

CONSOLIDATED FINANCIAL STATEMENTS

The Cleveland Foundation  
Years Ended December 31, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



The Cleveland Foundation

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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## Report of Independent Auditors

The Board of Directors  
The Cleveland Foundation

### Opinion

We have audited the consolidated financial statements of The Cleveland Foundation (The Foundation), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Foundation at December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Ernst + Young LLP*

June 16, 2022

# The Cleveland Foundation

## Consolidated Statements of Financial Position

|   | <b>December 31</b>      |                         |
|---|-------------------------|-------------------------|
|   | <b>2021</b>             | <b>2020</b>             |
| <b>Assets</b>   |                         |                         |
| Cash and cash equivalents   | \$ 6,817,970            | \$ 33,522,286           |
| Short-term investments  | 254,506,866             | 203,204,545             |
| Investments   | 2,890,847,713           | 2,559,445,293           |
| Other investments   | 32,521,195              | 32,923,785              |
| Property and other assets   | 26,629,393              | 12,426,146              |
| Total assets  | <u>\$ 3,211,323,137</u> | <u>\$ 2,841,522,055</u> |
| <b>Liabilities and net assets</b>                                       |                         |                         |
| Accounts payable, accrued expenses, and<br>payable for unsettled trades | \$ 9,082,565            | \$ 10,243,613           |
| Grants payable  | 23,808,844              | 22,926,221              |
| Organizational funds and other obligations                              | 327,527,468             | 261,442,003             |
| Total liabilities   | <u>360,418,877</u>      | 294,611,837             |
| Net assets:   |                         |                         |
| Without donor restrictions  | 1,300,780,263           | 1,155,262,282           |
| With donor restrictions   | 1,550,123,997           | 1,391,647,936           |
| Total net assets  | <u>2,850,904,260</u>    | <u>2,546,910,218</u>    |
| Total liabilities and net assets  | <u>\$ 3,211,323,137</u> | <u>\$ 2,841,522,055</u> |

*See accompanying notes.*

The Cleveland Foundation

Consolidated Statement of Activities

December 31, 2021

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>           |
|---|---|------------------------------------|------------------------|
| <b>Revenues, gains, and other support</b>   |   |                                    |                        |
| Contributions   | \$ 59,373,404                             | \$ 13,901,813                      | \$ 73,275,217          |
| Net investment income   | 31,669,191                                | 248,753                            | 31,917,944             |
| Net realized and unrealized gains<br>on investments                                     | 181,597,977                               | 159,074,204                        | 340,672,181            |
| Other income  | 1,229,982                                 | 29,378                             | 1,259,360              |
| Net assets released resulting from<br>satisfaction of donor and program<br>restrictions | 14,778,087                                | (14,778,087)                       | —                      |
| Total revenues, gains, and other support  | <u>288,648,641</u>                        | <u>158,476,061</u>                 | <u>447,124,702</u>     |
| <b>Expenses</b>   |   |                                    |                        |
| Grants expensed   | 126,358,640                               | —                                  | 126,358,640            |
| Program services  | 8,483,701                                 | —                                  | 8,483,701              |
| Management and general  | 2,801,831                                 | —                                  | 2,801,831              |
| Fundraising and development   | 5,486,488                                 | —                                  | 5,486,488              |
| Total expenses  | <u>143,130,660</u>                        | <u>—</u>                           | <u>143,130,660</u>     |
| Increase in net assets  | 145,517,981                               | 158,476,061                        | 303,994,042            |
| Net assets at beginning of year   | <u>1,155,262,282</u>                      | <u>1,391,647,936</u>               | <u>2,546,910,218</u>   |
| Net assets at end of year   | <u>\$1,300,780,263</u>                    | <u>\$1,550,123,997</u>             | <u>\$2,850,904,260</u> |

See accompanying notes.

# The Cleveland Foundation

## Consolidated Statement of Activities

December 31, 2020

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>    |
|---|---|------------------------------------|-----------------|
| <b>Revenues, gains, and other support</b>   |   |                                    |                 |
| Contributions   | \$ 45,728,464                             | \$ 29,482,915                      | \$ 75,211,379   |
| Net investment income   | 30,195,803                                | 248,153                            | 30,443,956      |
| Net realized and unrealized gains<br>on investments                                     | 150,984,962                               | 73,052,293                         | 224,037,255     |
| Other income  | 1,453,194                                 | 53,541                             | 1,506,735       |
| Net assets released resulting from<br>satisfaction of donor and program<br>restrictions | 9,040,123                                 | (9,040,123)                        | –               |
| Total revenues, gains, and other support  | 237,402,546                               | 93,796,779                         | 331,199,325     |
| <b>Expenses</b>   |   |                                    |                 |
| Grants expensed   | 130,236,165                               | –                                  | 130,236,165     |
| Program services  | 8,212,565                                 | –                                  | 8,212,565       |
| Management and general  | 2,558,513                                 | –                                  | 2,558,513       |
| Fundraising and development   | 5,493,992                                 | –                                  | 5,493,992       |
| Total expenses  | 146,501,235                               | –                                  | 146,501,235     |
| Increase in net assets  | 90,901,311                                | 93,796,779                         | 184,698,090     |
| Net assets at beginning of year   | 1,064,360,971                             | 1,297,851,157                      | 2,362,212,128   |
| Net assets at end of year   | \$1,155,262,282                           | \$1,391,647,936                    | \$2,546,910,218 |

*See accompanying notes.*

# The Cleveland Foundation

## Consolidated Statements of Cash Flows

|   | <b>Year Ended December 31</b> |                      |
|---|-------------------------------|----------------------|
|   | <b>2021</b>                   | <b>2020</b>          |
| <b>Operating activities</b>   |                               |                      |
| Increase in net assets  | \$ 303,994,042                | \$ 184,698,090       |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: |                               |                      |
| Depreciation and amortization   | 183,493                       | 198,785              |
| Net realized and unrealized gains on investments  | (340,672,181)                 | (224,037,255)        |
| Contributions restricted for investment in perpetual endowment  | (13,901,813)                  | (29,482,915)         |
| Decrease in other assets  | (3,809,767)                   | (4,222,478)          |
| Increase in accounts payable, accrued expenses, and organizational funds and other obligations          | 64,924,417                    | 46,039,221           |
| Increase in grants payable  | 882,623                       | 3,898,692            |
| Net cash provided by (used in) operating activities   | <b>11,600,814</b>             | <b>(22,907,860)</b>  |
| <b>Investing activities</b>   |                               |                      |
| Purchases of property and equipment   | (10,576,973)                  | (31,340)             |
| Proceeds from sale or maturity of investments   | 684,179,006                   | 794,636,391          |
| Purchases of investments  | (725,808,976)                 | (793,147,391)        |
| Net cash (used in) provided by investing activities   | <b>(52,206,943)</b>           | <b>1,457,660</b>     |
| <b>Financing activities</b>   |                               |                      |
| Contributions restricted for investment in perpetual endowment  | 13,901,813                    | 29,482,915           |
| Net cash provided by financing activities   | <b>13,901,813</b>             | <b>29,482,915</b>    |
| Net (decrease) increase in cash and cash equivalents  | <b>(26,704,316)</b>           | <b>8,032,715</b>     |
| Cash, cash equivalents, and restricted cash at beginning of year  | <b>33,522,286</b>             | <b>25,489,571</b>    |
| Cash, cash equivalents, and restricted cash at end of year  | <b>\$ 6,817,970</b>           | <b>\$ 33,522,286</b> |

*See accompanying notes.*

# The Cleveland Foundation

## Notes to Consolidated Financial Statements

December 31, 2021

### **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 The Sally and John Morley Family Fund. The Sally and John Morley Family Fund was officially dissolved and funds completely distributed as of December 31, 2021. 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 resources available for general use and not subject to donor-imposed restrictions. Net assets with donor restrictions are resources on which donor restrictions have been placed.

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 endowment fund 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 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 the 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 a 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 \$6,817,970 and \$33,522,286 for 2021 and 2020, respectively. 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 without donor restrictions or net assets with donor restrictions based upon the absence or presence of a restriction of the underlying assets.

Dividend and interest income is reported on the consolidated statements of activities as net investment income.

#### **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 \$323,242,645 and \$256,877,181 at December 31, 2021 and 2020, 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 an 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

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

on the amount, timing, and uncertainty of cash flows arising from leases. The effective date was deferred by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, and the guidance will be effective for The Foundation for reporting periods beginning after December 15, 2022, 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 August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for The Foundation for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021, with early adoption permitted. The Foundation adopted ASU 2018-15 on January 1, 2021. The adoption of ASU 2018-15 had no impact on The Foundation’s consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. The Foundation is currently assessing the impact that ASU 2020-07 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 ended 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 2021 and 2020.

Changes in endowment net assets are as follows:

|   | 2021                          |                            |                         |
|---|-------------------------------|----------------------------|-------------------------|
|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                   |
| Endowment net assets,<br>January 1, 2021      | \$ 349,263,859                | \$ 1,368,188,307           | \$ 1,717,452,166        |
| Investment return:                            |                               |                            |                         |
| Net investment income                         | 20,684,506                    | –                          | 20,684,506              |
| Net depreciation (realized<br>and unrealized) | 95,222,907                    | 156,681,190                | 251,904,097             |
| Total investment return                       | 115,907,413                   | 156,681,190                | 272,588,603             |
| Contributions                                 | –                             | 72,257                     | 72,257                  |
| Grant distributions and expenses              | (76,827,147)                  | –                          | (76,827,147)            |
| Endowment net assets,<br>December 31, 2021    | <u>\$ 388,344,125</u>         | <u>\$ 1,524,941,754</u>    | <u>\$ 1,913,285,879</u> |

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 3. Endowment Assets (continued)

|   | 2020                          |                            |                  |
|---|-------------------------------|----------------------------|------------------|
|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total            |
| Endowment net assets,<br>January 1, 2020      | \$ 346,515,176                | \$ 1,285,428,244           | \$ 1,631,943,420 |
| Investment return:                            |                               |                            |                  |
| Net investment income                         | 20,094,824                    | –                          | 20,094,824       |
| Net depreciation (realized<br>and unrealized) | 73,862,666                    | 71,248,031                 | 145,110,697      |
| Total investment return                       | 93,957,490                    | 71,248,031                 | 165,205,521      |
| Contributions                                 | –                             | 11,512,032                 | 11,512,032       |
| Grant distributions and expenses              | (91,208,807)                  | –                          | (91,208,807)     |
| Endowment net assets,<br>December 31, 2020    | \$ 349,263,859                | \$ 1,368,188,307           | \$ 1,717,452,166 |

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, 2021 or 2020.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments

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

|   | December 31           |                                |                       |                                |
|---|-----------------------|--------------------------------|-----------------------|--------------------------------|
|   | 2021                  |                                | 2020                  |                                |
| Short-term investments<br>(primarily money market<br>funds) | <u>\$ 254,506,866</u> | <u>\$ 254,506,866</u>          | <u>\$ 203,204,545</u> | <u>\$ 203,204,545</u>          |
| U.S. government obligations:                                |                       |                                |                       |                                |
| U.S. treasuries   | 44,728,563            |                                | 53,547,773            |                                |
| U.S. government agencies<br>and asset-backed                | <u>2,832,828</u>      | <u>47,561,391</u>              | <u>10,783,256</u>     | <u>64,331,029</u>              |
| Bonds:  |                       |                                |                       |                                |
| Corporate   | 44,767,590            |                                | 60,716,658            |                                |
| Corporate asset-backed<br>and other                         | <u>8,644,984</u>      | <u>53,412,574</u>              | <u>4,436,945</u>      | <u>65,153,603</u>              |
| Common and preferred stocks:                                |                       |                                |                       |                                |
| Domestic  | 209,857,297           |                                | 165,552,767           |                                |
| International   | <u>42,748,954</u>     | <u>252,606,251</u>             | <u>38,189,541</u>     | <u>203,742,308</u>             |
| Common trust funds:   |                       |                                |                       |                                |
| Domestic and other equity                                   | 286,172,880           |                                | 204,620,777           |                                |
| International equity  | 456,039,758           |                                | 436,461,998           |                                |
| Fixed income  | <u>615,096</u>        | <u>742,827,734</u>             | <u>2,111,328</u>      | <u>643,194,103</u>             |
| Mutual and exchange-traded<br>funds:                        |                       |                                |                       |                                |
| Domestic equity and other                                   | 485,144,551           |                                | 463,475,537           |                                |
| International equity  | 124,576,903           |                                | 111,795,760           |                                |
| Fixed income  | <u>114,607,763</u>    | <u>724,329,217</u>             | <u>91,715,904</u>     | <u>666,987,201</u>             |
| Alternative investments:                                    |                       |                                |                       |                                |
| Absolute return   | 192,424,403           |                                | 181,700,912           |                                |
| Hedged equity   | 539,424,621           |                                | 483,578,228           |                                |
| Private equity  | 265,692,920           |                                | 188,622,579           |                                |
| Real assets   | 41,314,223            |                                | 16,780,739            |                                |
| Other   | <u>31,254,379</u>     | <u>1,070,110,546</u>           | <u>45,354,591</u>     | <u>916,037,049</u>             |
| Total investments   |                       | <u><u>\$ 3,145,354,579</u></u> |                       | <u><u>\$ 2,762,649,838</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, 2021, The Foundation has outstanding capital contribution commitments with several alternative investment funds of \$144,050,924.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments (continued)

At December 31, 2021, The Foundation's alternative investments are subject to various withdrawal restrictions, as follows:

|                                |                         |
|--------------------------------|-------------------------|
| Available for redemption:      |                         |
| Monthly                        | \$ 417,367,133          |
| Quarterly                      | 140,330,924             |
| Annually                       | <u>95,542,864</u>       |
| Subtotal                       | 653,240,921             |
| <br>                           |                         |
| Subject to distribution        | 297,120,440             |
| <br>                           |                         |
| Subject to lock-up provisions: |                         |
| One to three years             | <u>119,749,185</u>      |
| Total alternative investments  | <u>\$ 1,070,110,546</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

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

|  | December 31, 2021       |                         |                       |
|--|-------------------------|-------------------------|-----------------------|
|  | Total                   | Level 1                 | Level 2               |
| Short-term investments (primarily money market funds)* | \$ 254,506,866          | \$ 104,010,324          | \$ —                  |
| U.S. government obligations                            | 47,561,391              | —                       | 47,561,391            |
| Bonds  | 53,412,574              | —                       | 53,412,574            |
| Common and preferred stocks                            | 252,606,251             | 252,606,252             | —                     |
| Common trust funds*                                    | 742,827,734             | —                       | —                     |
| Mutual and exchange-traded funds                       | 724,329,217             | 724,329,217             | —                     |
| Alternative investments:*                              |                         |                         |                       |
| Absolute return  | 192,424,403             | —                       | —                     |
| Hedged equity  | 539,424,621             | —                       | —                     |
| Private equity   | 265,692,920             | —                       | —                     |
| Real assets  | 41,314,223              | —                       | —                     |
| Other  | 31,254,379              | —                       | 31,254,379            |
| <b>Total</b>   | <b>\$ 3,145,354,579</b> | <b>\$ 1,080,945,793</b> | <b>\$ 132,228,344</b> |
|  |                         |                         |                       |
|  | December 31, 2020       |                         |                       |
|  | Total                   | Level 1                 | Level 2               |
| Short-term investments (primarily money market funds)* | \$ 203,204,545          | \$ 90,142,131           | \$ —                  |
| U.S. government obligations                            | 64,331,029              | —                       | 64,331,029            |
| Bonds  | 65,153,603              | —                       | 65,153,603            |
| Common and preferred stocks                            | 203,742,308             | 203,742,308             | —                     |
| Common trust funds*                                    | 643,194,103             | —                       | —                     |
| Mutual and exchange-traded funds                       | 666,987,201             | 666,987,201             | —                     |
| Alternative investments:*                              |                         |                         |                       |
| Absolute return  | 181,700,912             | —                       | —                     |
| Hedged equity  | 483,578,228             | —                       | —                     |
| Private equity   | 188,622,579             | —                       | —                     |
| Real assets  | 16,780,739              | —                       | —                     |
| Other  | 45,354,591              | —                       | 32,354,591            |
| <b>Total</b>   | <b>\$ 2,762,649,838</b> | <b>\$ 960,871,640</b>   | <b>\$ 161,839,223</b> |

\* 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)**

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 values 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 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.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Value Measurement (continued)

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.

Fair value for non-registered money market funds and common trust funds is valued at net asset value as a practical expedient.

The fair value of alternative investments is valued at net asset value as a practical expedient. The values of the securities held by the funds that do not have readily determinable values are determined by the general partner and are based on historical cost, appraisals, or other valuation estimates that require varying degrees of judgment. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for the securities existed. Generally, the investment balance of The Foundation's holdings in alternative investments reflects net contributions to the partnerships and The Foundation's share of realized and unrealized investment income and expenses. The investments may individually expose The Foundation to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The Foundation's risk is limited to its carrying value. The financial statements of the limited partnerships are audited annually.

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

|                        | <u>2021</u>             | <u>2020</u>             |
|------------------------|-------------------------|-------------------------|
| Short-term investments | \$ 254,506,866          | \$ 203,204,545          |
| Investments            | <u>2,890,847,713</u>    | <u>2,559,445,293</u>    |
| Total                  | <u>\$ 3,145,354,579</u> | <u>\$ 2,762,649,838</u> |

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)

### 6. Liquidity and Availability of Resources

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

|                           | <u>2021</u>           | <u>2020</u>           |
|---------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 6,817,970          | \$ 33,522,286         |
| Short-term investments    | 189,057,029           | 149,273,745           |
| Total                     | <u>\$ 195,874,999</u> | <u>\$ 182,796,031</u> |

The Board of Directors of The Foundation has approved an annual spending policy rate of 5% for 2021 and 2020. 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. Investments and 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 \$11,407,923 and \$11,403,975 in 2021 and 2020, 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 2021 and 2020. At December 31, 2021 and 2020, the fair value of partial benefit funds included in investments on the consolidated statements of financial position was \$287,460,987 and \$258,873,429, 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:

|                      | <b>2021</b>           | <b>2020</b>           |
|----------------------|-----------------------|-----------------------|
| Donor contributions  | \$ 73,275,217         | \$ 75,211,379         |
| Organizational funds | <b>51,527,456</b>     | 25,656,518            |
|                      | <b>\$ 124,802,673</b> | <b>\$ 100,867,897</b> |

#### 9. Grants and Distributions

The Board of Directors of The Foundation authorized grants of \$124,382,835 and \$130,730,007 in 2021 and 2020, respectively, and program-related investments of \$1,775,000 and \$5,000,000 in 2021 and 2020, respectively. In addition, distributions from organizational funds of \$20,102,470 and \$14,412,263 were made in 2021 and 2020, 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:

|                                     | <b>2021</b>          | <b>2020</b>          |
|-------------------------------------|----------------------|----------------------|
| Grants payable at beginning of year | \$ 22,926,221        | \$ 19,027,529        |
| Unconditional grants expensed       | <b>126,358,640</b>   | 130,236,165          |
| Payments made                       | <b>(125,476,017)</b> | (126,337,473)        |
| Grants payable at end of year       | <b>\$ 23,808,844</b> | <b>\$ 22,926,221</b> |

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 9. Grants and Distributions (continued)

Grants payable at December 31, 2021, are scheduled to be disbursed as follows: 2022 – \$19,000,525, 2023 – \$3,728,284, and 2024 and thereafter – \$1,080,035. At December 31, 2021 and 2020, total authorized conditional grants were \$469,286 and \$732,339, respectively.

#### 10. Affiliated Supporting Organizations

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

|  | <b>December 31</b>   |                      |
|--|----------------------|----------------------|
|  | <b>2021</b>          | <b>2020</b>          |
| The City of Cleveland's Cable Television       |                      |                      |
| Minority Arts and Education Fund               | <b>\$ 5,301,625</b>  | \$ 4,754,746         |
| The Higley Fund                                | <b>45,795,216</b>    | 42,268,433           |
| Medical Mutual of Ohio Charitable Foundation   | <b>2,937,836</b>     | 2,691,248            |
| Sullivan Scholars Foundation                   | <b>5,598,459</b>     | 5,158,665            |
| The Thatcher Family Fund                       | <b>8,319,223</b>     | 7,853,623            |
| Frank Hadley and Cornelia Root Ginn Foundation | <b>3,344,949</b>     | 3,215,505            |
| Sally and John Morley Family Fund              | –                    | 5,425,587            |
|  | <b>\$ 71,297,308</b> | <b>\$ 71,367,807</b> |

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, 2021 and 2020, was \$21,517,194 and \$20,236,660, respectively.

#### 11. Other Investments

Other investments of \$32,521,195 and \$32,923,785 in 2021 and 2020, 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 2022 through 2026, except for one loan for which the due date is 2034. The loans carry fixed interest rates between 1.5% and 4.0%; principal and interest payment arrangements vary by note.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 12. Operating Lease

The Foundation leases office space under a primary operating lease agreement that expires in 2022. Rental expense was \$958,332 and \$1,029,376 in 2021 and 2020, respectively. Future minimum rental commitments under the noncancelable primary operating lease at December 31, 2021 are \$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 \$862,758 and \$809,950 in 2021 and 2020, respectively. All contributions under the plan are fully vested at the time the contributions are made.

#### 14. Functional Allocation of Expenses

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

|                                  | 2021                  |                     |                        |                             | Total                 |
|----------------------------------|-----------------------|---------------------|------------------------|-----------------------------|-----------------------|
|                                  | Grants                | Program Services    | Management and General | Fundraising and Development |                       |
| Grants expensed                  | \$ 126,358,640        | \$ –                | \$ –                   | \$ –                        | \$ 126,358,640        |
| Salaries                         | –                     | 4,837,406           | 1,208,433              | 3,173,776                   | 9,219,615             |
| Benefits                         | –                     | 1,453,496           | 360,706                | 970,073                     | 2,784,275             |
| Professional fees and consulting | –                     | 471,123             | 546,514                | 309,613                     | 1,327,250             |
| Office and occupancy             | –                     | 702,880             | 140,169                | 280,931                     | 1,123,980             |
| Equipment and supplies           | –                     | 428,506             | 92,398                 | 249,140                     | 770,044               |
| Travel and expense               | –                     | 13,519              | 1,275                  | 12,322                      | 27,116                |
| Depreciation and amortization    | –                     | 105,987             | 23,133                 | 54,373                      | 183,493               |
| Other expenses                   | –                     | 470,784             | 429,203                | 436,260                     | 1,336,247             |
| <b>Total</b>                     | <b>\$ 126,358,640</b> | <b>\$ 8,483,701</b> | <b>\$ 2,801,831</b>    | <b>\$ 5,486,488</b>         | <b>\$ 143,130,660</b> |

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 14. Functional Allocation of Expenses (continued)

|                                  | 2020                  |                     |                           |                                   |                       |
|----------------------------------|-----------------------|---------------------|---------------------------|-----------------------------------|-----------------------|
|                                  | Grants                | Program<br>Services | Management<br>and General | Fundraising<br>and<br>Development | Total                 |
| Grants expensed                  | \$ 130,236,165        | \$ –                | \$ –                      | \$ –                              | \$ 130,236,165        |
| Salaries                         | –                     | 4,569,574           | 1,174,240                 | 3,015,684                         | 8,759,498             |
| Benefits                         | –                     | 1,353,235           | 348,170                   | 915,496                           | 2,616,901             |
| Professional fees and consulting | –                     | 576,999             | 514,508                   | 423,292                           | 1,514,799             |
| Office and occupancy             | –                     | 755,794             | 150,668                   | 302,441                           | 1,208,903             |
| Equipment and supplies           | –                     | 443,365             | 110,969                   | 282,681                           | 837,015               |
| Travel and expense               | –                     | 16,392              | 2,056                     | 10,036                            | 28,484                |
| Depreciation and amortization    | –                     | 111,470             | 28,457                    | 58,858                            | 198,785               |
| Other expenses                   | –                     | 385,736             | 229,445                   | 485,504                           | 1,100,685             |
| <b>Total</b>                     | <b>\$ 130,236,165</b> | <b>\$ 8,212,565</b> | <b>\$ 2,558,513</b>       | <b>\$ 5,493,992</b>               | <b>\$ 146,501,235</b> |

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

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, 2022, 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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