



CONSOLIDATED FINANCIAL STATEMENTS

The Cleveland Foundation
December 31, 2008 and 2007
With Report of Independent Auditors

Ernst & Young LLP



The Cleveland Foundation
Consolidated Financial Statements

December 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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

October 19, 2009

The Cleveland Foundation

Consolidated Statements of Financial Position

	December 31	
	2008	2007
Assets		
Cash	\$ 14,132,927	\$ 348,271
Short-term investments	165,451,767	154,163,466
Investments (including \$123,576,604 fair value of securities loaned in 2008 and \$177,041,402 in 2007)	1,271,445,259	1,820,922,275
Investments of cash collateral received for securities loaned	122,375,251	181,760,971
Other assets	20,653,610	20,297,044
Property and other assets	6,865,263	6,421,163
	<u>\$ 1,600,924,077</u>	<u>\$ 2,183,913,190</u>
 Liabilities and net assets		
Accounts payable and accrued expenses	\$ 3,910,182	\$ 2,245,557
Grants payable	26,432,930	27,995,877
Payable upon return of securities loaned	126,937,140	181,760,971
Note payable	896,444	1,219,282
Organizational endowments and other obligations	61,306,646	84,703,214
Total liabilities	<u>219,483,342</u>	<u>297,924,901</u>
 Net assets:		
Unrestricted:		
For grantmaking purposes	4,124,677	5,559,606
Board-designated:		
Administrative purposes	9,998,516	7,987,739
Property	793,377	883,125
Total unrestricted	<u>14,916,570</u>	<u>14,430,470</u>
Temporarily restricted	571,972,886	679,738,209
Permanently restricted	794,551,279	1,191,819,610
	<u>1,381,440,735</u>	<u>1,885,988,289</u>
	<u>\$ 1,600,924,077</u>	<u>\$ 2,183,913,190</u>

See accompanying notes.

The Cleveland Foundation

Consolidated Statement of Activities

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains (losses), and other support				
Donor contributions	\$ 156,213	\$ 68,416,826	\$ 2,719,377	\$ 71,292,416
Dividend income	–	3,330,987	–	3,330,987
Interest income	881,762	4,173,900	–	5,055,662
Common trust funds income	–	1,117,490	–	1,117,490
Common investment funds income	–	22,054,266	–	22,054,266
Partial benefit funds income	–	13,205,723	–	13,205,723
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	95,278,675	(107,765,323)	(397,268,331)	(409,754,979)
Expenses				
Trustee and investment management fees	6,694,139	–	–	6,694,139
Other expenses	1,549,971	–	–	1,549,971
Grants expensed	74,765,684	–	–	74,765,684
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	11,782,781	–	–	11,782,781
Total expenses	94,792,575	–	–	94,792,575
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	\$ 14,916,570	\$ 571,972,886	\$ 794,551,279	\$ 1,381,440,735

See accompanying notes.

The Cleveland Foundation

Consolidated Statement of Activities

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support				
Donor contributions	\$ 26,396	\$ 29,939,516	\$ 941,412	\$ 30,907,324
Dividend income	–	3,510,342	–	3,510,342
Interest income	1,185,322	6,332,452	–	7,517,774
Common trust funds income	–	969,858	–	969,858
Common investment funds income	–	21,739,817	–	21,739,817
Partial benefit funds income	–	12,392,390	–	12,392,390
Net realized and unrealized investment gains	2,486,765	56,049,198	38,037,957	96,573,920
Net assets released from restrictions	94,186,864	(94,186,864)	–	–
Other income	100,806	593,278	3,591	697,675
Total revenue, gains, and other support	97,986,153	37,339,987	38,982,960	174,309,100
Expenses				
Trustee and investment management fees	6,259,833	–	–	6,259,833
Other expenses	335,322	–	–	335,322
Grants expensed	78,915,972	–	–	78,915,972
Administrative expenses:				
Program	6,700,259	–	–	6,700,259
Development	2,075,688	–	–	2,075,688
Fund management	2,362,352	–	–	2,362,352
Total administrative expenses	11,138,299	–	–	11,138,299
Total expenses	96,649,426	–	–	96,649,426
Increase in net assets	1,336,727	37,339,987	38,982,960	77,659,674
Net assets at beginning of year	13,093,743	642,398,222	1,152,836,650	1,808,328,615
Net assets at end of year	<u>\$ 14,430,470</u>	<u>\$ 679,738,209</u>	<u>\$ 1,191,819,610</u>	<u>\$ 1,885,988,289</u>

See accompanying notes.

The Cleveland Foundation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2008	2007
Operating activities		
(Decrease) increase in net assets	\$ (504,547,554)	\$ 77,659,674
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	588,986	797,676
Net unrealized investment (gains) losses	507,234,899	(71,987,452)
Permanently restricted contributions	(2,719,377)	(941,412)
Increase in other assets	(856,606)	(2,531,433)
Increase in accounts payable and accrued expenses	1,664,625	575,802
(Decrease) increase in grants payable	(1,562,947)	8,785,595
Net cash (used in) provided by operating activities	(197,974)	12,358,450
Investing activities		
Purchases of property	(176,480)	(411,097)
Proceeds from sale or maturity of investments	421,346,790	335,624,911
Purchases of investments	(409,584,219)	(349,751,436)
Net cash provided by (used in) investing activities	11,586,091	(14,537,622)
Financing activities		
Principal payments on note payable	(322,838)	(304,172)
Permanently restricted contributions	2,719,377	941,412
Net cash provided by financing activities	2,396,539	637,240
Net increase (decrease) in cash and cash equivalents	13,784,656	(1,541,932)
Cash at beginning of year	348,271	1,890,203
Cash at end of year	\$ 14,132,927	\$ 348,271

See accompanying notes.

The Cleveland Foundation

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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.

Fair Value

On January 1, 2008, The Foundation adopted Statement of Financial Accounting Standards No.157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The definition of fair value retains the exchange price notion and clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. The statement emphasizes that fair value is a market based measurement, not an entity based measurement. The adoption of SFAS 157 did not impact the consolidated statements of financial position or activities.

In February, 2008 the FASB issued FASB Staff Position SFAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on a recurring basis (at least annually). The effective date for nonfinancial assets and nonfinancial liabilities has been delayed one year to fiscal years beginning after November 15, 2008. The Foundation has not completed its analysis of the potential impact of the adoption of FASB 157 on nonfinancial assets and nonfinancial liabilities on the consolidated financial statements but does not expect it to have a material impact.

In September, 2009 the FASB issued guidance on accounting for investments in certain entities that calculate net asset value, the effective date of this FASB Statement is for reporting periods ending after December 15, 2009. This FASB statement allows entities to estimate the fair value of alternative investments using the net asset value (NAV) of the underlying investment fund and requires additional disclosures related to investments and any restriction related to redemption. The Foundation has not completed its analysis of the potential impact of the adoption of this FASB guidance on the consolidated financial statements but does not expect it to have a material impact.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments approximate 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 in equity securities with readily determinable market values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investments in alternative investments are reported at fair value.

Realized investment gains or losses are determined by comparison of the carrying value to net proceeds received on settlement date. Unrealized gains or losses are determined by the difference between carrying value and fair value. These amounts are reported in the statements 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 the lending agent to manage and administer a securities lending program whereby certain securities in The Foundation's portfolio were 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 in the amount of 102% of the fair value of any securities loaned, including any accrued interest. At December 31, 2008 and 2007, investment securities with an aggregate market value of \$123,576,604 and \$177,041,402, respectively, were loaned to various brokers and are returnable on demand. In accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, The Foundation recorded the collateral received as both a current asset and a current liability since The Foundation is obligated to return the collateral upon the return of the borrowed securities. Collateral received under the securities lending program is reinvested, typically in short term investments, and is recorded at fair value.

Other Assets

Other assets includes notes receivable which due from various not-for-profit organizations approximating \$17.9 million and \$17.3 million at December 31, 2008 and 2007, respectively, real estate approximating \$0.6 million at December 31, 2008 and 2007, and miscellaneous assets approximating \$2.2 million and \$2.4 million at December 31, 2008 and 2007, respectively. Notes receivable are due at various dates from 2010 through 2013, except for one loan whose due date is 2033. The loans carry fixed interest rates between 2% and 4%; principal and interest payments arrangements vary by note.

Organizational Endowments and Other Obligations

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, recordkeeping of transactions, investment management, and ensuring appropriate distributions. The Foundation's policy as fiduciary agent is to record the receipt of funds as an asset and record an equal liability. The Foundation, as fiduciary agent, has recorded \$61,306,646 in 2008 and \$84,703,214 in 2007 in investments and an equal amount recorded in organizational endowments and other obligations in the consolidated statements of financial position.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Foundation excluded the change in investments and the change in organizational endowments and other obligations related to organizational endowments from the consolidated statements of cash flows in December 31, 2008 and 2007, respectively.

3. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources 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. Resources 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. Temporarily restricted and permanently restricted net assets are restricted primarily for purposes which enhance the quality of life for all citizens of Greater Cleveland.

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 Distribution Committee/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 in accordance with the intent of the donor that the assets remain in perpetuity.

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 program purposes in accordance with published standards established by The Foundation. Net assets are released from donor restrictions by incurring expenses including grants authorized that satisfy the restricted purposes or by occurrence of other events specified by donors.

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 received.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

In August 2008, the FASB issued FASB Staff Position No. 117-1 (FSP 117-1), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of board-designated and donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. FSP 117-1 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. The state of Ohio has enacted UPMIFA as of June 1, 2009. The adoption of FSP 117-1 did not have an impact on The Foundation's financial position, results of operations or cash flows.

The endowment funds of The Foundation 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.

The Foundation's endowment consists of approximately 521 individual donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on donor imposed restrictions.

Interpretation of Relevant Law

The Foundation's Board of Trustees has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

organization in a manner consistent with the standard for expenditure prescribed by UMIFA. In accordance with UMIFA, The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of The Foundation.
7. The investment policies of The Foundation.

Return Objectives

The endowment funds are actively managed by five trustee banks in collaboration with the Board of Directors of The Foundation. An Investment Committee comprised of board members and volunteers have established a set of investment policies that guide the investment decision process. The committee is responsible for establishing an asset allocation strategy and monitoring the performance of managers. The Investment Committee reports to the Board of Directors on a quarterly basis. The investment policies of The Foundation describe the type of investments that may be employed to achieve the return objectives identified within the policies. The primary policy of The Foundation is to invest for total return. The long-term return objective of The Foundation is to maintain the purchasing power of the assets over time. This is described as an amount that provides the necessary resources for the current period plus the inflation rate. Investment performance is measured against a set of standard indexes within the context of the overall investment objective of The Foundation. The Foundation expects its endowment funds, overtime to provide an average rate of return of approximately 8% annually. Actual rates of return in any given year may vary from this amount.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

Investment Strategy for Achieving Objectives

To achieve the strategic rate 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 and How the Investment Objectives Relate to Spending Policy

The Foundation has implemented a spending policy 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 preceding twelve quarters. The Board of Directors approves the rate on an annual basis from within a range of 4.5% to 5.5%. The strategic rate over time is 5%.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Temporarily and Permanently Restricted Net Assets (continued)

Changes in endowment net assets for the years ended December 31, 2008 and 2007, consisted of the following:

	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 appreciation (depreciation) (realized and unrealized)	(51,227,228)	(399,987,708)	(451,214,936)
Total investment income (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>
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2007	\$ 340,699,819	\$ 1,152,836,650	\$ 1,493,536,469
Investment return:			
Investment income	37,832,609	3,591	37,836,200
Net appreciation (realized and unrealized)	41,783,306	38,037,957	79,821,263
Total investment income	79,615,915	38,041,548	117,657,463
Contributions	36,000	941,412	977,412
Released from restriction	(74,420,398)	-	(74,420,398)
Endowment net assets, December 31, 2007	<u>\$ 345,931,336</u>	<u>\$ 1,191,819,610</u>	<u>\$ 1,537,750,946</u>

From time-to-time, the fair value of assets associated with individual donor-restricted endowments 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, 2008 and 2007.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. 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 statements of financial position, and donor contributions received are recorded on the statement of activities. The following table summarizes contributions received during the year ended December 31:

	2008	2007
Organizational endowments	\$ 366,526	\$ 28,555,826
Donor contributions	71,292,416	30,907,324
	\$ 71,658,942	\$ 59,463,150

5. Investments

At December 31, investments are comprised of the following:

	December 31	
	2008	2007
U.S. government obligations	\$ 6,968,232	\$ 9,541,182
Bonds	11,230,223	13,718,125
Common and preferred stocks	24,985,868	84,709,194
Common trust funds	39,414,413	88,212,167
Mutual funds	95,430,616	121,348,399
Alternative investments	89,505,346	88,669,850
Other investments	4,228,401	7,251,262
Common investment funds:		
Short-term investments	16,401,848	34,133,004
U.S. government obligations	74,808,258	129,455,048
Bonds	82,810,091	128,593,934
Common and preferred stocks	279,195,419	433,561,564
Common trust funds	95,678,956	118,986,213
Mutual funds	263,961,388	407,854,452
Other investments	186,826,200	154,887,881
	999,682,160	1,407,472,096
Total investments	\$ 1,271,445,259	\$ 1,820,922,275

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

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. Investment in the common investment funds is limited only to the trust funds of The Foundation.

The common investment funds hold alternative investments of \$224,373,741 and \$212,924,592 at December 31, 2008 and 2007, respectively.

Alternative investments are comprised principally of limited partnership interests in hedged equity, private equity, absolute returns, real assets, and common and collective trusts. The alternative investments 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.

As of December 31, 2008, The Foundation has outstanding capital contribution commitments with several alternative investment fund managers to fund existing alternative investment funds in the amount of \$87,105,425. At December 31, 2008, The Foundation has alternative investments of approximately \$43,111,483 subject to withdrawal restrictions with various expiration dates.

The Foundation invests in various investment securities. 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 statements of net assets available for benefits. During the third quarter of 2008 the investment securities were negatively impacted by stock market volatility due to losses related to trading losses realized from the market downturn and losses for the assets owned as of the balance sheet date.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurement

The carrying values of cash, short-term investments, 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.

SFAS 157 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 entities 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 following table summarizes The Foundation's assets measured at fair value on a recurring basis as of December 31, 2008, aggregated by the level in the fair value hierarchy within which those measurements are measured:

	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 following is a description of The Foundation's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices which are comprised of publically 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.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurement (continued)

Level 3 inputs to the valuation are unobservable inputs for the asset that are significant to the fair value measurements. Therefore these inputs 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 structured 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 partnerships and The Foundation's percentage of ownership. Because alternative investments are not readily marketable, their estimated fair 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 difference could be material. For positions that are not traded in active markets or 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.

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 could result in a different estimate of fair value at the reporting date.

The following financial instruments for the year ended December 31, 2008 shows the change in the fair value of The Foundation within Level 3 of the valuation hierarchy defined above:

Fair value January 1, 2008	\$ 477,822,151
Realized and unrealized losses, net	(117,791,846)
Purchases sales, issuances, and settlements, net	<u>79,639,008</u>
Fair value December 31, 2008	<u>\$ 439,669,313</u>
Amount of total gains or losses for the period attributable to the unrealized losses for financial assets held at December 31, 2008	<u>\$ (132,189,634)</u>

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

7. 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 (community trust). The fair value of partial benefit funds less related beneficiary liabilities is included in the accompanying financial statements. The community trust received approximately 96% in 2008 and 95% in 2007 of the income from partial benefit funds. At December 31, 2008 and 2007, the fair value of partial benefit funds included in investments on the statements of financial position was \$187,810,307 and \$351,451,572, respectively.

8. Note Payable

Note payable to a commercial bank consist of the following:

Interest Rate	Due Date	December 31	
		2008	2007
6%	June 1, 2011	\$ 896,444	\$ 1,219,282

In 2001, The Foundation borrowed \$2,800,000 to pay for The Foundation's corporate office renovation costs.

Future minimum notes payable payments are as follows at December 31, 2008: 2009 – \$342,648; 2010 – \$363,674; and 2011 – \$190,122.

9. Grants

Unconditional grants expensed are considered incurred at the time of approval by the Distribution Committee/Board of Trustees. Conditional grants are approved by the Distribution Committee/Board of Trustees and are payable upon the performance of specified conditions by the grantees. Therefore, they are not reflected in grants payable in the accompanying consolidated statements of activities until the specified conditions are satisfied.

The Distribution Committee/Board of Trustees authorized grants and an administrative budget of \$96,567,049 for 2008 and \$96,268,074 for 2007.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

9. Grants (continued)

The following summarizes the changes in grants payable for the years ended December 31:

	2008	2007
Grants payable at beginning of year	\$ 27,995,877	\$ 19,210,282
Unconditional grants expensed	74,765,684	78,915,972
Payments made	(76,328,631)	(70,130,377)
Grants payable at end of year	\$ 26,432,930	\$ 27,995,877

The grant expense of \$74,765,684 in 2008 and \$78,915,972 in 2007 does not include program related disbursements of \$6,225,000 in 2008 and \$2,016,667 in 2007. Program related disbursements include loans, compensating balances, and shares in limited partnerships that support certain program initiatives.

Grants payable at December 31, 2008, are scheduled to be disbursed as follows: 2009 – \$20,716,723; 2010 – \$3,978,048; and 2011 and thereafter – \$1,738,159.

At December 31, 2008 and 2007, total authorized conditional grants were \$4,021,142 and \$6,843,841, respectively, which are not reflected in the accompanying financial statements.

10. Administrative Expenses

Administrative expenses, as reported on the statements of activities, consist of the following:

	December 31	
	2008	2007
Salaries and employee benefits	\$ 7,147,538	\$ 6,623,376
Occupancy and office expense	1,920,519	2,060,279
Professional and consulting fees and staff expenses	1,765,594	1,624,789
Other	949,130	829,855
	\$ 11,782,781	\$ 11,138,299

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

11. Affiliated Supporting Organizations

The total assets of affiliated supporting organizations, which are reported in the consolidated statements of financial position, are comprised of the following:

	December 31	
	2008	2007
The City of Cleveland's Cable Television Minority Arts and Education Fund	\$ 3,142,345	\$ 4,450,854
The Davis Fund	1,605,390	2,642,056
The Goodrich Social Settlement Fund	–	966
The Higley Fund	4,521,454	6,147,668
The McDonald Fund	2,973,612	3,775,076
The Sherwick Fund	20,066,409	29,711,869
The Billie Howland Steffee Family Fund	3,864,544	5,560,547
Medical Mutual of Ohio Charitable Foundation	1,500,072	2,351,180
Sullivan Scholars Foundation	3,121,932	3,010,270
The Thatcher Family Fund	2,047,594	–
	<u>\$ 42,843,352</u>	<u>\$ 57,650,486</u>

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 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, 2008 and 2007, were \$14,416,266 and \$21,228,128, respectively.

12. Operating Lease

The Foundation leases office space under operating lease agreements expiring at various dates between December 31, 2009 and September 1, 2011. Rental expense was \$855,839 in 2008 and \$826,790 in 2007. Future minimum rental commitments under the noncancelable operating leases at December 31, 2008 are as follows: 2009 – \$790,815; 2010 – \$803,152; and 2011 – \$546,827.

13. 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 \$480,022 in 2008 and \$410,749 in 2007. All contributions under the plan vest with employees at the time the contributions are made.

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