

COMMUNITY FOUNDATION OF LORAIN COUNTY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Foundation of Lorain County
Lorain, Ohio

We have audited the accompanying consolidated financial statements of Community Foundation of Lorain County, (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying combined financial statements of Community Foundation of Lorain County, which comprise the combined statement of financial position as of December 31, 2011, and the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 2012 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation of Lorain County as of December 31, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2011 combined financial statements present fairly, in all material respects, the combined financial position of Community Foundation of Lorain County as of December 31, 2011 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Meaden & Moore Ltd." in a cursive script.

MEADEN & MOORE, LTD.
Certified Public Accountants

May 31, 2013
Cleveland, Ohio

CONSOLIDATED/COMBINED STATEMENT OF FINANCIAL POSITION

Community Foundation of Lorain County

December 31

| | Consolidated | Combined |
|---|--------------------------|--------------------------|
| | 2012 | 2011 |
| ASSETS: | | |
| Cash and cash equivalents | \$ 1,975 | \$ 39,534 |
| Investments | 87,777,985 | 79,085,881 |
| Beneficial interest from charitable remainder trust | 69,724 | 68,009 |
| Other assets | 35,007 | 26,382 |
| Property and equipment - net | <u>759,318</u> | <u>772,096</u> |
| Total Assets | <u>\$ 88,644,009</u> | <u>\$ 79,991,902</u> |
| LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 8,723 | \$ 19,880 |
| Grants payable | 1,170,882 | 1,040,003 |
| Split-interest agreements | 47,276 | 48,639 |
| Agency funds | <u>16,230,016</u> | <u>14,647,119</u> |
| Total Liabilities | <u>17,456,897</u> | <u>15,755,641</u> |
| NET ASSETS: | | |
| Unrestricted | 69,165,548 | 62,359,038 |
| Temporarily restricted | <u>2,021,564</u> | <u>1,877,223</u> |
| Total Net Assets | <u>71,187,112</u> | <u>64,236,261</u> |
| Total Liabilities and Net Assets | <u>\$ 88,644,009</u> | <u>\$ 79,991,902</u> |

See accompanying notes.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Community Foundation of Lorain County

Year Ended December 31

| | 2012 | | |
|---|----------------------|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| SUPPORT AND REVENUE: | | | |
| Contributions | \$ 3,250,810 | \$ - | \$ 3,250,810 |
| Less: Amounts received for agency funds | (383,472) | - | (383,472) |
| Net Contributions | <u>2,867,338</u> | - | <u>2,867,338</u> |
| Investment income - net of fees | 10,269,242 | 225,817 | 10,495,059 |
| Change in value of real estate | 77,579 | - | 77,579 |
| Change in value of closely held stock | (233,793) | - | (233,793) |
| Loss on sale of investment property | (8,900) | - | (8,900) |
| Less: Investment gains on agency funds | (1,838,607) | - | (1,838,607) |
| Net Investment Income | <u>8,265,521</u> | <u>225,817</u> | <u>8,491,338</u> |
| Other income | <u>106,689</u> | - | <u>106,689</u> |
| Total Support and Revenue | <u>11,239,548</u> | <u>225,817</u> | <u>11,465,365</u> |
| Net Assets Released from Restrictions: | | | |
| Satisfaction of program restrictions | <u>81,476</u> | <u>(81,476)</u> | <u>-</u> |
| Total Support and Revenue | <u>11,321,024</u> | <u>144,341</u> | <u>11,465,365</u> |
| EXPENSES: | | | |
| Program services | 4,500,728 | - | 4,500,728 |
| Less: Grants paid from agency funds | (639,182) | - | (639,182) |
| Net Program Services | <u>3,861,546</u> | - | <u>3,861,546</u> |
| General and administrative | 325,123 | - | 325,123 |
| Fundraising and development | <u>327,845</u> | - | <u>327,845</u> |
| Total Expenses | <u>4,514,514</u> | <u>-</u> | <u>4,514,514</u> |
| Change in Net Assets | <u>6,806,510</u> | <u>144,341</u> | <u>6,950,851</u> |
| NET ASSETS - Beginning of the Year | <u>62,359,038</u> | <u>1,877,223</u> | <u>64,236,261</u> |
| NET ASSETS - End of the Year | <u>\$ 69,165,548</u> | <u>\$ 2,021,564</u> | <u>\$ 71,187,112</u> |

See accompanying notes.

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Community Foundation of Lorain County

Year Ended December 31

| | 2011 | | |
|---|---------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE: | | | |
| Contributions | \$ 1,630,386 | \$ - | \$ 1,630,386 |
| Less: Amounts received for agency funds | (345,549) | - | (345,549) |
| Net Contributions | 1,284,837 | - | 1,284,837 |
| Investment loss - net of fees | (1,953,426) | (69,218) | (2,022,644) |
| Change in value of real estate | - | - | - |
| Change in value of closely held stock | - | - | - |
| Loss on sale of investment property | - | - | - |
| Less: Investment loss on agency funds | 556,440 | - | 556,440 |
| Net Investment Income | (1,396,986) | (69,218) | (1,466,204) |
| Other income | 101,909 | - | 101,909 |
| Total Support and Revenue | (10,240) | (69,218) | (79,458) |
| Net Assets Released from Restrictions: | | | |
| Satisfaction of program restrictions | 82,918 | (82,918) | - |
| Total Support and Revenue | 72,678 | (152,136) | (79,458) |
| EXPENSES: | | | |
| Program services | 4,352,151 | - | 4,352,151 |
| Less: Grants paid from agency funds | (646,182) | - | (646,182) |
| Net Program Services | 3,705,969 | - | 3,705,969 |
| General and administrative | 330,400 | - | 330,400 |
| Fundraising and development | 356,291 | - | 356,291 |
| Total Expenses | 4,392,660 | - | 4,392,660 |
| Change in Net Assets | (4,319,982) | (152,136) | (4,472,118) |
| NET ASSETS - Beginning of the Year | 66,679,020 | 2,029,359 | 68,708,379 |
| NET ASSETS - End of the Year | \$ 62,359,038 | \$ 1,877,223 | \$ 64,236,261 |

See accompanying notes.

CONSOLIDATED/COMBINED STATEMENT OF CASH FLOWS

Community Foundation of Lorain County

Year Ended December 31

| | Consolidated 2012 | Combined 2011 |
|---|------------------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ 6,950,851 | \$ (4,472,118) |
| Adjustments to Reconcile Change in Net Assets to Net Cash | | |
| Used in Operating Activities: | | |
| Depreciation | 27,172 | 27,155 |
| Interest and dividends reinvested | (1,378,956) | (1,027,229) |
| Increase (Decrease) in assets held in trust by others | (1,715) | 1,750 |
| Loss on sale of investment property | 8,900 | - |
| Net realized and unrealized (gains) losses on investments | (9,116,103) | 3,049,873 |
| Loss on value of closely held stock | 233,793 | - |
| Increase in value of real estate | (77,579) | - |
| Donated securities | - | (11,810) |
| Donated property | - | (48,900) |
| Increase (Decrease) in Cash from Changes in: | | |
| Other operating assets | (8,625) | 26,626 |
| Accounts payable and accrued expenses | (11,157) | (2,663) |
| Grants payable | 130,879 | 190,945 |
| Agency funds | 1,582,897 | (857,073) |
| Total Adjustments | (8,610,494) | 1,348,674 |
| Net Cash Used in Operating Activities | (1,659,643) | (3,123,444) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (14,394) | (12,410) |
| Proceeds on sale of investments | 9,121,304 | 8,565,260 |
| Purchase of investments | (7,483,463) | (5,477,934) |
| Net Cash Provided by Investing Activities | 1,623,447 | 3,074,916 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in split-interest agreements | (1,363) | 19,272 |
| Increase (Decrease) in Cash and Cash Equivalents | (37,559) | (29,256) |
| Cash and Cash Equivalents - Beginning of the Year | 39,534 | 68,790 |
| Cash and Cash Equivalents - End of the Year | \$ 1,975 | \$ 39,534 |

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

1 Summary of Significant Accounting Policies

Description of the Foundation:

The Community Foundation of Lorain County ("Foundation") is a public organization established in 1980 with income from funds contributed by individuals, families, businesses and nonprofit agencies. The Foundation works to improve the quality of life in Lorain County, Ohio, by making grants to local nonprofit organizations and providing scholarships to benefit local students. The Foundation responds to the changing needs of the community and builds on local strengths in the areas of arts, civic affairs, education, health and social services.

Basis of Consolidation and Combination:

The 2011 combined financial statements include the Foundation and the Mary and Joseph Ignat Catalyst Foundation ("MAJIC"), a supporting organization. The Foundation exercises significant control over the supporting organization under Section 509(a)(3) of the Internal Revenue Code. MAJIC provides grants and disbursements consistent with the mission of the Foundation. All significant accounts and transactions between organizations have been eliminated in the combined financial statements.

The 2011 combined financial statements also include the assets and activities of Charitable Properties of Lorain County, a commonly controlled nonprofit organization which was created to increase the Foundation's capacity to evaluate, accept and manage gifts of real property.

As of November 30, 2012, both supporting organizations dissolved. Prior to December 31, 2012, MAJIC transferred their assets which amounted to approximately \$2,140,000 to the Mary and Joseph Ignat Catalyst Fund ("MAJIC") at the Foundation to be used for unrestricted grant making, with a preference for initiatives and other catalytic opportunities within Lorain County. Charitable Properties of Lorain County also transferred any remaining assets to the Foundation prior to year-end. On December 12, 2012, a new entity named Charitable Properties of Lorain County, LLC was formed as a single member nonprofit limited liability company to increase the Foundation's capacity to evaluate, accept and manage gifts of real property. There was no activity in Charitable Properties of Lorain County, LLC during 2012. All significant accounts and transactions between organizations have been eliminated in the consolidated financial statements.

Classification of Net Assets:

In accordance with generally accepted accounting principles, contributions are classified as unrestricted, temporarily restricted and permanently restricted based on donor specifications. Assets, liabilities, revenue and gains are presented under these classifications.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

1 Summary of Significant Accounting Policies, Continued

Classification of Net Assets, Continued:

Grants and contributions received with donor-imposed restrictions are recorded as unrestricted if the restrictions are expected to be met within the same period. This policy is also followed for investment income received with donor-imposed restrictions.

Unrestricted net assets consist of net assets not subject to donor-imposed restrictions or the passage of time. This category periodically includes net assets designated by the Board. The Foundation's Board has designated \$283,780 (2012) and \$281,639 (2011) as an operating reserve.

Temporarily restricted net assets consist of irrevocable charitable trusts, lead trusts and restricted contributions receivable. Temporarily restricted net assets result from either donor-imposed restrictions on the use of funds or timing differences between the receipt of funds and the incurrence of the related expenses. The Foundation reports gifts of cash value and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Board of Directors, on the advice of legal counsel, has determined that the Foundation's net assets do not meet the definitions of endowment under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") because of the Foundation's right to exercise variance power over contributions. As a result of this ability, all contributions not classified as temporarily restricted are classified as unrestricted net assets for financial statement purposes.

Variance Power:

Variance power is the unilateral power to redirect the use of contributions to an entity or individual other than the specified beneficiary, if the Foundation's Board of Directors determines that circumstances have changed as to render the express desires of the donor unnecessary, impractical, incapable of fulfillment or inconsistent with the charitable needs of the community. The Foundation may, at any time, redirect the application of all or part of a gift, grant, devise or bequest to such other charitable uses or purposes, which in the Foundation's judgment, will most effectively accomplish the general mission of the Foundation.

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporarily uninvested cash in investment accounts is considered an investment rather than a cash equivalent.

At times during the year, the Foundation maintained funds on deposit at its banks in excess of FDIC insurance limits.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

1 Summary of Significant Accounting Policies, Continued

Investments:

Investments are recorded at fair value based on the fair value measurements. The difference between their cost and fair value is recorded as an unrealized gain or loss in the statement of activities. Specific-identification is used to identify securities sold.

Investment Spending Policy:

The annual spending policy is based on a 12-quarter moving average market value of net assets, with a floor of 4.5% and a ceiling of 5.5%, taking into account both preservation of principal, as well as investment and custodial cost and fees. Payments in excess of annual spending policy are allowable expenditures only with special approval of the Board. The amount that is available to be spent and not distributed is included in grants payable.

Property and Equipment:

Property and equipment purchased by the Foundation are carried at cost. Donated property and equipment are recorded at estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. It is the policy of the Foundation to capitalize all assets with a useful life greater than one year and an acquisition cost greater than \$2,500. The cost and related accumulated depreciation of properties sold or otherwise disposed of are removed from the accounts and any gain or loss is reflected in the current year's activities.

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|-------------------|-------------------|
| Land | \$ 128,250 | \$ 128,250 |
| Building | 628,448 | 628,448 |
| Building improvements | 14,395 | - |
| Equipment | <u>154,673</u> | <u>154,673</u> |
| | 925,766 | 911,371 |
| Less: Accumulated depreciation | <u>(166,448)</u> | <u>(139,275)</u> |
| | <u>\$ 759,318</u> | <u>\$ 772,096</u> |
| Depreciation Expense | <u>\$ 27,172</u> | <u>\$ 27,155</u> |

The Foundation primarily follows the straight-line method of depreciation utilizing the following lives:

| <u>Class</u> | <u>Years</u> |
|-----------------------|--------------|
| Building | 39 |
| Building improvements | 10 |
| Equipment | 3 - 5 |

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

1 Summary of Significant Accounting Policies, Continued

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition:

Contributions and grants are recognized when awarded as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Agency funds are recorded when a donor transfers assets to the Foundation and the transfers are revocable, repayable or reciprocal as a liability in the financial statements. These transfers do not constitute a contribution to the Foundation.

Functional Expense Allocations:

Expenses are charged to functional areas based on specific-identification when possible. Expenses that cannot be specifically identified to a function are allocated to the functional areas based on factors such as direct relationship of expense, time spent by employees and square footage of space used for various programs.

Income Taxes:

The Community Foundation of Lorain County, MAJIC Foundation and Charitable Properties of Lorain County are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and operate as public charities. All three organizations have also been classified as entities that are not private foundations within the meaning of Section 509(a) and, therefore, qualify for deductible contributions as provided in Section 170(b)(1)(A)(vi).

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

1 Summary of Significant Accounting Policies, Continued

Accounting for Uncertainty in Income Taxes:

The Foundation adopted the provisions of "Accounting for Uncertainty in Income Taxes" which prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Foundation recognizes interest and penalties accrued, if any, related to unrecognized tax uncertainties in income tax expense. As a result of implementation of this standard, the Foundation determined that there are no material uncertain tax positions.

The Foundation is subject to U.S. federal jurisdiction income tax examinations. With few exceptions, the Foundation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities beyond the past three years.

Vacation Pay:

Vacation pay is expensed when paid. Accrual of vacation pay as earned would not have a material effect on the financial statements.

Advertising and Marketing:

The Foundation participates in various advertising and marketing programs. All costs related to marketing and advertising the Foundation's services are expensed in the period incurred. Advertising costs charged to fundraising and development expense on the combined statement of activities amounted to \$28,291 (2012) and \$34,106 (2011).

Subsequent Events:

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements.

Subsequent events have been evaluated through May 31, 2013, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

1 Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments:

Accounting for "*Financial Instruments*" requires the Foundation to disclose estimated fair values of financial instruments. Financial instruments held by the Foundation include, among others, other assets, accounts payable and accrued expenses. The carrying amounts reported in the statement of financial position for assets and liabilities qualifying as financial instruments is a reasonable estimate of fair value.

Fair Value Measurements:

As defined in FASB ASC 820, 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. In determining fair value, the Foundation utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable firm inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the examination of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- * Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- * Level 2: Inputs to the valuation methodology include:
 - *Quoted prices for similar assets or liabilities in active markets,
 - *Quoted prices for identical or similar assets or liabilities in inactive markets,
 - *Inputs other than quoted prices that are observable for the asset or liability,
 - *Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- * Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

2 Investments

Fair values at December 31 are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|-----------------------|
| Money market accounts: | | |
| Cash and cash equivalents | \$ 5,498,935 | \$ 2,118,282 |
| Equities: | | |
| Domestic large cap - mutual funds | 10,546,854 | 11,461,801 |
| International - mutual funds | 20,272,534 | 14,433,372 |
| Domestic small cap - common stock | 5,640,494 | 4,694,479 |
| Domestic mid cap - common stock | 3,491,419 | 3,229,474 |
| Domestic large cap - common stock | 10,696,363 | 9,307,397 |
| International - common stock | - | 2,582,456 |
| Fixed income: | | |
| U.S. - mutual funds | 6,053,795 | 7,348,676 |
| High yield - private partnerships | 4,609,935 | 3,916,124 |
| International - private partnerships | 4,879,485 | 4,484,113 |
| Alternative investments: | | |
| Commodities - mutual funds | 1,500,142 | 1,458,459 |
| Hedge fund of funds - private partnerships | 13,327,757 | 12,585,862 |
| Closely held shares in LLC | 8,874 | 242,667 |
| Real property | <u>1,251,398</u> | <u>1,222,719</u> |
| Total | <u>\$ 87,777,985</u> | <u>\$ 79,085,881</u> |
| | <u>2012</u> | <u>2011</u> |
| Investment income consists of the following: | | |
| Interest and dividends | \$ 1,378,956 | \$ 1,027,229 |
| Net realized and unrealized gains (losses) | 9,516,719 | (2,653,101) |
| Change in value of real estate | 77,579 | - |
| Change in value of closely held stock | (233,793) | - |
| Loss on sale of property | (8,900) | - |
| Management fees | <u>(400,616)</u> | <u>(396,772)</u> |
| Total Investment Income (Loss) | 10,329,945 | (2,022,644) |
| Less: Earnings allocated to agency funds | <u>(1,838,607)</u> | <u>556,440</u> |
| Total Net Investment Income (Loss) | <u>\$ 8,491,338</u> | <u>\$ (1,466,204)</u> |

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

2 Investments, Continued

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Money Market Accounts:

These cash funds are valued at principal plus interest at a variable rate.

Mutual Funds:

These funds are valued at quoted market prices in active markets for identical assets.

Common Stock:

These securities are valued at quoted market prices in active markets for identical assets.

Private Partnerships:

Investments are valued at the net asset value per unit or percentage of ownership as reported by the funds. Due to the inherent uncertainty of the valuation of nonmarketable investments, those estimated values may differ significantly from the values that would be used had a ready market for the securities existed.

The CFO, under the supervision of the Investment Committee, determines the fair value measurement policies and procedures in consultation with the investment consultant. These policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third party information. The Investment Committee meets quarterly and reviews valuation reports prepared by both the CFO and Investment Consultant using these procedures.

Closely Held Shares in LLC:

These investments were originally bequested to the Foundation. They are valued based on the net asset value of the Foundation's ownership interest in the partners' capital, which includes assumptions and methods that were prepared by the Managing Member of the LLC and were reviewed by Foundation management for reasonableness.

Real Property:

The Foundation values its real property holdings based on appraised values.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

2 Investments, Continued

The following table presents the financial instruments carried at fair value as of December 31, 2012 by FASB ASC 820 valuation hierarchy (as described above).

| | Quoted Prices in Active Markets (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Unobservable Inputs Not Corroborated by Market Data (Level 3) | Total Carrying Value in the Statement of Net Assets Available for Benefits |
|------------------------------|--|---|--|---|
| Money market accounts: | | | | |
| Cash and cash equivalents | \$ 5,498,935 | \$ - | \$ - | \$ 5,498,935 |
| Equities: | | | | |
| Domestic large cap | | | | |
| - mutual funds | 10,546,854 | - | - | 10,546,854 |
| International - mutual funds | 20,272,534 | - | - | 20,272,534 |
| Domestic small cap | | | | |
| - common stock | 5,640,494 | - | - | 5,640,494 |
| Domestic mid cap | | | | |
| - common stock | 3,491,419 | - | - | 3,491,419 |
| Domestic large cap | | | | |
| - common stock | 10,696,363 | - | - | 10,696,363 |
| Fixed income: | | | | |
| U.S. - mutual funds | 6,053,795 | - | - | 6,053,795 |
| High yield | | | | |
| - private partnerships | - | 4,609,935 | - | 4,609,935 |
| International | | | | |
| - private partnerships | - | 4,879,485 | - | 4,879,485 |
| Alternative investments: | | | | |
| Commodities | | | | |
| - mutual funds | 1,500,142 | - | - | 1,500,142 |
| Hedge fund of funds | | | | |
| - private partnerships | - | - | 13,327,757 | 13,327,757 |
| Closely held shares in LLC | - | 8,874 | - | 8,874 |
| Real property | - | 1,251,398 | - | 1,251,398 |
| | <u>\$ 63,700,536</u> | <u>\$ 10,749,692</u> | <u>\$ 13,327,757</u> | <u>\$ 87,777,985</u> |

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

2 Investments, Continued

The following table presents the financial instruments carried at fair value as of December 31, 2011 by FASB ASC 820 valuation hierarchy (as described above).

| | Quoted Market Prices in Active Markets (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Unobservable Inputs Not Corroborated by Market Data (Level 3) | Total Carrying Value in the Statement of Net Assets Available for Benefits |
|------------------------------|--|---|--|--|
| Money market accounts: | | | | |
| Cash and cash equivalents | \$ 2,118,282 | \$ - | \$ - | \$ 2,118,282 |
| Equities: | | | | |
| Domestic large cap | | | | - |
| - mutual funds | 11,461,801 | - | - | 11,461,801 |
| International - mutual funds | 14,433,372 | - | - | 14,433,372 |
| Domestic small cap | | | | |
| - common stock | 4,694,479 | | | 4,694,479 |
| Domestic mid cap | | | | |
| - common stock | 3,229,474 | - | - | 3,229,474 |
| Domestic large cap | | | | |
| - common stock | 9,307,397 | - | - | 9,307,397 |
| International | | | | |
| - common stock | 2,582,456 | - | - | 2,582,456 |
| Fixed income: | | | | |
| U.S. - mutual funds | 7,348,676 | - | - | 7,348,676 |
| High yield | | | | |
| - private partnerships | - | 3,916,124 | - | 3,916,124 |
| International | | | | |
| - private partnerships | - | 4,484,113 | - | 4,484,113 |
| Alternative investments: | | | | |
| Commodities | | | | |
| - mutual funds | 1,458,459 | - | - | 1,458,459 |
| Hedge fund of funds | | | | |
| - private partnerships | - | - | 12,585,862 | 12,585,862 |
| Closely held shares in LLC | - | 242,667 | - | 242,667 |
| Real property | - | 1,222,719 | - | 1,222,719 |
| | <u>\$ 56,634,396</u> | <u>\$ 9,865,623</u> | <u>\$ 12,585,862</u> | <u>\$ 79,085,881</u> |

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

2 Investments, Continued

The following table includes a rollforward of the amounts for the year ended December 31 for the alternative investments classified within Level 3:

| | <u>2012</u> | <u>2011</u> |
|------------------------------|-----------------------------|----------------------|
| Beginning balance | \$ 12,585,862 | \$ 13,058,370 |
| Net realized/unrealized loss | 1,291,895 | (472,508) |
| Withdrawals | <u>(550,000)</u> | - |
| Ending balance | <u>\$ 13,327,757</u> | <u>\$ 12,585,862</u> |

The Foundation is required to disclose the nature and risks of the investments recorded at net asset value. The following table summarizes the nature and risk of these investments as of December 31, 2012:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|------------------------------|----------------------|-----------------------------|-----------------------------|---------------------------------|
| Fixed income - high yield | \$ 4,609,935 | \$ - | Monthly | 30 days |
| Fixed income - international | 4,879,485 | - | Monthly | 10 days |
| Hedge fund of funds | | | | |
| - long/short equity | 4,165,983 | - | Annual | 60 days |
| Hedge fund of funds | | | | |
| - multi-strategy | <u>9,161,774</u> | <u>-</u> | 3 Years | 100 days |
| | <u>\$ 22,817,177</u> | <u>\$ -</u> | | |

The fixed income strategies include investments in two limited partnerships with one focused on U.S. below investment grade fixed income and the second limited partnership focused on investment grade bonds in the international markets.

The long/short equity strategy category includes investment in a hedge fund of funds which employs multiple managers which have the ability to short investments across the capitalization range. Positions can range from net short to net long.

The multi-strategy fund of funds category includes investment in a hedge fund of funds that is broadly defined to include long/short equity, distressed debt strategies, and fixed income arbitrage.

At December 31, 2012, a request for redemption of \$7,000,000 had been submitted to one of the Foundation's alternative investment managers. This amount was subsequently received in January 2013 and invested with two separate alternative investment managers, following similar investment strategies.

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

3 Beneficial Interest from Charitable Remainder Trust

The Foundation has received an unconditional promise to give in the form of an irrevocable charitable remainder trust.

The Foundation is a 17.35% beneficiary of a remainder trust and will receive income from the trust through 2049. The assets are recorded at fair value, which is estimated to approximate the present value of expected future distributions from the trusts. The Foundation's portion of the fair market value of the trust was \$69,724 (2012) and \$68,009 (2011).

4 Split-Interest Agreements

The Foundation is obligated under several annuity contracts, whereby the Foundation is trustee of trust assets and beneficiary of the net remainder. The trusts provide for annual annuity payments at a fixed percentage of the initial gift. A rate of 6% was used to estimate the value of the obligations at December 31, 2012 and 2011.

The Foundation records the fair value of the future annuity payments and considers this liability to be classified as a Level 3 (unobservable inputs that are not corroborated by market data) fair value measure as described in Note 1. The related gift annuity asset is included in investments and amounted to \$112,019 (2012) and \$109,066 (2011).

The change in value of the split-interest agreements relate to the amortization of the discount annuity due to the beneficiary.

The following table presents the reconciliation of the beginning and ending balances of the gift annuity liability fair value measurements:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|---------------------|--|------------------|
| | <u>2012</u> | <u>2011</u> |
| Beginning liability | \$ 48,639 | \$ 29,367 |
| Contributions | - | 20,000 |
| Payments | (8,862) | (8,198) |
| Net change | <u>7,499</u> | <u>7,470</u> |
| Ending liability | <u>\$ 47,276</u> | <u>\$ 48,639</u> |

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

5 Leases

The Foundation maintains operating leases for office space and various office equipment. The lease for the office space expired in July 2011, with the other leases expiring in 2015.

Rent expense was \$600 (2012) and \$33,741 (2011).

Minimum lease payments due under the operating lease obligations are due as follows:

| | | |
|-------|----|---------------------|
| 2013 | \$ | 600 |
| 2014 | | 600 |
| 2015 | | <u>250</u> |
| Total | \$ | <u><u>1,450</u></u> |

6 Unrestricted Net Assets

Unrestricted net assets consist of the following:

| | <u>2012</u> | <u>2011</u> |
|----------------------|----------------------|----------------------|
| General purpose | \$ 9,178,149 | \$ 7,975,759 |
| Field of interest | 14,546,755 | 13,501,090 |
| Donor advised | 18,360,731 | 17,010,740 |
| Scholarship | 8,461,592 | 7,804,700 |
| Agency funds | 8,879,241 | 8,047,589 |
| Designated | 8,345,621 | 6,738,280 |
| Administrative funds | 1,393,459 | 1,280,880 |
| | <u>\$ 69,165,548</u> | <u>\$ 62,359,038</u> |

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

7 Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

| | 2012 | | | |
|--|---------------------------------|---|---|------------------------------|
| | <u>Beginning Net Assets</u> | <u>Contributions and Investment Income (Loss)</u> | <u>Net Assets Released from Restriction</u> | <u>Ending Net Assets</u> |
| Various purpose restrictions | \$ 1,809,214 | \$ 224,102 | \$ (81,476) | \$ 1,951,840 |
| Beneficial interest from charitable remainder trust | <u>68,009</u> | <u>1,715</u> | <u>-</u> | <u>69,724</u> |
| | <u>\$ 1,877,223</u> | <u>\$ 225,817</u> | <u>\$ (81,476)</u> | <u>\$ 2,021,564</u> |
| | 2011 | | | |
| | <u>Beginning Net Assets</u> | <u>Contributions and Investment Income (Loss)</u> | <u>Net Assets Released from Restriction</u> | <u>Ending Net Assets</u> |
| Various purpose restrictions | \$ 1,959,600 | \$ (67,468) | \$ (82,918) | \$ 1,809,214 |
| Beneficial interest from charitable remainder trust | <u>69,759</u> | <u>(1,750)</u> | <u>-</u> | <u>68,009</u> |
| | <u>\$ 2,029,359</u> | <u>\$ (69,218)</u> | <u>\$ (82,918)</u> | <u>\$ 1,877,223</u> |

8 Retirement Plan

The Foundation offers a 401(k) defined contributions salary deferral plan covering eligible employees. The Foundation matches 100% of employees' contributions up to 3% of salary and 50% of the employees' contributions on the next 2% of salary.

The Foundation contributions to this plan amounted to \$24,170 (2012) and \$22,964 (2011).

NOTES TO FINANCIAL STATEMENTS

Community Foundation of Lorain County

9 Conditional Grants

The Fund for Our Economic Future ("Fund") is a nonprofit tax exempt public charity which started as a pooled grant fund to dramatically improve the economic climate in Northeast Ohio by organizations with the potential to strengthen the region as a whole. Almost \$100 million has been raised by over 100 foundations, corporations and individuals in the Northeast Ohio region. The Fund received tax exempt 501(c)(3) status and enters into its forth three-year phase in 2013. All grant recipients of the Fund are nonprofit organizations and tax exempt under Section 501(c)(3) of the Internal Revenue Code. Grants are awarded by the Fund based on extensive due diligence and approval by the members of the Board. The Board is comprised of representatives from member organizations contributing at least \$100,000 over a three-year period (phase).

The Community Foundation of Lorain County was an initial founding member of the Fund for Our Economic Future. In addition to the financial support described below, the Foundation's CEO serves as First Vice-Chair of the Fund, fulfilling the leadership mission of the Foundation.

The Foundation had previously made a \$100,000 conditional commitment to Phase I of the Fund, all of which was paid as of December 31, 2007, a \$125,000 conditional commitment to Phase II, all of which was paid as of December 31, 2010 and a conditional commitment to Phase III, all of which was paid out as of December 31, 2012.

As of December 31, 2012, the Foundation made a conditional commitment to Phase IV of the Fund for a total of \$120,000 to be paid beginning in 2013. As the grant is conditional, no liability is recorded until actual grant disbursements are approved by the Board.

10 Building Commitment

During 2010, the Foundation acquired a building for the purpose of housing the operations of the Foundation. The building is centrally located in Lorain County and provides opportunity for future expansion of the Foundation's mission with nine acres of land accompanying the acquisition. The acquisition was completed through part sale/part charitable contribution from the seller. The Foundation constructed an addition, as well as retrofitted the existing building with several energy efficient upgrades. The purchase and construction were financed by the Foundation through a loan to itself from its fixed income investment assets. The balance of the loan at December 31, 2012 was \$592,424. Terms of the internal loan are 4.5% over 20 years to be repaid from operations to the fixed income investment assets on a quarterly basis.