

CONSOLIDATED FINANCIAL STATEMENTS

The Cleveland Foundation
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



The Cleveland Foundation

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
The Cleveland Foundation

We have audited the accompanying consolidated financial statements of The Cleveland Foundation, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cleveland Foundation at December 31, 2019 and 2018, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

June 16, 2020

The Cleveland Foundation

Consolidated Statements of Financial Position

	December 31	
	2019	2018
Assets		
Cash and cash equivalents	\$ 25,489,571	\$ 15,693,360
Short-term investments	223,192,061	239,158,869
Investments	2,315,152,227	2,003,809,546
Other investments	34,681,080	20,821,504
Property and other assets	8,371,113	8,658,326
Total assets	<u>\$ 2,606,886,052</u>	<u>\$ 2,288,141,605</u>
Liabilities and net assets		
Accounts payable, accrued expenses, and payable for unsettled trades	\$ 6,715,637	\$ 7,913,834
Grants payable	19,027,529	29,560,067
Organizational funds and other obligations	218,930,758	136,812,978
Total liabilities	<u>244,673,924</u>	174,286,879
Net assets:		
Without donor restrictions	1,064,360,971	924,671,180
With donor restrictions	1,297,851,157	1,189,183,546
Total net assets	<u>2,362,212,128</u>	<u>2,113,854,726</u>
Total liabilities and net assets	<u>\$ 2,606,886,052</u>	<u>\$ 2,288,141,605</u>

See accompanying notes.

The Cleveland Foundation

Consolidated Statement of Activities

December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	\$ 46,459,825	\$ 20,268,932	\$ 66,728,757
Net investment income	37,128,053	372,828	37,500,881
Net realized and unrealized gains on investments	216,660,456	89,360,700	306,021,156
Other income	864,866	17,795	882,661
Net assets released resulting from satisfaction of donor and program restrictions	1,352,644	(1,352,644)	–
Total revenues, gains, and other support	<u>302,465,844</u>	<u>108,667,611</u>	<u>411,133,455</u>
Expenses			
Grants expensed	147,006,202	–	147,006,202
Program services	7,926,754	–	7,926,754
Management and general	2,590,009	–	2,590,009
Fundraising and development	5,253,088	–	5,253,088
Total expenses	<u>162,776,053</u>	<u>–</u>	<u>162,776,053</u>
Increase in net assets	139,689,791	108,667,611	248,357,402
Net assets at beginning of year	924,671,180	1,189,183,546	2,113,854,726
Net assets at end of year	<u>\$1,064,360,971</u>	<u>\$1,297,851,157</u>	<u>\$2,362,212,128</u>

See accompanying notes.

The Cleveland Foundation

Consolidated Statement of Activities

December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	\$ 44,584,060	\$ 20,825,502	\$ 65,409,562
Net investment income	34,142,714	280,855	34,423,569
Net realized and unrealized loss on investments	(49,834,576)	(106,557,085)	(156,391,661)
Other income	951,791	37,708	989,499
Net assets released resulting from satisfaction of donor and program restrictions	1,887,767	(1,887,767)	—
Total revenues, gains, and other support	<u>31,731,756</u>	<u>(87,300,787)</u>	<u>(55,569,031)</u>
Expenses			
Grants expensed	101,172,153	—	101,172,153
Program services	7,742,694	—	7,742,694
Management and general	2,747,164	—	2,747,164
Fundraising and development	5,195,162	—	5,195,162
Total expenses	<u>116,857,173</u>	<u>—</u>	<u>116,857,173</u>
Decrease in net assets	(85,125,417)	(87,300,787)	(172,426,204)
Net assets at beginning of year	<u>1,009,796,597</u>	<u>1,276,484,333</u>	<u>2,286,280,930</u>
Net assets at end of year	<u>\$ 924,671,180</u>	<u>\$ 1,189,183,546</u>	<u>\$ 2,113,854,726</u>

See accompanying notes.

The Cleveland Foundation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
Operating activities		
Increase (decrease) in net assets	\$ 248,357,402	\$ (172,426,204)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	226,777	228,082
Net realized and unrealized (gains) losses on investments	(306,021,156)	156,391,661
Contributions restricted for investment in perpetual endowment	(20,268,932)	(18,918,126)
Increase (decrease) in other assets	96,806	(1,098,652)
Increase in accounts payable, accrued expenses, and organizational funds and other obligations	29,824,565	5,075,490
Decrease in grants payable	(10,532,538)	(1,050,275)
Net cash used in operating activities	(58,317,076)	(31,798,024)
Investing activities		
Purchases of property and equipment	(36,370)	(41,428)
Proceeds from sale or maturity of investments	748,907,805	845,928,484
Purchases of investments	(701,027,080)	(833,639,886)
Net cash provided by investing activities	47,844,355	12,247,170
Financing activities		
Contributions restricted for investment in perpetual endowment	20,268,932	18,918,126
Net cash provided by financing activities	20,268,932	18,918,126
Net increase (decrease) in cash and cash equivalents	9,796,211	(632,728)
Cash, cash equivalents, and restricted cash at beginning of year	15,693,360	16,326,088
Cash, cash equivalents, and restricted cash at end of year	\$ 25,489,571	\$ 15,693,360

See accompanying notes.

The Cleveland Foundation

Notes to Consolidated Financial Statements

December 31, 2019

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 lives of all residents of Greater Cleveland, now and for generations to come, by working together with our donors to build community endowment, address needs through grantmaking, and provide leadership on key community issues.”

The accompanying 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 Higley Fund, Medical Mutual of Ohio Charitable Foundation, Sullivan Scholars Foundation, The Thatcher Family Fund, Frank Hadley and Cornelia Root Ginn Foundation, and Sally and John Morley 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 that are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) has established the Accounting Standards Codification (ASC) as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions 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.

The Resolutions and Declaration of Trusts establishing The Foundation include a variance power provision giving the Board of Directors of The Foundation the power to modify any restriction or condition on the distribution of funds for any specific charitable purpose or to specified organizations if, in the sole judgment of the Board of Directors of The Foundation, such restriction or condition becomes, in effect, unnecessary, undesirable, impractical, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. Based on this provision, The Foundation's net assets without donor restriction include funds designated for donor-advised grants. The Board of Directors of The Foundation is also granted the authority to distribute 20% of the principal of the donated trust assets over a five-year period.

The Foundation's net assets with donor restrictions include 80% of the principal of The Foundation's endowment assets (these net assets with donor-imposed restrictions are perpetual and are expected to be maintained in perpetuity in accordance with the Resolutions and Declaration of Trusts establishing The Foundation), charitable remainder unitrusts, charitable remainder annuity trusts, charitable lead annuity trusts, charitable gift annuities, and The Foundation's special projects.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions since the use of restricted contributions in accordance with donor's stipulations results in the release of restriction. Gains or losses on investments and other assets or liabilities are reported as an increase or decrease in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that 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.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with original maturities of three months or less, excluding amounts limited as to use by the Board of Directors of The Foundation or other arrangements, to be cash and cash equivalents.

The amount of cash, cash equivalents, and restricted cash within the consolidated statements of financial position that comprise the amount reported on the consolidated statements of cash flows at December 31 is \$25,489,571 and \$15,693,360 for 2019 and 2018, respectfully. No amounts are classified as restricted cash.

Short-Term Investments

Short-term investments represent investments with maturities of one year or less, are recorded at fair value, and consist from time to time of money market funds, short-term collective funds, mutual funds, certificates of deposit, commercial paper, short-term corporate bonds, variable rate demand notes, U.S. Treasury bills, and U.S. Treasury or agency notes or bonds with maturities under one year.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

Dividend and interest income are reported on the consolidated statements of activities as net investment income. Net unrealized and realized investment gains and losses are reported as net assets without donor restrictions or net assets with donor restrictions based upon the absence or presence of a restriction of the underlying assets.

Organizational Funds

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 fund 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 \$213,939,227 and \$131,563,645 at December 31, 2019 and 2018, respectively, related to organizational funds in investments and an equal liability in organizational funds and other obligations on the consolidated statements of financial position. The Foundation does not include the change in investments and related liability for organizational funds on the consolidated statements of activities.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends current guidance that requires only capital leases to be recognized on the lessee balance sheet. ASU 2016-02 will also require additional disclosures on

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for The Foundation for reporting periods beginning after December 15, 2020, with early adoption permitted. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires entities to show the changes in the total of cash, cash equivalents, and restricted cash on the statement of cash flows and reconcile those amounts to the balance sheet. The Foundation adopted ASU 2016-18 on December 31, 2019, and applied the provisions retrospectively to all periods presented in the consolidated financial statements. The adoption of ASU 2016-18 had no impact to revenues, gains and other support, expenses, or total net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Foundation adopted ASU 2018-08 in its consolidated financial statements in 2019. The adoption of ASU 2018-08 had no impact to contributions or the process of recording contributions received, grant expense, or total net assets.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for The Foundation for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The Foundation is currently assessing the impact that ASU 2018-13 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Endowment Assets

The Foundation's endowment consists of more than 500 individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of 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.

The endowment funds of The Foundation are the portion of The Foundation's net assets without donor restrictions and net assets with donor restrictions that are governed by the Resolutions and Declaration of trusts establishing The Foundation. The endowment funds are the result of trusts established by donors with the intention that the funds will exist in perpetuity. Endowment funds are reported in accordance with the stipulations of the governing instruments of The Foundation. Per the governing instruments, the Board of Directors of The Foundation may distribute 20% of the principal of the donated trust assets over a five-year period. This amount is recognized as net assets without donor restrictions, with the remainder of net assets recognized as net assets with donor restrictions

Return Objectives

The endowment funds are actively managed by four trustee banks in collaboration with the Board of Directors of The Foundation. An Investment Committee comprised of board members and volunteers has 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 Directors of The Foundation on a quarterly basis. The investment policies of The Foundation describe the types of investments that may be employed to achieve the total return objectives identified in the policies.

The long-term return objective is to maintain the purchasing power of The Foundation's investments by earning a return to cover The Foundation's spending policy (for both grants and administrative expenses) 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.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Endowment Assets (continued)

Investment Strategy

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 by employing a broad number of investment managers that provide diversity in investment styles and approach. The Foundation believes a well-diversified strategy will help the investment portfolio reach its long-term return objective with lower overall investment risk.

Spending Policy

The Foundation has an annual spending policy for grant-making and administrative expense that is based upon the investment return over a longer-term horizon. 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 Directors of The Foundation approves the rate annually within a range of 4.5% to 5.5% and approved 5.0% for 2019 and 2018.

Changes in endowment net assets are as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ 259,366,544	\$ 1,180,056,378	\$ 1,439,422,922
Investment return:			
Net investment income	24,110,969	–	24,110,969
Net depreciation (realized and unrealized)	125,441,625	87,462,194	212,903,819
Total investment return	149,552,594	87,462,194	237,014,788
Contributions	–	17,909,672	17,909,672
Grant distributions and expenses	(62,403,962)	–	(62,403,962)
Endowment net assets, December 31, 2019	\$ 346,515,176	\$ 1,285,428,244	\$ 1,631,943,420

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

3. Endowment Assets (continued)

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 352,173,272	\$ 1,266,717,324	\$ 1,618,890,596
Investment return:			
Net investment income	23,174,348	–	23,174,348
Net depreciation (realized and unrealized)	(9,414,339)	(105,579,072)	(114,993,411)
Total investment return	13,760,009	(105,579,072)	(91,819,063)
Contributions	–	18,918,126	18,918,126
Grant distributions and expenses	(106,566,737)	–	(106,566,737)
Endowment net assets, December 31, 2018	\$ 259,366,544	\$ 1,180,056,378	\$ 1,439,422,922

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, 2019 and 2018.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments

Investments and short-term investments are comprised of the following:

	December 31			
	2019		2018	
Short-term investments (primarily money market funds):	<u>\$ 223,192,061</u>	<u>\$ 223,192,061</u>	<u>\$ 239,158,869</u>	<u>\$ 239,158,869</u>
U.S. government obligations:				
U.S. treasuries	54,577,004	–	22,294,869	–
U.S. government agencies and asset-backed	<u>16,642,496</u>	<u>71,219,500</u>	<u>7,749,340</u>	30,044,209
Bonds:				
Corporate	69,946,008	–	51,766,694	–
Corporate asset-backed and other	<u>7,622,814</u>	<u>77,568,822</u>	<u>4,742,979</u>	56,509,673
Common and preferred stocks:				
Domestic	136,632,570	–	95,361,964	–
International	<u>32,705,442</u>	<u>169,338,012</u>	<u>19,892,941</u>	115,254,905
Common trust funds:				
Domestic and other equity	145,994,941	–	157,936,018	–
International equity	368,921,073	–	15,711,984	–
Fixed income	<u>2,003,910</u>	<u>516,919,924</u>	<u>273,303,488</u>	446,951,490
Mutual and exchange-traded funds:				
Domestic equity and other	402,896,125	–	363,503,661	–
International equity	124,186,652	–	128,908,439	–
Fixed income	<u>86,883,096</u>	<u>613,965,873</u>	<u>141,166,232</u>	633,578,332
Alternative investments:				
Absolute return	231,359,201	–	202,369,643	–
Hedged equity	434,367,527	–	319,317,452	–
Private equity	157,222,991	–	135,442,929	–
Real assets	16,968,994	–	16,127,599	–
Other	<u>26,221,383</u>	<u>866,140,096</u>	<u>48,213,314</u>	721,470,937
Total investments	<u><u>\$ 2,538,344,288</u></u>		<u><u>\$ 2,242,968,415</u></u>	

The primary investment objectives of short-term investments are liquidity and preservation of principal, with a secondary objective of earning a competitive market rate of return.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Common trust funds include The Foundation's interest in non-publicly traded, liquid commingled funds. The investment objective for common trust funds is long-term total return equal to or better than market returns.

Alternative investments are comprised principally of limited partnership interests in absolute return, hedged equity, private equity, and real assets funds. The funds' investment managers employ both traditional strategies (long only) in marketable securities and 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.

The investment objective for absolute return funds is long-term capital appreciation with less volatile and/or uncorrelated returns. Absolute return funds include investment strategies where a majority of the underlying securities may or may not be traded on public exchanges. This asset class includes a variety of active strategies, including arbitrage, event-driven, market neutral, long-short equity, and distressed investing.

The investment objective for hedged equity is long-term capital appreciation with low volatility. Hedged equity funds include investment strategies where the majority of the underlying securities are traded on public exchanges. Managers in this asset class may hold long or short equity positions and utilize options, futures, and other derivatives.

The investment objective for private equity is long-term capital appreciation in excess of what is available in the public markets. Private equity funds generally hold illiquid debt and equity securities of public and/or privately held companies. This asset class includes venture capital, secondary, mezzanine, buy-out, and distressed funds.

The investment objective for real assets is to protect against inflation and increase long-term returns. Real assets include liquid and illiquid investments in funds that own real estate, commodities, oil and gas, inflation-protected fixed-income securities, and other assets.

At December 31, 2019, The Foundation has outstanding capital contribution commitments with several alternative investment funds of approximately \$130,353,000.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

At December 31, 2019, The Foundation's alternative investments are subject to various withdrawal restrictions as follows:

Available for redemption:	
Monthly	\$ 349,980,530
Quarterly	134,233,632
Annually	<u>53,778,488</u>
Subtotal	537,992,650
Subject to distribution	182,305,925
Subject to lock-up provisions:	
One to three years	<u>145,841,521</u>
Total alternative investments	<u>\$ 866,140,096</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.

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 three 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 on the consolidated statements of financial position.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

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 and cash equivalents, accounts payable, accrued expenses, and grants payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of other investments, 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*, 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 and unobservable inputs. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Fair value for Level 1 is based upon quoted market prices that are comprised of publicly traded securities, registered money markets, and mutual and exchange-traded funds. 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.

Fair value for non-registered money market funds and common trust funds is valued at net asset value as a practical expedient. Fair value for Level 2 American Depositary Receipts of foreign common and preferred stocks is valued at quoted market prices (adjusted for currency rates).

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurement (continued)

Fair value for Level 2 U.S. government obligations and bonds 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 inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Total investments are reflected on the consolidated statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Short-term investments	\$ 223,192,061	\$ 239,158,869
Investments	2,315,152,227	2,003,809,546
Total	<u>\$ 2,538,344,288</u>	<u>\$ 2,242,968,415</u>

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurement (continued)

Total investments subject to fair value measurement, aggregated by the level in the fair value hierarchy, are as follows:

	December 31, 2019		
	Total	Level 1	Level 2
Short-term investments (primarily money market funds)*	\$ 223,192,061	\$ 84,201,253	\$ —
U.S. government obligations	71,219,500	—	71,219,500
Bonds	77,568,822	—	77,568,822
Common and preferred stocks	169,338,012	169,338,012	—
Common trust funds*	516,919,924	—	—
Mutual and exchange-traded funds	613,965,873	613,965,873	—
Alternative investments:*			
Absolute return	231,359,201	—	—
Hedged equity	434,367,527	—	—
Private equity	157,222,991	—	—
Real assets	16,968,994	—	—
Other	26,221,383	—	26,221,383
Total	\$ 2,538,344,288	\$ 867,505,138	\$ 175,009,705

	December 31, 2018		
	Total	Level 1	Level 2
Short-term investments (primarily money market funds)*	\$ 239,158,869	\$ 78,104,924	\$ —
U.S. government obligations	30,044,209	—	30,044,209
Bonds	56,509,673	—	56,509,673
Common and preferred stocks	115,254,905	115,254,905	—
Common trust funds*	446,951,490	—	—
Mutual and exchange-traded funds	633,578,332	633,578,332	—
Alternative investments:*			
Absolute return	202,369,644	—	—
Hedged equity	319,317,451	—	—
Private equity	135,442,929	—	—
Real assets	16,127,599	—	—
Other	48,213,314	—	21,213,314
Total	\$ 2,242,968,415	\$ 826,938,161	\$ 107,767,196

*In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated statements of financial position.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurement (continued)

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.

6. Liquidity and Availability of Resources

Financial assets available for grant-making, general expenditures, liabilities, or other obligations, that is within one year of the statement of financial position date, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 25,489,571	\$ 15,693,360
Short-term investments	<u>152,318,399</u>	161,696,346
Total	<u>\$ 177,807,970</u>	<u>\$ 177,389,706</u>

The Board of Directors of The Foundation has approved an annual spending policy rate of 5% for 2019 and 2018. As described in Note 3, a spending policy is created to maintain sustainable grant-making over a long period of time. Although the Foundation does not intend to spend amounts above the annual spending policy, these amounts could be made available if necessary.

As part of The Foundation's liquidity management, it has a policy to structure its financial assets to be available as its grants, general expenditures, liabilities, and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. Other investments are excluded as they are not normally used for grant-making, general expenditures, liabilities, or other obligations.

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. The Foundation received income from partial benefit funds of \$11,047,011 and \$10,783,642 in 2019 and 2018, respectively, which is recorded in net assets without donor restrictions net investment income within the consolidated statements of activities. This represented approximately 99% of the income from partial benefit funds in 2019 and 2018. At December 31, 2019 and 2018, the fair value of partial benefit funds included in investments on the consolidated statements of financial position was \$248,586,522 and \$229,509,089, respectively.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

8. Contributions

The Foundation receives contributions from various sources. Donor contributions received are recorded on the consolidated statements of activities. Receipts of organizational funds are not included on the consolidated statements of activities, but are reflected in investments and in organizational funds and other obligations on the consolidated statements of financial position. Total contributions received are as follows:

	2019	2018
Donor contributions	\$ 66,728,757	\$ 65,409,562
Organizational funds	17,072,533	17,132,805
	\$ 83,801,290	\$ 82,542,367

9. Grants and Distributions

The Board of Directors of The Foundation authorized grants of \$114,358,852 and \$104,770,326 in 2019 and 2018, respectively, and program-related investments of \$0 and \$11,500,000 in 2019 and 2018, respectively. In addition, distributions from organizational funds of \$10,385,800 and \$10,628,151 were made in 2019 and 2018, respectively, and are not included in grants expensed on the consolidated statements of activities.

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

Changes in grants payable are as follows:

	2019	2018
Grants payable at beginning of year	\$ 29,560,067	\$ 30,610,342
Unconditional grants expensed	147,006,202	101,172,153
Payments made	(157,538,740)	(102,222,428)
Grants payable at end of year	\$ 19,027,529	\$ 29,560,067

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

9. Grants and Distributions (continued)

Grants payable at December 31, 2019, are scheduled to be disbursed as follows: 2020 – \$17,094,146, 2021 – \$1,254,383, and 2022 and thereafter – \$679,000. At December 31, 2019 and 2018, total authorized conditional grants were \$4,844,860 and \$974,277, respectively.

10. Affiliated Supporting Organizations

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

	December 31	
	2019	2018
The City of Cleveland's Cable Television		
Minority Arts and Education Fund	\$ 4,631,291	\$ 4,315,168
The Higley Fund	38,823,271	34,634,882
Medical Mutual of Ohio Charitable Foundation	2,552,633	2,272,116
Sullivan Scholars Foundation	4,367,884	3,917,400
The Thatcher Family Fund	7,330,441	6,727,141
Frank Hadley and Cornelia Root Ginn Foundation	3,065,194	2,694,006
Sally and John Morley Family Fund	5,081,388	4,282,478
	<u>\$ 65,852,102</u>	<u>\$ 58,843,191</u>

The Treu-Mart Fund is a supporting organization of both The Foundation and the Jewish Federation of Cleveland. 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, 2019 and 2018, was \$18,628,431 and \$16,567,244, respectively.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

11. Other Investments

Other investments of \$34,681,080 and \$20,821,504 in 2019 and 2018, respectively, primarily include program-related investments (notes receivable and investments in limited partnerships that support certain program initiatives). Notes receivable are due at various dates from 2019 through 2025, except for one loan for which the due date is 2033. The loans carry fixed interest rates between 2% and 4%; principal and interest payment arrangements vary by note.

12. Operating Lease

The Foundation leases office space under a primary operating lease agreement that expires in 2022. Rental expense was \$1,068,145 and \$1,055,830 in 2019 and 2018, respectively. Future minimum rental commitments under the noncancelable primary operating lease at December 31, 2019, are \$880,000 in 2020, \$816,000 in 2021, and \$544,000 in 2022.

13. Retirement Plan

The Foundation has defined contribution retirement plans. The Foundation made contributions based upon specified percentages of salary for all employees. Retirement plan expense was \$752,392 and \$743,641 in 2019 and 2018, respectively. All contributions under the plan are fully vested at the time the contributions are made.

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

14. Functional Allocation of Expenses

The following tables represent expenses by both their nature and function for the years ended December 31:

	2019				
	Program Services		Management and General	Fundraising and Development	Total
	Grants	Other			
Grants expended	\$ 147,006,202	\$ –	\$ –	\$ –	\$ 147,006,202
Salaries	–	4,322,890	1,114,973	2,850,841	8,288,704
Benefits	–	1,359,444	350,166	905,181	2,614,791
Professional fees and consulting	–	420,961	567,074	275,776	1,263,811
Office and occupancy	–	741,453	148,007	296,579	1,186,039
Equipment and supplies	–	435,870	101,297	271,288	808,455
Travel and expense	–	106,239	13,037	65,276	184,552
Depreciation and amortization	–	126,964	30,591	69,222	226,777
Other expenses	–	412,933	264,864	518,925	1,196,722
Total	\$ 147,006,202	\$ 7,926,754	\$ 2,590,009	\$ 5,253,088	\$ 162,776,053

	2018				
	Program Services		Management and General	Fundraising and Development	Total
	Grants	Other			
Grants expended	\$ 101,172,153	\$ –	\$ –	\$ –	\$ 101,172,153
Salaries	–	4,165,377	1,092,296	2,776,055	8,033,728
Benefits	–	1,340,238	355,085	903,551	2,598,874
Professional fees and consulting	–	488,953	520,288	318,543	1,327,784
Office and occupancy	–	740,499	147,746	296,331	1,184,576
Equipment and supplies	–	411,321	95,733	250,421	757,475
Travel and expense	–	99,762	14,143	53,408	167,313
Depreciation and amortization	–	126,804	31,043	70,235	228,082
Other expenses	–	369,740	490,830	526,618	1,387,188
Total	\$ 101,172,153	\$ 7,742,694	\$ 2,747,164	\$ 5,195,162	\$ 116,857,173

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

14. Functional Allocation of Expenses (continued)

The costs of providing the various program and supporting services have been summarized on a functional basis on the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Certain expenses, excluding grants expensed, are allocated on a reasonable basis.

15. Subsequent Events

The effects of the global viral outbreak of coronavirus disease (COVID-19) in 2020, which includes significant stock market volatility, temporary business closures, and event cancellations, may result in different impacts to The Foundation as the broader economic impact of COVID-19 develops. While the ultimate impact of these matters to The Foundation and its financial condition is currently unknown, the effects of COVID-19 could negatively impact The Foundation's administrative fee income and donor contributions and at the same time increase demand for community services. The accompanying consolidated financial statements as of and for the year ended December 31, 2019, do not reflect the effects of these subsequent events.

In preparing these consolidated financial statements, The Foundation evaluated subsequent events through the time the financial statements were available to be issued on June 16, 2020, in compliance with applicable accounting standards. All material subsequent events have been either recognized in the consolidated financial statements or disclosed in the notes to the consolidated financial statements.

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