Depreciation expense	111,293	105,950
Net appreciation in investments	(1,747,923)	(13,890,465)
Donated securities	(979,374)	(734,989)
Changes in split interest agreements	486,471	88,931
Changes in		
Accrued interest income	85,866	(309,278)
Contributions receivable	52,144	283,543
Other assets	57,137	153,788
Accounts payable, accrued expenses and grants payable	(68,244)	720,405
Net cash provided by (used in) operating activities	(3,211,965)	610,345
<b>Investing Activities</b>		
Purchase of investments	(65,062,277)	(151,473,273)
Proceeds from sale of investments	68,465,040	150,486,469
Purchase of property and equipment	(20,506)	(21,307)
Net cash provided by (used in) investing activities	3,382,257	(1,008,111)
<b>Financing Activities</b>		
Proceeds from annuity obligations (non-gift portion)	11,163	-
Principal payments on long-term debt	(104,224)	(98,973)
Payments on annuity obligations	(245,675)	(254,250)
Amounts held for others additions and income, excluding realized and unrealized gain	4,829,941	2,884,378
Amounts held for others disbursements and expenses	(3,078,736)	(2,730,357)
Net cash provided by (used in) financing activities	1,412,469	(199,202)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,582,761	(596,968)
<b>Cash and Cash Equivalents, Beginning</b>	1,677,821	2,274,789
<b>Cash and Cash Equivalents, Ending</b>	\$ 3,260,582	\$ 1,677,821
<b>Supplemental Cash Flows Information</b>		
Cash payments for grants	\$ 9,121,318	\$ 7,135,614
Interest paid	\$ 24,138	\$ 29,389

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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

***Nature of Operations***

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

***Principles of Consolidation***

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

***Use of Estimates***

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

***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 2014 and 2013 were due to satisfaction of time restrictions. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. There are no permanently restricted net assets.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Donors may restrict contributions for certain beneficiaries. However, the Foundation has “variance power” over these net assets and, accordingly, they would be presented as unrestricted. The Foundation abides by donor intentions; however, it can modify donor intent when any restriction or conditions are unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

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

i. Unrestricted:

*Discretionary* – Funds in which the Board has full discretion with no donor stipulations.

*Donor Advised* – Donor established funds whereby the donor suggests specific organizations to benefit. Such donor recommendations are not binding on the Foundation, but are taken into consideration when making grants.

*Donor Designated* – Funds in which the donor has named recipients to receive funds for a particular charitable purpose over a specified period of time. Such designations are not binding on the Foundation, but are taken into consideration when making grants. Upon completion of the particular charitable purpose over a specified period of time, the Fund may be reclassified.

*Field of Interest* – Funds which benefit charitable organizations within a specific field (e.g. health care).

*Geographic* – Funds which benefit a specific geographic area, generally within Erie County.

*Scholarship Funds* – Funds in which the donor has designated distributions for scholarship recipients.

ii. Temporarily Restricted:

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

**Cash and Cash Equivalents**

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market funds.

At December 31, 2014, the Foundation’s cash accounts exceeded federally insured limits by approximately \$2,827,000.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value 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:

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

***Grants Payable***

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

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

***Amounts Held for Others***

These amounts represent amounts held by the Foundation on behalf of other charitable organizations. In such instances, the Foundation records the contributed assets and any accumulated investment earnings as a liability on the consolidated statements of financial position, and additions and reductions of these funds do not affect amounts reflected on the consolidated statements of activities.

	<b>2014</b>	<b>2013</b>
<b>Balance January 1</b>	\$ 55,848,591	\$ 49,921,175
Additions	3,475,237	1,726,084
Net investment income, net of investment fees	1,992,370	6,931,689
Expenses	(281,675)	(256,005)
Withdrawals	(2,797,061)	(2,474,352)
<b>Balance December 31</b>	<b>\$ 58,237,462</b>	<b>\$ 55,848,591</b>

***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 Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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 2011.

***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.

***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**Note 2: Investments**

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

	<b>Fair Value</b>	
	<b>2014</b>	<b>2013</b>
Cash and money market funds	\$ 2,995,050	\$ 4,510,259
Common stocks	13,554,548	13,902,763
Mutual funds	102,660,824	116,406,491
Corporate bonds	101,978	106,270
Mortgages	20,095	24,668
Comingled investment funds	18,852,023	23,735,005
Limited partnerships	30,416,093	20,291,666
Alternative investments	33,542,715	23,213,330
	<b>\$ 202,143,326</b>	<b>\$ 202,190,452</b>

***Other Investments***

	<b>2014</b>	<b>2013</b>
Cash and money market funds	\$ 5,249	\$ 8,536
Mutual funds		
Growth	39,497	37,163
Total return	186,834	29,213
Index	31,755	167,563
	<b>\$ 263,335</b>	<b>\$ 242,475</b>

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Total investment return is comprised of the following:

	<b>2014</b>	<b>2013</b>
Investment and dividend income	\$ 2,464,792	\$ 3,470,155
Net realized and unrealized gains (losses) on investments reported at fair value	1,747,923	13,890,465
Investment return for the Foundation	4,212,715	17,360,620
Investment return for amounts held for others	1,992,370	6,931,689
Total investment return	\$ 6,205,085	\$ 24,292,309

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

**Note 3: Contributions Receivable**

The receivables expected to be collected at December 31, 2014 and 2013 are summarized as follows:

	<b>Temporarily Restricted</b>	
	<b>2014</b>	<b>2013</b>
Contributions receivable expected to be collected in:		
Less than one year	\$ 636,188	\$ 602,172
One to five years	14,000	100,160
Total contributions receivable	\$ 650,188	\$ 702,332

The discount rate for December 31, 2014 and 2013 was 3.25%.

**The Erie Community Foundation**  
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**Note 4: Disclosures About Fair Value of Assets and Liabilities**

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

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

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, 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***Investments***

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

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

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

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

**The Erie Community Foundation**  
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***Comingled Investment Funds:*** These investments are investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding. The NAV is not a quoted price in an active market, it is classified within Level 2 of the valuation hierarchy.

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

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

***Beneficial Interests in Trusts***

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

**The Erie Community Foundation**  
**Notes to Consolidated Financial Statements**  
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**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, 2014 and 2013:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2014</b>				
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 bonds	101,978	-	101,978	-
Mortgages	20,095	-	20,095	-
Comingled investment funds	18,852,023	-	18,852,023	-
Limited partnerships	30,416,093	-	-	30,416,093
Alternative investments	33,542,715	-	-	33,542,715
Total investments at fair value	<u>\$ 202,143,326</u>	<u>\$ 119,210,422</u>	<u>\$ 18,974,096</u>	<u>\$ 63,958,808</u>
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	<u>\$ 263,335</u>	<u>\$ 263,335</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in trusts	<u>\$ 484,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 484,223</u>

**The Erie Community Foundation**  
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	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2013</b>				
Cash and money market funds	\$ 4,510,259	\$ 4,510,259	\$ -	\$ -
Common stocks	13,902,763	13,902,763	-	-
Mutual funds	116,406,491	116,406,491	-	-
Corporate bonds	106,270	-	106,270	-
Mortgages	24,668	-	24,668	-
Comingled investment funds	23,735,005	-	23,735,005	-
Limited partnerships	20,291,666	-	-	20,291,666
Alternative investments	23,213,330	-	-	23,213,330
Total investments at fair value	<u>\$ 202,190,452</u>	<u>\$ 134,819,513</u>	<u>\$ 23,865,943</u>	<u>\$ 43,504,996</u>
<b>Other investments</b>				
Cash and money market funds	\$ 8,536	\$ 8,536	\$ -	\$ -
Mutual funds				
Growth	37,163	37,163	-	-
Total return	29,213	29,213	-	-
Index	167,563	167,563	-	-
Total other investments at fair value	<u>\$ 242,475</u>	<u>\$ 242,475</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in trusts	<u>\$ 834,420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 834,420</u>

**The Erie Community Foundation**  
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**Level 3 Reconciliation**

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

	<b>Asset Limited Partnerships</b>	<b>Asset Alternative Investments</b>	<b>Asset Beneficial Interest in Trusts</b>
<b>Balance, January 1, 2013</b>	\$ 11,497,907	\$ 14,356,303	\$ 792,795
Additions	10,366,161	18,200,000	-
Interest and dividends	389,970	66,911	-
Realized and unrealized gains	2,484,525	1,290,643	-
Withdrawals	(4,446,897)	(10,700,527)	(134,802)
Valuation adjustments	-	-	176,427
<b>Balance, December 31, 2013</b>	<u>\$ 20,291,666</u>	<u>\$ 23,213,330</u>	<u>\$ 834,420</u>
<b>Balance, January 1, 2014</b>	\$ 20,291,666	\$ 23,213,330	\$ 834,420
Additions	9,920,154	15,095,717	-
Interest and dividends	130,135	109,008	-
Realized and unrealized gains	2,605,829	(546,702)	-
Withdrawals	(2,531,691)	(4,328,638)	(374,754)
Valuation adjustments	-	-	24,557
<b>Balance, December 31, 2014</b>	<u>\$ 30,416,093</u>	<u>\$ 33,542,715</u>	<u>\$ 484,223</u>

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, 2014 and 2013.

**The Erie Community Foundation**  
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**Alternative Investments**

Except as described below, the fair value of limited partnerships and alternative investments have been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consisted of the following:

<b>2014</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Assets</b>				
Large cap equity	\$ 21,472,547	\$ 11,348,372	Daily, monthly	30 days
International equity	9,067,607	7,445,584	Monthly	10 - 60 days
Alternative investments				
Hedge funds	33,418,654	-	Monthly, quarterly	5 - 30 days
<b>2013</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Assets</b>				
Large cap equity	\$ 15,048,441	\$ 10,587,933	Daily, monthly	30 days
International equity	9,677,301	4,795,000	Monthly	10 - 60 days
Alternative investments				
Hedge funds	18,779,254	-	Monthly, quarterly	5 - 30 days

At December 31, 2014 and 2013, the Foundation's investments in certain limited partnership 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 30<sup>th</sup> of any fiscal year, and all or any portion of the investment as of the last day of the fiscal year.

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

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***Unobservable (Level 3 Inputs)***

As previously noted, the Foundation's alternative investments are valued at NAV or its equivalent and classified within the fair value hierarchy based on the Foundation's ability to redeem the fund within a reasonable period of time. Therefore, the valuation of alternative investments is considered to be based on unobservable inputs. There are no quantitative measurements (i.e. discount rates, market return rates, etc.) used to adjust NAV.

***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.

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

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

**Note 5: Endowments**

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

# **The Erie Community Foundation**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

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, 2014 and 2013, substantially all of the net assets of the Foundation consist of the endowment funds. The activity of the endowment funds is substantially represented by the consolidated statements of activities.

**The Erie Community Foundation**  
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At December 31, 2014 and 2013, the Foundation's unrestricted endowment funds were \$137,962,827 and \$139,355,345, respectively.

Changes in endowment net assets for the years ended December 31, 2014 and 2013 were:

	<b>Unrestricted</b>	
	<b>2014</b>	<b>2013</b>
Endowment net assets, beginning of year	\$ 139,355,345	\$ 126,010,259
Investment return		
Investment income	2,636,304	1,913,553
Net appreciation (depreciation)	1,909,503	15,181,065
Total investment return	4,545,807	17,094,618
Contributions	2,278,957	2,429,320
Appropriation of endowment assets for expenditure	(8,217,282)	(6,178,852)
Endowment net assets, end of year	\$ 137,962,827	\$ 139,355,345

**Note 6: Property and Equipment**

Property and equipment at December 31 consists of:

	<b>2014</b>	<b>2013</b>
Land and land improvements	\$ 85,326	\$ 85,326
Buildings	285,866	285,866
Building improvements	885,658	878,741
Furniture and fixtures	461,100	477,346
Computer software	48,230	43,195
	1,766,180	1,770,474
Less accumulated depreciation	738,112	651,620
	\$ 1,028,068	\$ 1,118,854

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**Notes to Consolidated Financial Statements**  
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**Note 7: Program Expenses**

The Erie Community Foundation provides a number of services and programs designed to enhance the governance and management of nonprofit organizations and to improve the lives of Erie County residents. These services are delivered directly through staff participation in grant making, community-based initiatives, partnerships and coalitions. The following is a detail of program expenses for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Salaries	\$ 419,039	\$ 362,156
Payroll taxes	28,832	25,973
Employee benefits	74,963	74,312
Meetings and conferences	66,189	63,629
Marketing	24,735	26,426
Professional services	83,211	57,433
Occupancy	19,564	16,147
Equipment purchased/rental and maintenance	28,425	25,098
Vehicle costs	2,700	2,700
Office supplies and expense	12,303	12,249
Bayfront Beautification Project	85,361	308,740
	<u>          </u>	<u>          </u>
Total	<u>\$ 845,322</u>	<u>\$ 974,863</u>

**Note 8: Grants Payable**

As of December 31, 2014 and 2013, the Foundation was committed to various charitable organizations for grants payable over future years in the amounts of \$1,610,394 and \$1,635,568, respectively. Grant activities detailed during the years are as follows:

	<u>2014</u>	<u>2013</u>
Grants payable, beginning of year	\$ 1,635,568	\$ 1,028,815
Grants paid	9,059,435	8,349,120
Grants approved	9,084,609	7,742,367
	<u>          </u>	<u>          </u>
Grants payable, end of year	<u>\$ 1,610,394</u>	<u>\$ 1,635,568</u>

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

2015	\$ 1,104,844
2016	443,550
2017	56,000
2018	6,000
2019	-
Thereafter	-
	<hr/>
Total grants payable	<u><u>\$ 1,610,394</u></u>

**Note 9: Supporting Services**

The following table represents the supporting services expenses:

	<u>Administrative</u>	<u>Development</u>	<u>Total 2014</u>	<u>Total 2013</u>
Salaries	\$ 266,422	\$ 185,576	\$ 451,998	\$ 427,961
Payroll taxes	24,109	17,637	41,746	37,608
Employee benefits	62,687	45,859	108,546	107,602
Meetings and conferences	43,083	46,781	89,864	68,088
Dues and subscriptions	11,898	-	11,898	11,788
Marketing	25,483	27,238	52,721	59,142
Professional services	75,109	7,277	82,386	69,773
Rent and occupancy	16,360	11,969	28,329	23,380
Equipment purchased/rental and maintenance	24,420	17,389	41,809	41,247
Insurances	32,526	-	32,526	30,720
Vehicle costs	600	2,700	3,300	3,300
Office supplies and expense	11,864	7,527	19,391	25,495
Interest expense	24,138	-	24,138	29,389
Fund administrative and fundraising expenses	395	2,962	3,357	4,121
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u><u>\$ 619,094</u></u>	<u><u>\$ 372,915</u></u>	<u><u>\$ 992,009</u></u>	<u><u>\$ 939,614</u></u>

**The Erie Community Foundation**  
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**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 2014 for \$11,163 and no new liabilities established in 2013. Assets held in these trusts totaled \$2,815,470 and \$3,008,037 at December 31, 2014 and 2013, respectively, and are reported in investments at fair market value 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 8.4% and applicable mortality tables. The annuity obligation at December 31, 2014 and 2013 is estimated to be \$2,224,937 and \$2,323,175, 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 \$484,223 and \$834,420 as of December 31, 2014 and 2013, 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 directors. Contributions to this plan were \$51,478 and \$50,677 for 2014 and 2013, respectively.

The Foundation established a deferred compensation plan for the President during 2004. The expense was \$20,881 and \$41,135 in 2014 and 2013, respectively. The liability of \$263,335 and \$242,474 at December 31, 2014 and 2013, respectively, is included in accounts payable and accrued expenses.

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**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, 2014 and 2013 totaled \$409,234 and \$513,458, 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	\$ 109,570
2016	115,302
2017	121,334
2018	63,028

**Note 13: Commitments**

As of December 31, 2014, the Foundation has commitments to eleven private equity funds to invest funds totaling \$38,650,000. As of December 31, 2014, the Foundation made capital contributions of \$21,656,746, leaving a remaining commitment of \$18,793,956.

**Note 14: Subsequent Events**

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