

AMERICAN ENDOWMENT FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2015 and 2014

AMERICAN ENDOWMENT FOUNDATION

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Independent Auditors' Report

To the Board of Directors
American Endowment Foundation
Hudson, Ohio

We have audited the accompanying financial statements of American Endowment Foundation (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note 1, the Foundation's financial statements do not disclose information pertinent to the Foundation's investments including the fair value levels, classification by investment type, purchases and proceeds from sales. Due to the large volume of disaggregated data, management believes it is not cost-beneficial to gather and to disclose this information including the fair value by investment type, categorization of the level in the fair value hierarchy, valuation techniques, inputs used, and a reconciliation of activity for certain investments. Accounting principles generally accepted in the United States of America require these disclosures.

Qualified Opinion

In our opinion, except for the omission of the information discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of American Endowment Foundation as of December 31, 2015 and 2014, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses on pages 11-12 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Meloney + Novotny LLC

Canton, Ohio
August 15, 2016

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 36,402,805	\$ 23,015,070
Investments	992,008,511	716,085,018
Estate receivable	9,900,000	8,900,000
Equipment, net of accumulated depreciation of \$40,025 and \$34,928 at December 31, 2015 and 2014, respectively	<u>8,577</u>	<u>13,674</u>
TOTAL ASSETS	<u>\$ 1,038,319,893</u>	<u>\$ 748,013,762</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Grants payable	\$ 216,147	\$ 67,258
Vendor fees payable	1,669,728	826,740
Refundable deposits	3,206,773	527,947
Deferred compensation plans	<u>62,558</u>	<u>53,777</u>
Total liabilities	5,155,206	1,475,722
NET ASSETS		
Unrestricted	<u>1,033,164,687</u>	<u>746,538,040</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,038,319,893</u>	<u>\$ 748,013,762</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES AND SUPPORT		
Direct public support	\$ 621,612,152	\$ 402,040,733
Interest and dividend income	18,957,148	16,674,550
Realized and unrealized (loss) gain on investments, net of investment fees of \$3,475,091 and \$2,580,130 in 2015 and 2014, respectively	<u>(51,957,118)</u>	<u>14,930,212</u>
	588,612,182	433,645,495
EXPENSES		
Program services	298,182,937	145,488,990
Management and general	2,199,460	1,194,994
Fundraising	<u>1,607,316</u>	<u>1,071,996</u>
	<u>301,989,713</u>	<u>147,755,980</u>
INCREASE IN NET ASSETS BEFORE PROVISION FOR UNRELATED BUSINESS INCOME TAX	286,622,469	285,889,515
PROVISION FOR UNRELATED BUSINESS INCOME TAX		
Unrelated business income tax (credit) expense	<u>(4,178)</u>	<u>44</u>
INCREASE IN NET ASSETS	286,626,647	285,889,471
NET ASSETS, BEGINNING OF YEAR	<u>746,538,040</u>	<u>460,648,569</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,033,164,687</u></u>	<u><u>\$ 746,538,040</u></u>

The accompanying notes are an integral part of these financial statements.

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 286,626,647	\$ 285,889,471
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized and unrealized loss (gain) on investments	48,482,027	(17,510,342)
Non-cash contributions of investments	(208,178,668)	(236,319,758)
Depreciation expense	5,097	5,301
Decrease (increase) in:		
Estate receivable	(1,000,000)	200,000
Increase (decrease) in:		
Grants payable	148,889	64,106
Vendor fees payable	842,988	576,238
Refundable deposits	2,678,826	27,947
Deferred compensation plans	8,781	(133,826)
Net cash provided by operating activities	<u>129,614,587</u>	<u>32,799,137</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	<u>(116,226,852)</u>	<u>(20,871,171)</u>
Net cash (used) by investing activities	<u>(116,226,852)</u>	<u>(20,871,171)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,387,735	11,927,966
CASH AND CASH EQUIVALENTS, beginning of year	<u>23,015,070</u>	<u>11,087,104</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 36,402,805</u>	<u>\$ 23,015,070</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Organization and Summary of Significant Accounting Policies

- A. Nature of operations – American Endowment Foundation ("the Foundation") is a national not-for-profit organization that sponsors and administers donor advised funds for the benefit of public charitable and educational uses and purposes. The Foundation seeks to expand philanthropy in America. The Foundation receives donations from individuals, firms, associations, trusts, foundations and/or any other organization in the form of gifts or bequests, cash, securities and other property for the benefit of the Foundation's purposes. Donors make recommendations for gift to various other charities. The Foundation may make donations to recommended charities or other charities following a verification and approval process.

The Foundation also receives donations from individuals and firms through a workplace giving program whereby individuals contribute personal gifts with possible company matching gifts. The donor may make recommendations for gifts to various other charities. The Foundation may make donations to any recommended charities or other charities following a verification and approval process.

- B. Basis of presentation – Accounting standards provide that not-for-profit organizations, including foundations, should classify net assets into categories based on the existence or absence of donor-imposed restrictions. These categories are defined as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. Use of unrestricted net assets may be board designated for specific purposes. Included in unrestricted net assets are donor-advised funds. Although grant recommendations are accepted from donors or other advisors of these funds, the Foundation has variance power; that is, the ultimate discretion of the use of these funds lies with the Board of Directors. Thus, such funds represent unrestricted net assets to the Foundation.

Temporarily-restricted net assets – Net assets whose use is limited by donor-imposed stipulations that can be fulfilled or removed by action of the Foundation and/or the passage of time. There were no temporarily restricted net assets at December 31, 2015 and 2014.

Permanently-restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently. There were no permanently restricted net assets at December 31, 2015 and 2014.

- C. Concentrations – Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments in fixed income instruments and equity securities. The Foundation places its cash investments with various financial institutions. The cash investments are insured by the Federal Deposit Insurance Corporation up to \$250,000. During the years ended December 31, 2015 and 2014, the Foundation had invested amounts in excess of federal insurance limits. The Foundation invests in a wide variety of fixed income instruments and equity securities thereby diminishing any possible concentrations.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Organization and Summary of Significant Accounting Policies (continued)

- D. Cash and cash equivalents – The Foundation considers all highly liquid investments with a maturity of three months or less when purchased and U.S. T-bills in the liquidity account to be cash equivalents. It is the Foundation's policy to include with the investment balance all money market funds maintained in its investment portfolio.
- E. Estate receivable – The estate receivable at December 31, 2014 was collected during 2015. The estate receivable at December 31, 2015 is for a beneficial interest in a remainder trust that has not yet been funded. The Foundation is the irrevocable remainder beneficiary of one charitable remainder trust fund which will be held by a third-party trustee during the lifetime of the income beneficiary.
- F. Equipment – Equipment is stated at cost, net of accumulated depreciation. It is the Board of Directors' policy to capitalize expenditures for equipment in excess of \$5,000. Depreciation is computed using the straight-line method based on the estimated useful lives of the equipment.
- G. Grants payable – Grants payable are generally expected to be paid within twelve months. Grants are expensed at the time of approval.
- H. Direct public support – Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions of investments are reported at fair value on the date received. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Support that is restricted by the donor is reported as unrestricted support if the time or purpose restriction is met in the same reporting period the support is recognized.
- I. Investment income – Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in unrestricted revenue because no income has been restricted by a donor.
- J. Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited.
- K. Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Organization and Summary of Significant Accounting Policies (continued)

K. Use of estimates (continued)

Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

L. Income taxes – The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation may receive income from operating entities in which it has an ownership interest. This income is subject to income tax on unrelated business income. For the years ended December 31, 2015 and 2014, the provision (credit) for unrelated business income tax was (\$4,178) and \$44, respectively. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

As of December 31, 2015, the Foundation's tax years from 2012 and thereafter remain subject to examination by the Internal Revenue Service, as well as applicable state taxing authorities.

M. Subsequent events – The Foundation has evaluated subsequent events through August 15, 2016, which is the date the financial statements were available to be issued.

N. Reclassification – Certain information previously presented has been reclassified to conform to the current presentation.

Note 1. Investments

The Foundation's financial statements do not disclose information pertinent to the Foundation's investments including the fair value levels, classification by investment type, purchases and proceeds from sales. Management believes that the large volume of disaggregated data reported by fund managers creates a substantial burden in disclosing the following information in a meaningful way as of a common date – i.e. the fair value by investment type, categorization of the level in the fair value hierarchy, valuation techniques, inputs used, and a reconciliation of the activity for certain investments. Accounting principles generally accepted in the United States of America require these disclosures.

The Foundation invests primarily in assets that are traded in active markets such as mutual funds, equities, bonds and exchange-traded funds. Consistent with prior years, publicly-traded assets exceed 90% of the Foundation's total investments. The Foundation estimates the fair value of these financial instruments using available market information and other generally accepted valuation methodologies. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Investments (continued)

The Foundation also invests in assets that are not traded in active markets, such as real estate investment trusts, notes receivable, partnerships and other assets. These assets are reported based on the value of underlying assets, remaining principal balance or appraised value as provided to the Foundation. Accordingly, the Foundation does not use separate quantitative information to value such investments.

The Foundation carries its other investments, which typically do not have readily determinable market values, at the lower of adjusted fair value at the date of donation or current fair value if it has been determined that the investment is permanently impaired. Fair value at the date of donation is generally based on an appraisal of the interest at the time of donation and is adjusted annually for grants made, additional capital contributions, and the Foundation's proportion of income earned during the year. As of December 31, 2015 and 2014, investments with no readily determinable market value amounted to \$10,554,680 and \$5,721,697, respectively.

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

Investment income consisted of the following for the years ended December 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Investments with a readily determinable market value:		
Interest and dividend income	\$ 18,882,408	\$ 16,573,665
Realized/unrealized (losses) gains	(48,424,484)	<u>18,565,416</u>
	(29,542,076)	35,139,081
Less: investment management fees	<u>(3,475,091)</u>	<u>(2,580,130)</u>
Net (loss) gain from investments with a readily determinable market value	(33,017,167)	32,558,951
Investments with no readily determinable market value:		
Interest and dividend income	74,740	100,885
Realized/unrealized (losses)	<u>(57,543)</u>	<u>(1,055,074)</u>
Net gain (loss) from investments with No readily determinable market value	<u>17,197</u>	<u>(954,189)</u>
Total	\$ <u>(32,999,970)</u>	\$ <u>31,604,762</u>

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Line of Credit

The Foundation had a line of credit with Morgan Bank, N.A. with a borrowing limit of \$200,000. At December 31, 2014, there were no outstanding borrowings on the line of credit. The line of credit was closed in November 2015.

Note 3. Deferred Compensation Plans

The Foundation sponsors unfunded deferred compensation plans for certain key employees that provide for the deferral of any unpaid salary and incentive compensation as outlined in the respective agreements. The ultimate amount of incentive compensation to be accrued is at the discretion of the Board of Directors. During 2004, the Board elected to suspend additions to the deferred compensation plan. During 2014, one of the plans became fully vested, and the plan benefit of approximately \$150,000 was disbursed to the employee.

Note 4. Operating Leases

The Foundation leases office space and various equipment under operating leases. Total rent expense under these operating leases was \$87,807 and \$67,826 for the years ended December 31, 2015 and 2014, respectively. Future minimum lease payments on lease commitments with original terms of one year or more as of December 31, 2015 are as follows:

2016	\$ 88,099
2017	10,698
2018	2,309

Note 5. Retirement Plan

Effective January 1, 2007, the Foundation adopted a 401(k) plan for its employees. The Foundation makes a 3% safe harbor non-elective contribution of each participant's eligible wages to the plan. Amounts included in employee benefits expense totaled \$55,191 and \$35,255 for the years ended December 31, 2015 and 2014, respectively.

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2015 and 2014

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- raising</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
Grant expenditures	\$ 294,600,121	\$ -	\$ -	\$ 294,600,121
Salaries and benefits	717,606	717,607	717,606	2,152,819
Vendor fees	1,750,127	887,064	105,788	2,742,979
Development	40,471	43,843	252,943	337,257
Employee benefits	123,206	123,205	123,206	369,617
Miscellaneous	11,451	11,450	11,451	34,352
Life insurance	543,633	-	-	543,633
Computer systems	89,419	89,420	89,419	268,258
Payroll taxes and fees	47,079	47,079	47,079	141,237
Occupancy	27,928	27,929	27,928	83,785
Professional fees	42,346	42,345	42,346	127,037
Staff development	11,445	11,444	11,445	34,334
Telephone	11,182	11,183	11,182	33,547
Office supplies and expense	20,239	20,238	20,239	60,716
Insurance	-	14,872	-	14,872
Supplies and postage	8,136	8,137	8,136	24,409
Outside services	2,438	2,438	2,438	7,314
Depreciation	-	5,097	-	5,097
Service charges	136,110	136,109	136,110	408,329
Investment management fees	3,475,091	-	-	3,475,091
Total expenses	<u>301,658,028</u>	<u>2,199,460</u>	<u>1,607,316</u>	<u>305,464,804</u>
Less expenses included with revenues on the statements of activities	<u>(3,475,091)</u>	<u>-</u>	<u>-</u>	<u>(3,475,091)</u>
Total expenses included in the expense section on the statements of activities	<u>\$ 298,182,937</u>	<u>\$ 2,199,460</u>	<u>\$ 1,607,316</u>	<u>\$ 301,989,713</u>

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2015 and 2014

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- raising</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
Grant expenditures	\$ 143,844,804	\$ -	\$ -	\$ 143,844,804
Salaries and benefits	412,695	412,696	412,695	1,238,086
Vendor fees	810,205	405,103	118,261	1,333,569
Development	34,308	37,166	214,423	285,897
Employee benefits	89,334	89,333	89,334	268,001
Miscellaneous	11,718	11,719	11,718	35,155
Life insurance	60,361	-	-	60,361
Computer systems	76,700	76,699	76,700	230,099
Payroll taxes and fees	29,825	29,826	29,825	89,476
Occupancy	20,260	20,259	20,260	60,779
Professional fees	27,350	27,351	27,350	82,051
Staff development	6,884	6,885	6,884	20,653
Telephone	7,678	7,677	7,678	23,033
Office supplies and expense	15,138	15,139	15,138	45,415
Insurance	-	8,110	-	8,110
Supplies and postage	10,352	10,351	10,352	31,055
Outside services	2,118	2,118	2,118	6,354
Depreciation	-	5,301	-	5,301
Service charges	29,260	29,261	29,260	87,781
Investment management fees	2,580,130	-	-	2,580,130
Total expenses	<u>148,069,120</u>	<u>1,194,994</u>	<u>1,071,996</u>	<u>150,336,110</u>
Less expenses included with revenues on the statements of activities	<u>(2,580,130)</u>	<u>-</u>	<u>-</u>	<u>(2,580,130)</u>
Total expenses included in the expense section on the statements of activities	<u>\$ 145,488,990</u>	<u>\$ 1,194,994</u>	<u>\$ 1,071,996</u>	<u>\$ 147,755,980</u>