



CONSOLIDATED FINANCIAL STATEMENTS

The Cleveland Foundation
Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP



The Cleveland Foundation
Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

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Report of Independent Auditors

The Board of Trustees
The Cleveland Foundation

We have audited the accompanying consolidated statements of financial position of The Cleveland Foundation as of December 31, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Cleveland Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of The Cleveland Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Cleveland Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cleveland Foundation at December 31, 2009 and 2008, and the consolidated results of its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

November 8, 2010

The Cleveland Foundation

Consolidated Statements of Financial Position

	December 31	
	2009	2008
Assets		
Cash	\$ 9,112,752	\$ 14,132,927
Short-term investments	140,978,888	165,451,767
Investments (including \$110,050,976 fair value of securities loaned in 2009 and \$123,576,604 in 2008)	1,526,313,360	1,271,445,259
Investments of cash collateral received for securities loaned	108,491,877	122,375,251
Other investments	17,226,177	20,653,610
Property and other assets	5,300,454	6,865,263
	\$ 1,807,423,508	\$ 1,600,924,077
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 3,305,817	\$ 3,910,182
Grants payable	20,361,461	26,432,930
Payable upon return of securities loaned	114,654,928	126,937,140
Note payable	553,796	896,444
Organizational endowments and other obligations	71,268,740	61,306,646
Total liabilities	210,144,742	219,483,342
Net assets:		
Unrestricted:		
For grantmaking purposes	5,950,476	4,124,677
Board-designated:		
Administrative purposes	11,164,741	9,998,516
Property	692,757	793,377
Total unrestricted	17,807,974	14,916,570
Temporarily restricted	639,097,242	571,972,886
Permanently restricted	940,373,550	794,551,279
	1,597,278,766	1,381,440,735
	\$ 1,807,423,508	\$ 1,600,924,077

See accompanying notes.

The Cleveland Foundation
Consolidated Statement of Activities

Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Donor contributions	\$ 323,810	\$ 24,252,781	\$ 9,869,975	\$ 34,446,566
Dividend and interest income	460,243	35,701,120	-	36,161,363
Net realized and unrealized investment gains	4,762,798	98,500,428	135,952,296	239,215,522
Net assets released from restrictions	92,887,779	(92,887,779)	-	-
Other income	125,517	1,557,806	-	1,683,323
Total revenue, gains, and other support	<u>98,560,147</u>	<u>67,124,356</u>	<u>145,822,271</u>	<u>311,506,774</u>
Expenses				
Grants expensed	75,003,898	-	-	75,003,898
Trustee bank and investment management fees	5,944,124	-	-	5,944,124
Other expenses	2,042,768	-	-	2,042,768
Administrative expenses:				
Program	7,420,483	-	-	7,420,483
Development	3,586,895	-	-	3,586,895
Fund management	1,670,575	-	-	1,670,575
Total administrative expenses	<u>12,677,953</u>	<u>-</u>	<u>-</u>	<u>12,677,953</u>
Total expenses	<u>95,668,743</u>	<u>-</u>	<u>-</u>	<u>95,668,743</u>
Increase in net assets	2,891,404	67,124,356	145,822,271	215,838,031
Net assets at beginning of year	14,916,570	571,972,886	794,551,279	1,381,440,735
Net assets at end of year	<u>\$ 17,807,974</u>	<u>\$ 639,097,242</u>	<u>\$ 940,373,550</u>	<u>\$ 1,597,278,766</u>

See accompanying notes.

The Cleveland Foundation
Consolidated Statement of Activities

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses), and other support				
Donor contributions	\$ 156,213	\$ 68,416,826	\$ 2,719,377	\$ 71,292,416
Dividend and interest income	881,762	43,882,366	-	44,764,128
Net realized and unrealized investment gains (losses)	3,087,616	(129,805,609)	(399,987,708)	(526,705,701)
Net assets released from restrictions	91,023,671	(91,023,671)	-	-
Other income	129,413	764,765	-	894,178
Total revenue, gains (losses), and other support	<u>95,278,675</u>	<u>(107,765,323)</u>	<u>(397,268,331)</u>	<u>(409,754,979)</u>
Expenses				
Grants expensed	74,765,684	-	-	74,765,684
Trustee bank and investment management fees	6,694,139	-	-	6,694,139
Other expenses	1,549,971	-	-	1,549,971
Administrative expenses:				
Program	6,348,887	-	-	6,348,887
Development	2,507,604	-	-	2,507,604
Fund management	2,926,290	-	-	2,926,290
Total administrative expenses	<u>11,782,781</u>	<u>-</u>	<u>-</u>	<u>11,782,781</u>
Total expenses	<u>94,792,575</u>	<u>-</u>	<u>-</u>	<u>94,792,575</u>
Increase (decrease) in net assets	486,100	(107,765,323)	(397,268,331)	(504,547,554)
Net assets at beginning of year	14,430,470	679,738,209	1,191,819,610	1,885,988,289
Net assets at end of year	<u>\$ 14,916,570</u>	<u>\$ 571,972,886</u>	<u>\$ 794,551,279</u>	<u>\$ 1,381,440,735</u>

See accompanying notes.

The Cleveland Foundation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2009	2008
Operating activities		
Increase (decrease) in net assets	\$ 215,838,031	\$ (504,547,554)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net unrealized investment (gains) losses	622,298	588,986
Permanently restricted contributions	(254,310,168)	507,234,899
Decrease (increase) in other assets	(9,869,975)	(2,719,377)
(Decrease) increase in accounts payable and accrued expenses	1,121,541	(856,606)
Decrease in grants payable	(604,365)	1,664,625
Net cash used in operating activities	(6,071,469)	(1,562,947)
Investing activities		
Purchases of property	(179,030)	(176,480)
Proceeds from sale or maturity of investments	374,061,118	421,346,790
Purchases of investments	(335,155,483)	(409,584,219)
Net cash provided by investing activities	38,726,605	11,586,091
Financing activities		
Principal payments on note payable	(342,648)	(322,838)
Permanently restricted contributions	9,869,975	2,719,377
Net cash provided by financing activities	9,527,327	2,396,539
Net (decrease) increase in cash and cash equivalents	(5,020,175)	13,784,656
Cash at beginning of year	14,132,927	348,271
Cash at end of year	\$ 9,112,752	\$ 14,132,927

See accompanying notes.

The Cleveland Foundation

Notes to Consolidated Financial Statements

December 31, 2009

1. Description and Purpose of The Foundation

The Cleveland Foundation (The Foundation) is a not-for-profit organization established in 1914. The mission statement of The Foundation is “to enhance the quality of life for all citizens of Greater Cleveland, now and for generations to come, by building community endowment, addressing needs through grantmaking and providing leadership on key community issues.”

The consolidated financial statements include the accounts of The Cleveland Foundation (charitable corporation), The Greater Cleveland Foundation, The Cleveland Foundation (community trust approved by Resolutions of Trust) and the following affiliated supporting organizations: The City of Cleveland’s Cable Television Minority Arts and Education Fund, The Davis Fund, The Higley Fund, The McDonald Fund, The Sherwick Fund, The Billie Howland Steffee Family Fund, Medical Mutual of Ohio Charitable Foundation, Sullivan Scholars Foundation, and The Thatcher Family Fund. The affiliated supporting organizations were established under the provisions of Section 509(a)(3) of the Internal Revenue Code. The Foundation is responsible for expenditures of these affiliated supporting organizations for specific charitable purposes. All significant interorganizational balances and transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

The Internal Revenue Service has ruled that the charitable corporation, The Greater Cleveland Foundation, the community trust and the affiliated supporting organizations are tax-exempt organizations which are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Concentration of Credit Risk

Financial instruments which potentially expose The Foundation to concentrations of credit risk include cash and cash equivalents and investments. As a matter of policy, The Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios.

Short-Term Investments

Short-term investments are valued at fair value and consist of certificates of deposit, variable demand notes, agency discount notes, floating rate notes, and money market funds held at The Foundation's trustee banks.

Investments and Investment Income

Investments are recorded at fair value.

Realized investment gains or losses are the differences between the carrying value of an investment and net proceeds received on trade date. Unrealized investment gains or losses are the differences between carrying value and fair value at each statement of financial position date. These amounts are reported in the statement of activities as net realized and unrealized investment gains and losses.

Investment income generated by permanently restricted net assets (excluding net realized and unrealized investment gains and losses) is reported as temporarily restricted until the program restriction of the donor is met. Investment income on temporarily restricted net assets is reported as temporarily restricted until the program restriction of the donor is met. Net unrealized and realized investment gains and losses are reported as unrestricted, temporarily restricted, or permanently restricted based upon the absence or presence of a restriction of the underlying asset.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Securities Lending

Under a securities lending agreement, The Foundation has authorized a lending agent to manage and administer a securities lending program whereby certain securities in The Foundation's portfolio are loaned to other institutions generally for a short period of time. The lending agent has the responsibility for negotiating the terms of each loan and for collecting the required collateral, which must be 102% of the fair value of any securities loaned, including any accrued interest. At December 31, 2009 and 2008, investment securities with an aggregate fair value of \$110,050,976 and \$123,576,604, respectively, were loaned to various brokers and are returnable on demand. Collateral received under the securities lending program is reinvested, typically in short-term investments, and is recorded at fair value. The Foundation records the collateral received as both an asset and a liability since The Foundation is obligated to return the collateral upon the return of the borrowed securities.

Organizational Endowments

The Foundation acts as fiduciary agent for various not-for-profit organizations. The Foundation's responsibilities as fiduciary agent include, but are not limited to, safeguarding of assets, record-keeping of transactions, investment management, and ensuring appropriate distributions. The Foundation's policy as fiduciary agent is to record funds received as an investment and an equal liability. The Foundation, as fiduciary agent, has recorded \$69,499,389 and \$59,156,542 at December 31, 2009 and 2008, respectively, related to organizational endowments in investments and an equal liability in organizational endowments and other obligations in the consolidated statements of financial position.

The Foundation does not include the change in investments and the change in organizational endowments and other obligations related to organizational endowments in the consolidated statements of activities and consolidated statements of cash flows.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Changes in Generally Accepted Accounting Principles (GAAP)

In June 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes the Accounting Standards Codification (the Codification or ASC) as the single source of authoritative guidance of authoritative nongovernmental GAAP. As of the effective date, all existing accounting standard documents were superseded, and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification was launched on July 1, 2009. The Foundation has adopted the Codification as of December 31, 2009.

In September 2009, the FASB issued an update to the Codification, which provides additional guidance related to measuring the fair value of certain alternative investments, such as interest in private equity and venture capital funds. In addition to requiring additional disclosures, this guidance allows companies to use net asset value per share to estimate the fair value of these alternative investments as a practical expedient if certain conditions are met. This guidance is effective for interim and annual periods ending after December 31, 2009. The Foundation adopted this guidance without any material impact to the consolidated financial statements.

Effective January 1, 2009, The Foundation adopted the accounting guidance for Accounting for Uncertainty in Income Taxes, which is an interpretation of the existing guidance on accounting for income taxes. This guidance on accounting for uncertainty in income taxes prescribes a comprehensive model for how companies should recognize, measure, present, and disclose their uncertain tax positions taken or expected to be taken on a tax return in their financial statements. The Foundation adopted this guidance without any material impact to the consolidated financial statements.

3. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are assets, the use of which is restricted by donors or grantors to a specific time period or purpose. Unrestricted net assets are assets on which no restrictions have been placed or that arise from the general operations of The Foundation. Temporarily restricted gifts, grants, and bequests are recorded as an addition to temporarily restricted net assets in the period received. Assets restricted by donors or grantors for specific operating purposes are reported in unrestricted revenue, gains, and other support to the extent expended within the period. Permanently restricted net assets consist of amounts held in perpetuity or for terms designated by donors.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are available for programs in strategic areas approved by The Foundation's Board of Trustees.

Unconditional promises to give cash and other assets to The Foundation are reported at net realizable value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date assets are received.

The endowment funds of The Foundation are the portion of The Foundation's temporarily restricted net assets and the permanently restricted net assets that are governed by the resolutions of the trusts establishing The Cleveland Foundation. The funds are the result of trusts established by donors with the intention that the funds will exist in perpetuity.

When the intent of the donor is that the assets are to remain in perpetuity, the assets are reported in accordance with the stipulations of the governing instruments of The Foundation. Per the governing instruments, the Board of Trustees of The Foundation may distribute 20% of the principal of the donated trust assets over a five-year period. This amount is recognized as temporarily restricted net assets, with the remainder of net assets recognized as permanently restricted net assets.

The Foundation's endowment consists of approximately 524 individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The Foundation believes that these endowment funds are not subject to the Uniform Prudent Management of Institutional Funds Act adopted by the state of Ohio in 2009.

Return Objectives

The endowment funds are actively managed by five trustee banks in collaboration with the Board of Trustees of The Foundation. An Investment Committee comprised of board members and volunteers have established a set of investment policies that guide investment decisions. The Investment Committee is responsible for establishing an asset allocation strategy and monitoring the performance of investment managers. The Investment Committee reports to the Board of Trustees on a quarterly basis. The investment policies of The Foundation describe the type of investments that may be employed to achieve the total return objectives identified in the policies.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

The long-term return objective is to maintain the purchasing power of The Foundation's investments by earning enough to cover The Foundation's spending policy (for both grants and administration) and inflation over time. Investment performance is monitored by the Investment Committee against the long-term return objective and a set of standard market benchmark indexes. Actual rates of return may vary from the long-term return objective.

Investment Strategy

To achieve the long-term return objective, The Foundation implements an investment strategy that is diversified among equities, fixed income, and alternative investments. The Foundation is diversified not only in terms of asset class, but also employs a broad number of investment managers that provide a diversity of style and skills. By using this approach, The Foundation is attempting to limit risk while still taking advantage of opportunities presented within various market cycles.

Spending Policy

The Foundation has an annual spending policy for total grantmaking and administrative expense that is based upon the investment return over multiple periods. The intent is to tie spending to investment performance and limit volatility in spending while maintaining the purchasing power of the endowment assets over time. The policy includes a formula that applies a percentage rate to the average market value of the endowment assets for the 12 quarters ending the previous June 30. The Board of Trustees approves the rate annually within a range of 4.5% to 5.5%.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

Changes in endowment net assets are as follows:

	2009		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2009	\$ 262,085,204	\$ 794,551,279	\$ 1,056,636,483
Investment return:			
Investment income	30,279,072	–	30,279,072
Net appreciation (realized and unrealized)	52,006,908	135,952,296	187,959,204
Total investment income	82,285,980	135,952,296	218,238,276
Contributions	39,904	9,869,975	9,909,879
Released from restriction	(61,908,734)	–	(61,908,734)
Endowment net assets, December 31, 2009	<u>\$ 282,502,354</u>	<u>\$ 940,373,550</u>	<u>\$ 1,222,875,904</u>

	2008		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2008	\$ 345,931,336	\$ 1,191,819,610	\$ 1,537,750,946
Investment return:			
Investment income	37,323,811	–	37,323,811
Net depreciation (realized and unrealized)	(51,227,228)	(399,987,708)	(451,214,936)
Total investment loss	(13,903,417)	(399,987,708)	(413,891,125)
Contributions	33,863	2,719,377	2,753,240
Released from restriction	(69,976,578)	–	(69,976,578)
Endowment net assets, December 31, 2008	<u>\$ 262,085,204</u>	<u>\$ 794,551,279</u>	<u>\$ 1,056,636,483</u>

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the entity to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2009 and 2008.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments

Investments are comprised of the following:

	December 31	
	2009	2008
Short-term investments:		
Cash equivalents	\$ 18,004,569	\$ 16,401,848
U.S. government obligations:		
U.S. government and agencies	\$ 24,395,217	\$ 27,473,107
U.S. government asset backed	39,141,960	54,303,383
	63,537,177	81,776,490
Bonds:		
Corporate	79,023,646	71,009,341
Corporate asset backed and other	12,623,963	23,030,973
	91,647,609	94,040,314
Common and preferred stocks:		
Domestic	317,231,387	274,025,823
International	38,194,711	30,155,464
	355,426,098	304,181,287
Common trust funds:		
Equity	47,740,454	78,697,446
Fixed income	27,209,985	6,490,246
International	73,199,362	49,905,677
	148,149,801	135,093,369
Mutual funds:		
Domestic	207,029,451	129,178,438
Fixed income	33,472,043	29,062,093
International	189,888,115	157,440,574
	430,389,609	315,681,105
Alternative investments:		
Hedged equity	218,832,279	165,866,098
Private equity	157,726,517	126,719,232
Absolute return and other	32,346,624	21,293,757
	408,905,420	313,879,087
Other investments	10,253,077	10,391,759
Total investments	\$ 1,526,313,360	\$ 1,271,445,259

The Foundation has established five common investment funds which allow for the commingling of various trust assets. The common investment funds are managed by four separate trustee banks with custody residing at one. At December 31, 2009 and 2008, the fair value of common investment funds included in investments on the consolidated statements of financial position was \$1,161,422,827 and \$999,862,160, respectively.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Alternative investments are comprised principally of limited partnership interests in hedged equity, private equity, absolute returns, and real assets. The fund's investment managers employ traditional strategies (long only) in marketable securities (liquid equities or bonds) and others which employ less traditional strategies (long and short equity or fixed income, event driven, macro, relative value, and arbitrage strategies) that may include the use of options, futures, and other derivative instruments.

At December 31, 2009, The Foundation has outstanding capital contribution commitments with several alternative investment fund managers to fund existing alternative investment funds in the amount of \$84,320,734.

At December 31, 2009, The Foundation's alternative investments are subject to various liquidity restrictions as follows:

Available for redemption:	
Monthly	\$ 55,057,018
Quarterly	34,600,218
Annually	90,369,353
Subtotal	<u>180,026,589</u>
Subject to distribution	160,397,965
Subject to lock-up provisions:	
1 to 3 years	56,470,174
3 to 7 years	1,782,304
7 to 10 years	10,228,388
Subtotal	<u>68,480,866</u>
Total alternatives	<u>\$ 408,905,420</u>

Investments that are available for redemption may be redeemed by The Foundation generally with 30- to 60-day advance notice on a monthly, quarterly, or annual basis subject to the terms of the investment agreement.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

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 five to ten years.

Investments subject to lock-up provisions cannot be redeemed by The Foundation currently. After expiration of the lock-up provisions, the funds may be redeemed by The Foundation on a monthly, quarterly, or annual redemption basis subject to the terms of the investment agreement.

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

5. Fair Value Measurement

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants. It represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

The carrying values of cash, accounts payable, accrued expenses, grants payable, and note payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of other assets (primarily notes receivable) are reasonable estimates of fair value due to the interest rates on notes receivable approximating current lending rates.

ASC 820, *Fair Value Measurement and Disclosure*, establishes a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest to priority to unobservable inputs (Level 3).

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurement (continued)

Fair value for Level 1 is based upon quoted market prices which are comprised of publicly traded securities and mutual funds. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Level 2 is comprised of U.S. government and agency securities, bonds, convertible bonds, and money market securities. Inputs are obtained from various sources including market participants, dealers, and brokers.

Investments in securities traded on a national securities exchange are valued at the last reported sales price each day as reported by a recognized pricing service. Securities traded in the over-the-counter market and listed securities, for which no sale was reported on that date are valued at fair value, based on the mean of the most recent bid and ask price and other market information available.

Investments in common trust funds are valued at net asset value.

Fair value for Level 3 is based on unobservable inputs which reflect The Foundation's own assumptions about the valuation that are significant to the fair value measurement market participants would use in pricing the asset or liability and include the best information available. Certain types of investments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. These investments are classified primarily as alternative investments. The transaction price is initially used as the best estimate of fair value. This valuation is adjusted when changes to inputs and assumptions are corroborated by evidence. The Foundation has implemented a process in which the existence and valuation of each alternative investment is supported by the collection and review of the audited financial statements or tax reporting of the alternative investment. The Foundation utilizes net asset value as a practical expedient to determine fair value for alternative investments. For positions that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or nontransferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. If the alternative investment is subject to a lock-up provision of longer than one year, it is classified as Level 3 in the fair value hierarchy.

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurement (continued)

Short-term investments and investments, aggregated by the level in the fair value hierarchy, are as follows:

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 152,240,749	\$ 95,582,487	\$ -	\$ 247,823,236
U.S. government obligations	-	63,537,177	-	63,537,177
Bonds	-	111,299,708	-	111,299,708
Common and preferred stocks	355,426,098	-	-	355,426,098
Common trust funds	-	148,149,801	-	148,149,801
Mutual funds	329,647,283	100,742,325	-	430,389,608
Alternative investments	-	179,639,296	229,266,124	408,905,420
Miscellaneous assets	-	10,253,077	-	10,253,077
Total	\$ 837,314,130	\$ 709,203,871	\$ 229,266,124	\$ 1,775,784,125

	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 145,063,358	\$ 78,526,536	\$ -	\$ 223,589,894
U.S. government obligations	6,941,376	74,835,114	-	81,776,490
Bonds	-	173,884,285	795,001	174,679,286
Common and preferred stocks	304,181,287	-	-	304,181,287
Common trust funds	103,318,400	4,572,799	27,202,170	135,093,369
Mutual funds	228,279,809	-	87,401,296	315,681,105
Alternative investments	-	-	313,879,087	313,879,087
Miscellaneous assets	-	-	10,391,759	10,391,759
Total	\$ 787,784,230	\$ 331,818,734	\$ 439,669,313	\$ 1,559,272,277

The Foundation believes its valuation methods are appropriate and consistent with other market participants and represent a reasonable estimate of fair value. The use of different methodologies or assumptions to determine the fair value of certain financial instruments, particularly alternative investments, could result in a different estimate of fair value.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurement (continued)

The change in fair value of The Foundation's financial instruments within Level 3 of the valuation hierarchy are as follows:

	2009	2008
Fair value beginning of year	\$ 439,669,313	\$ 477,822,151
Realized and unrealized gains (losses), net	20,230,946	(117,791,846)
Purchases sales, issuances, settlements, and transfers, net	32,829,438	79,639,008
Net transfers out of Level 3	(263,463,573)	-
Fair value end of year	\$ 229,266,124	\$ 439,669,313
Amount of total gains or losses for the period attributable to the unrealized gains (losses) for financial assets held at end of year	\$ 17,588,569	\$ (132,189,634)

6. Partial Benefit Funds

Partial benefit funds provide, each in varying amounts, payment of annuities to certain individuals, trustees' fees and other expenses of the trusts, prior to payment of the balance of the corpus to The Foundation. The fair value of partial benefit funds is included in the accompanying financial statements. The Foundation received income from the partial benefit funds of \$12,262,070 and \$13,205,723 in 2009 and 2008, respectively. This represented approximately 99% of the income from partial benefit funds in 2009 and 96% in 2008. At December 31, 2009 and 2008, the fair value of partial benefit funds included in investments on the consolidated statements of financial position was \$197,670,559 and \$187,810,307, respectively.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

7. Contributions and Donations

The Foundation receives donor contributions from various sources. Receipts of organizational endowments are included in organizational endowments and other obligations in the statement of financial position. Donor contributions received are recorded on the statement of activities. Total contributions and donations received are as follows:

	2009	2008
Organizational endowments	\$ 1,861,080	\$ 366,526
Donor contributions	34,446,566	71,292,416
	\$ 36,307,646	\$ 71,658,942

8. Grants

Unconditional grants are expensed upon approval by the Board of Trustees. Conditional grants, which are approved by the Board of Trustees and payable upon the performance of specified conditions by the grantees, are expensed when the specified conditions are satisfied.

The Board of Trustees authorized grants of \$78,954,961 for 2009 and \$83,987,049 for 2008 exclusive of administration fees.

Changes in grants payable are as follows:

	2009	2008
Grants payable at beginning of year	\$ 26,432,930	\$ 27,995,877
Unconditional grants expensed	75,003,898	74,765,684
Payments made	(81,075,367)	(76,328,631)
Grants payable at end of year	\$ 20,361,461	\$ 26,432,930

The grant expense of \$75,003,898 in 2009 and \$74,765,684 in 2008 does not include total program-related investments of \$5,774,179 in 2009 and \$6,225,000 in 2008. Program-related investments include loans, compensating balances, and investments in limited partnerships that support certain program initiatives, which are included in other assets in the consolidated statements of financial position.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

8. Grants (continued)

Grants payable at December 31, 2009, are scheduled to be disbursed as follows: 2010 – \$16,204,320; 2011 – \$3,166,561; and 2012 and thereafter – \$990,580.

At December 31, 2009 and 2008, total authorized conditional grants were \$7,591,949 and \$4,021,142, respectively. These grants will be expensed when the conditions underlying the grant are met.

9. Affiliated Supporting Organizations

The total assets of affiliated supporting organizations included in the consolidated financial statements are as follows:

	December 31	
	2009	2008
The City of Cleveland's Cable Television Minority Arts and Education Fund	\$ 3,585,875	\$ 3,142,345
The Davis Fund	1,945,009	1,605,390
The Higley Fund	5,229,017	4,521,454
The McDonald Fund	–	2,973,612
The Sherwick Fund	20,887,736	20,066,409
The Billie Howland Steffee Family Fund	4,597,808	3,864,544
Medical Mutual of Ohio Charitable Foundation	1,771,676	1,500,072
Sullivan Scholars Foundation	3,623,182	3,121,932
The Thatcher Family Fund	2,367,875	2,047,594
	\$ 44,008,178	\$ 42,843,352

The Treu-Mart Fund is a supporting organization of both The Foundation and the Jewish Community Federation of Cleveland (JCF). Financial transactions and account balances of The Treu-Mart Fund are not included in the accompanying consolidated financial statements because The Foundation does not have control over the distribution of The Treu-Mart Fund. Fair value of investments held by The Treu-Mart Fund at December 31, 2009 and 2008, were \$16,989,367 and \$14,416,266, respectively.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

10. Other Investments

Other investments include notes receivable which are due from various not-for-profit organizations valued at \$16,502,952 and \$17,897,719 at December 31, 2009 and 2008, respectively, and real estate and miscellaneous assets valued at \$723,225 and \$2,755,891 at December 31, 2009 and 2008, respectively. Notes receivable are due at various dates from 2010 through 2013, except for one loan which the due date is 2033. The loans carry fixed interest rates between 2% and 4%; principal and interest payment arrangements vary by note.

11. Note Payable

In 2001, The Foundation borrowed \$2,800,000 to pay for The Foundation's corporate office renovation costs. The note is due on June 1, 2011, and bears interest at 6%.

Future minimum payments are \$363,674 in 2010 and \$190,122 in 2011.

12. Administrative Expenses

Administrative expenses include the following:

	December 31	
	2009	2008
Salaries and employee benefits	\$ 7,689,138	\$ 7,147,538
Occupancy and office expense	2,085,702	1,920,519
Professional and consulting fees and staff expenses	1,817,180	1,765,594
Other	1,085,933	949,130
	<u>\$ 12,677,953</u>	<u>\$ 11,782,781</u>

13. Operating Lease

The Foundation leases office space under a primary operating lease agreement. Subsequent to year-end, the lease was amended and now expires in 2020. Rental expense was \$958,813 in 2009 and \$855,839 in 2008. Future minimum rental commitments under the noncancelable primary operating lease at December 31, 2009, are \$803,152 in 2010; \$820,240 in 2011; \$820,240 in 2012; \$845,873 in 2013; \$897,138 in 2014; and \$5,391,369 thereafter.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

14. Retirement Plan

The Foundation has a defined contribution retirement plan. The Foundation made contributions based upon specified percentages of salary for all employees. Retirement plan expense was \$518,334 in 2009 and \$480,022 in 2008. All contributions under the plan vest with employees at the time the contributions are made.

15. Subsequent Events

The Foundation has evaluated and disclosed any subsequent events through November 8, 2010, which is the date the financial statements were issued and made available.