

CONSOLIDATED FINANCIAL STATEMENTS

The Cleveland Foundation  
Years Ended December 31, 2015 and 2014  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

The Cleveland Foundation

Consolidated Financial Statements

Years Ended December 31, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, and the changes in its consolidated net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

September 29, 2016

The Cleveland Foundation

Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash	\$ 14,630,431	\$ 13,454,889
Short-term investments	147,913,228	162,011,930
Investments	1,916,283,775	1,988,652,097
Other investments	17,930,801	16,568,386
Property and other assets	6,831,265	4,679,187
	<u>\$2,103,589,500</u>	<u>\$2,185,366,489</u>
<b>Liabilities and net assets</b>		
Accounts payable, accrued expenses, and payable for unsettled trades	\$ 13,903,605	\$ 17,503,107
Grants payable	27,812,798	27,031,211
Organizational funds and other obligations	106,148,806	105,295,041
Total liabilities	<u>147,865,209</u>	<u>149,829,359</u>
Net assets:		
Unrestricted:		
For grant-making purposes	4,275,237	4,222,174
Board-designated:		
Administrative purposes	13,910,433	12,614,081
Property	1,249,657	1,288,636
Total unrestricted	<u>19,435,327</u>	<u>18,124,891</u>
Temporarily restricted	842,782,400	850,524,734
Permanently restricted	1,093,506,564	1,166,887,505
	<u>1,955,724,291</u>	<u>2,035,537,130</u>
	<u>\$2,103,589,500</u>	<u>\$2,185,366,489</u>

*See accompanying notes.*

# The Cleveland Foundation

## Consolidated Statements of Activities

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains, and other support</b>				
Donor contributions	\$ 102,290	\$ 61,212,594	\$ 1,369,957	\$ 62,684,841
Dividend and interest income	30,173	36,829,578	-	36,859,751
Net realized and unrealized investment gains (losses)	9,609,417	13,861,241	(74,750,898)	(51,280,240)
Net assets released from restrictions	120,199,334	(120,199,334)	-	-
Other income	89,388	553,587	-	642,975
Total revenue, gains (losses), and other support	<b>130,030,602</b>	<b>(7,742,334)</b>	<b>(73,380,941)</b>	<b>48,907,327</b>
<b>Expenses</b>				
Grants expensed	106,643,918	-	-	106,643,918
Trustee bank and investment management fees	6,542,766	-	-	6,542,766
Other expenses	2,265,992	-	-	2,265,992
Administrative expenses:				
Program	6,583,407	-	-	6,583,407
Development	4,460,290	-	-	4,460,290
Fund management	2,223,793	-	-	2,223,793
Total administrative expenses	<b>13,267,490</b>	<b>-</b>	<b>-</b>	<b>13,267,490</b>
Total expenses	<b>128,720,166</b>	<b>-</b>	<b>-</b>	<b>128,720,166</b>
Increase (decrease) in net assets	1,310,436	(7,742,334)	(73,380,941)	(79,812,839)
Net assets at beginning of year	18,124,891	850,524,734	1,166,887,505	2,035,537,130
Net assets at end of year	<b>\$ 19,435,327</b>	<b>\$ 842,782,400</b>	<b>\$ 1,093,506,564</b>	<b>\$ 1,955,724,291</b>

See accompanying notes.

# The Cleveland Foundation

## Consolidated Statements of Activities

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains, and other support</b>				
Donor contributions	\$ 72,195	\$ 29,343,141	\$ 3,520,970	\$ 32,936,306
Dividend and interest income	42,263	35,327,063	–	35,369,326
Net realized and unrealized investment gains	7,025,615	60,939,512	15,797,116	83,762,243
Net assets released from restrictions	114,665,429	(114,665,429)	–	–
Other income	88,494	561,459	–	649,953
Total revenue, gains, and other support	121,893,996	11,505,746	19,318,086	152,717,828
<b>Expenses</b>				
Grants expensed	101,651,046	–	–	101,651,046
Trustee bank and investment management fees	6,368,114	–	–	6,368,114
Other expenses	685,321	–	–	685,321
Administrative expenses:				
Program	6,687,509	–	–	6,687,509
Development	4,437,175	–	–	4,437,175
Fund management	2,125,581	–	–	2,125,581
Total administrative expenses	13,250,265	–	–	13,250,265
Total expenses	121,954,746	–	–	121,954,746
(Decrease) increase in net assets	(60,750)	11,505,746	19,318,086	30,763,082
Net assets at beginning of year	18,185,641	839,018,988	1,147,569,419	2,004,774,048
Net assets at end of year	\$ 18,124,891	\$ 850,524,734	\$ 1,166,887,505	\$ 2,035,537,130

See accompanying notes.

# The Cleveland Foundation

## Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (79,812,839)	\$ 30,763,082
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	226,318	229,082
Net unrealized investment losses (gains)	90,506,727	(58,905,653)
Permanently restricted contributions	(1,369,957)	(3,520,970)
Increase in other assets	(2,191,057)	(509,264)
(Decrease) increase in accounts payable and accrued expenses	(4,251,644)	8,871,627
Increase in grants payable	781,587	3,774,224
Net cash provided by (used in) operating activities	<b>3,889,135</b>	<b>(19,297,872)</b>
<b>Investing activities</b>		
Purchases of property and equipment	(187,339)	(67,303)
Proceeds from sale or maturity of investments	1,154,783,476	457,983,699
Purchases of investments	(1,158,679,687)	(441,323,435)
Net cash (used in) provided by investing activities	<b>(4,083,550)</b>	<b>16,592,961</b>
<b>Financing activities</b>		
Permanently restricted contributions	1,369,957	3,520,970
Net cash provided by financing activities	<b>1,369,957</b>	<b>3,520,970</b>
Net increase in cash and cash equivalents	1,175,542	816,059
Cash at beginning of year	13,454,889	12,638,830
Cash at end of year	<b>\$ 14,630,431</b>	<b>\$ 13,454,889</b>

*See accompanying notes.*



# The Cleveland Foundation

## Notes to Consolidated Financial Statements

December 31, 2015

### **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 Davis Fund, The Higley Fund, The Billie Howland Steffee Family Fund, Medical Mutual of Ohio Charitable Foundation, Sullivan Scholars Foundation, The Thatcher Family Fund, and The Sherwick Fund, which was dissolved effective December 31, 2015. 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. Significant Accounting Policies**

#### **Accounting Pronouncements**

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU eliminates the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net

# The Cleveland Foundation

## Notes to Consolidated Financial Statements (continued)

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

asset value practical expedient. The Foundation has certain investment funds that are valued using net asset value per share as a practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015, and early adoption is permitted. The Foundation early adopted the provisions of ASU 2015-07 for the year ended December 31, 2015, and retrospectively adjusted all periods presented in the accompanying consolidated financial statements. As a result of the adoption, investment funds that are valued using net asset value as a practical expedient are no longer reported in the table measuring financial instruments at fair value on a recurring basis in Note 5, Fair Value Measurement. The adoption of ASU 2015-07 had no impact on previously reported statements of financial position, statements of activities, and statements of cash flows.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of 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 to use by the Board of Directors or other arrangements, to be cash and cash equivalents.

# The Cleveland Foundation

## Notes to Consolidated Financial Statements (continued)

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

#### **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.

#### **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 at each statement of financial position date. These amounts are reported in the consolidated statements of activities as net realized and unrealized investment gains and losses.

Investment income generated by permanently and temporarily restricted net assets (excluding net realized and unrealized investment gains and losses) is reported as temporarily restricted until the program restriction of the donor is met.

Net unrealized and realized investment gains and losses are reported as unrestricted, temporarily restricted, or permanently restricted based upon the absence or presence of a restriction of the underlying asset.

#### **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 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 \$101,946,973 and \$101,937,225 at December 31, 2015 and 2014, respectively, related to organizational funds in investments and an equal liability in organizational funds and other obligations in the consolidated statements of financial position.

The Foundation does not include the change in investments and the change in organizational funds in the consolidated statements of activities.

# The Cleveland Foundation

## Notes to Consolidated Financial Statements (continued)

### **3. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are assets that are restricted by donors or grantors for a specific time period or purpose, which include arts and culture, economic development, education, environment, health, human services, neighborhoods and housing, and philanthropic sector, or for the general support of The Foundation. Unrestricted net assets are assets that have no restrictions, or that arise from the general operations of The Foundation. Temporarily restricted gifts, grants, and bequests are recorded as an addition to temporarily restricted net assets in the period received. Assets restricted by donors or grantors for specific operating purposes are reported in unrestricted revenue, gains, and other support to the extent expended within the period. Permanently restricted net assets consist of amounts held in perpetuity and include stipulations by the donor or grantor that the amounts be invested to provide a permanent source of income to support, as described below, arts and culture, economic development, education, environment, health, human services, neighborhoods and housing, and philanthropic sector, or for the general support of The Foundation.

When a donor restriction expires, that is, when a stipulated time restriction ends or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give cash and other assets to The Foundation are reported on the consolidated statements of activities as temporarily restricted contributions at their net realizable value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date assets are received.

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

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

# The Cleveland Foundation

## Notes to Consolidated Financial Statements (continued)

### **3. Temporarily and Permanently Restricted Net Assets (continued)**

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 donor-imposed restrictions. The Foundation believes that these endowment funds are not subject to the Uniform Prudent Management of Institutional Funds Act adopted by the state of Ohio in 2009.

#### **Return Objectives**

The endowment funds are actively managed by five trustee banks in collaboration with the Board of 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 on a quarterly basis. The investment policies of The Foundation describe the type of investments that may be employed to achieve the total return objectives identified in the policies.

The 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.

#### **Investment Strategy**

To achieve the long-term return objective, The Foundation implements an investment strategy that is diversified among equities, fixed income, and alternative investments. The Foundation is diversified not only in terms of asset class, but also by employing a broad number of investment managers that provide diversity in investment styles and portfolio construction. By using this portfolio theory, The Foundation is attempting to mitigate risk factors while still taking advantage of return objectives presented within various market cycles.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 3. Temporarily and Permanently Restricted Net Assets (continued)

##### 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 approves the rate annually within a range of 4.5% to 5.5% and approved 5.0% for 2015 and 5.0% (5.5% for temporarily and permanently restricted funds with an unrestricted purpose) for 2014.

Changes in endowment net assets are as follows:

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	\$ 341,043,329	\$ 1,166,887,505	\$ 1,507,930,834
Investment return:			
Investment income	22,730,862	–	22,730,862
Net appreciation (realized and unrealized)	31,059,394	(74,750,898)	(43,691,504)
Total investment return	53,790,256	(74,750,898)	(20,960,642)
Contributions	287,860	1,369,957	1,657,817
Released from restriction	(79,362,891)	–	(79,362,891)
Endowment net assets, December 31, 2015	\$ 315,758,554	\$ 1,093,506,564	\$ 1,409,265,118

The Cleveland Foundation

Notes to Consolidated Financial Statements (continued)

**3. Temporarily and Permanently Restricted Net Assets (continued)**

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2014	\$ 335,312,744	\$ 1,147,569,419	\$ 1,482,882,163
Investment return:			
Investment income	25,890,142	–	25,890,142
Net appreciation (realized and unrealized)	44,724,700	15,797,116	60,521,816
Total investment return	70,614,842	15,797,116	86,411,958
Contributions	319,445	3,520,970	3,840,415
Released from restriction	(65,203,702)	–	(65,203,702)
Endowment net assets, December 31, 2014	<u>\$ 341,043,329</u>	<u>\$ 1,166,887,505</u>	<u>\$ 1,507,930,834</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the entity to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2015 and 2014.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments

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

	December 31			
	2015		2014	
Short-term investments (primarily money market funds):	<b>\$ 147,913,228</b>	<b>\$ 147,913,228</b>	<b>\$ 162,011,930</b>	<b>\$ 162,011,930</b>
U.S. government obligations:				
U.S. treasuries	<b>31,720,576</b>		33,970,751	
U.S. government agencies and asset-backed	<b>32,634,254</b>	<b>64,354,830</b>	34,688,854	68,659,605
Bonds:				
Corporate	<b>40,861,118</b>		46,793,414	
Corporate asset-backed and other	<b>7,963,296</b>	<b>48,824,414</b>	6,263,258	53,056,672
Common and preferred stocks:				
Domestic	<b>193,239,488</b>		220,226,715	
International	<b>33,918,848</b>	<b>227,158,336</b>	32,829,435	253,056,150
Common trust funds:				
Domestic and other equity	<b>123,466,936</b>		129,627,648	
International equity	<b>257,066,241</b>		259,921,538	
Fixed income	<b>13,944,241</b>	<b>394,477,418</b>	15,761,693	405,310,879
Mutual and exchange-traded funds:				
Domestic equity and other	<b>269,694,594</b>		352,051,687	
International equity	<b>109,524,739</b>		121,162,056	
Fixed income	<b>88,479,098</b>	<b>467,698,431</b>	98,345,131	571,558,874
Alternative investments:				
Absolute return	<b>234,802,640</b>		218,720,866	
Hedged equity	<b>231,339,909</b>		205,190,399	
Private equity	<b>156,049,656</b>		163,776,882	
Real assets	<b>22,349,394</b>		30,377,542	
Other	<b>18,013,284</b>	<b>662,554,883</b>	18,944,228	637,009,917
Pending purchases of alternative investments	<b>51,215,463</b>	<b>51,215,463</b>	—	—
Total investments	<b><u>\$ 2,064,197,003</u></b>		<b><u>\$ 2,150,664,027</u></b>	

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, buyout, 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, 2015, The Foundation has outstanding capital contribution commitments with several alternative investment funds of approximately \$52,859,000.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments (continued)

At December 31, 2015, The Foundation's alternative investments are subject to various withdrawal restrictions as follows:

Available for redemption:	
Monthly	\$ 213,865,749
Quarterly	97,417,587
Annually	133,507,942
Subtotal	<u>444,791,278</u>
 Subject to distribution	 185,597,871
 Subject to lock-up provisions:	
One to three years	32,165,734
Total alternative investments	<u>\$ 662,554,883</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 in 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, 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.

Accounting Standards Codification (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 non-registered money market funds and common trust funds are valued at net asset value as a practical expedient. Fair value for Level 2 American Depositary Receipts (ADRs) of foreign common and preferred stocks are 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 in the consolidated statements of financial position as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments	\$ 147,913,228	\$ 162,011,930
Investments	1,916,283,775	1,988,652,097
Total	<u>\$ 2,064,197,003</u>	<u>\$ 2,150,664,027</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, 2015		
	Total	Level 1	Level 2
Short-term investments (primarily money market funds)	\$ 147,913,228	\$ 76,966,885	\$ —
U.S. government obligations	64,354,830	—	64,354,830
Bonds	48,824,414	—	48,824,414
Common and preferred stocks	227,158,336	213,371,465	13,786,871
Common trust funds*	394,477,418	—	—
Mutual and exchange-traded funds	467,698,431	467,698,431	—
Alternative investments*:			
Absolute return	234,802,640	—	—
Hedged equity	231,339,909	—	—
Private equity	156,049,656	—	—
Real assets	22,349,394	—	—
Other	18,013,284	—	18,013,284
Pending purchases of alternative investments	51,215,463	—	—
<b>Total</b>	<b>\$ 2,064,197,003</b>	<b>\$ 758,036,781</b>	<b>\$ 144,979,399</b>

  

	December 31, 2014		
	Total	Level 1	Level 2
Short-term investments (primarily money market funds)	\$ 162,011,930	\$ 76,494,835	\$ —
U.S. government obligations	68,659,605	—	68,659,605
Bonds	53,056,672	—	53,056,672
Common and preferred stocks	253,056,150	237,934,346	15,121,804
Common trust funds*	405,310,879	—	—
Mutual and exchange-traded funds	571,558,874	571,558,874	—
Alternative investments*:			
Absolute return	218,720,866	—	—
Hedged equity	205,190,399	—	—
Private equity	163,776,882	—	—
Real assets	30,377,542	—	—
Other	18,944,228	—	18,944,228
<b>Total</b>	<b>\$ 2,150,664,027</b>	<b>\$ 885,988,055</b>	<b>\$ 155,782,309</b>

\* In accordance with 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 in 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. 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 \$10,607,636 and \$11,075,694 in 2015 and 2014, respectively, and this income is recorded within temporarily restricted dividend and interest income within the consolidated statements of activities. This represented approximately 99% of the income from partial benefit funds in 2015 and 2014. At December 31, 2015 and 2014, the fair value of partial benefit funds included in investments on the consolidated statements of financial position was \$231,118,484 and \$242,796,094, respectively.

### 7. 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 in the consolidated statements of financial position. Total contributions received are as follows:

	<u>2015</u>	<u>2014</u>
Donor contributions	\$ <b>62,684,841</b>	\$ 32,936,306
Organizational funds	<b>5,886,812</b>	10,095,391
	<u><b>\$ 68,571,653</b></u>	<u>\$ 43,031,697</u>

Donor contributions include approximately \$653,500 and \$2,119,700 in 2015 and 2014, respectively, received from other foundations and not-for-profits to jointly fund certain grants.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 8. Grants and Distributions

The Board of Directors authorized grants of \$95,019,320 and \$98,198,142 in 2015 and 2014, respectively, and program-related investments of \$2,650,000 and \$1,550,000 in 2015 and 2014, respectively. In addition, distributions from organizational funds of \$5,337,628 and \$4,103,835 were made in 2015 and 2014, respectively, and are not included in grants expensed in the consolidated statements of activities.

Unconditional grants are expensed upon approval by the Board of Directors. Conditional grants, which are approved by the Board of Directors 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:

	<u>2015</u>	<u>2014</u>
Grants payable at beginning of year	\$ 27,031,211	\$ 23,256,987
Unconditional grants expensed	106,643,918	101,651,046
Payments made	(105,862,331)	(97,876,822)
Grants payable at end of year	<u>\$ 27,812,798</u>	<u>\$ 27,031,211</u>

Grants payable at December 31, 2015, are scheduled to be disbursed as follows: 2016 – \$21,040,867, 2017 – \$5,186,176, and 2018 and thereafter – \$1,585,755. At December 31, 2015 and 2014, total authorized conditional grants were \$5,871,407 and \$18,007,418, respectively. These grants will be expensed when the conditions underlying the grant are met.

## The Cleveland Foundation

### Notes to Consolidated Financial Statements (continued)

#### 9. Affiliated Supporting Organizations

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

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
The City of Cleveland's Cable Television		
Minority Arts and Education Fund	<b>\$ 4,194,926</b>	\$ 4,363,180
The Davis Fund	<b>2,189,742</b>	2,345,695
The Higley Fund	<b>33,597,535</b>	12,235,081
The Sherwick Fund	–	24,762,777
The Billie Howland Steffee Family Fund	<b>6,005,831</b>	6,368,735
Medical Mutual of Ohio Charitable Foundation	<b>2,058,634</b>	2,112,417
Sullivan Scholars Foundation	<b>3,653,528</b>	3,970,645
The Thatcher Family Fund	<b>5,688,565</b>	5,377,129
	<b>\$ 57,388,761</b>	\$ 61,535,659

As discussed in Note 1, The Sherwick Fund was dissolved effective December 31, 2015, and the assets of The Sherwick Fund were transferred to an endowment fund.

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, 2015 and 2014, were \$16,094,249 and \$17,290,088, respectively.

#### 10. Other Investments

Other investments of \$17,930,801 and \$16,568,386 in 2015 and 2014, 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 2016 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.



# The Cleveland Foundation

## Notes to Consolidated Financial Statements (continued)

### 11. Administrative Expenses

Administrative expenses include the following:

	<u>2015</u>	<u>2014</u>
Staff expense, including salaries, benefits, and other	\$ 9,189,985	\$ 9,151,354
Office expense, including rent, systems, and supplies	2,380,466	2,280,063
Other expense	1,697,039	1,818,848
	<u>\$ 13,267,490</u>	<u>\$ 13,250,265</u>

### 12. Operating Lease

The Foundation leases office space under a primary operating lease agreement, which expires in 2020. Rental expense was \$929,113 and \$932,395 in 2015 and 2014, respectively. Future minimum rental commitments under the non-cancelable primary operating lease at December 31, 2015, are \$864,000 in 2016, \$912,000 in 2017, \$912,000 in 2018, \$912,000 in 2019, and \$608,000 in 2020.

### 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 \$648,933 and \$618,495 in 2015 and 2014, respectively. All contributions under the plan are fully vested at the time the contributions are made.

### 14. 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 September 29, 2016; 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 accompanying consolidated financial statements.

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