

**Evanston Community
Foundation**

**Financial Statements
and
Independent Auditor's Report
For the Years Ended
December 31, 2012 and 2011**

Wolf & Company LLP
Certified Public Accountants

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-19

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Evanston Community Foundation
Evanston, Illinois

We have audited the accompanying financial statements of EVANSTON COMMUNITY FOUNDATION (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses 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.

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 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 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 financial position of Evanston Community Foundation as of December 31, 2012 and 2011, 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.

Wolf & Company LLP

Oakbrook Terrace, Illinois
August 13, 2013

EVANSTON COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,061,421	\$ 1,311,944
Accounts receivable		
Pledges receivable	32,842	25,951
Contributions receivable	-	28,071
Investment income receivable	8,692	8,686
Other receivables	13,967	22,077
Investments, at fair value	15,952,053	13,728,385
Prepaid expenses	6,879	9,087
Other assets	4,381	4,381
Office furniture and equipment, net	57,986	20,552
Total assets	<u>\$ 17,138,221</u>	<u>\$ 15,159,134</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 64,764	\$ 52,578
Deferred revenue	17,493	15,120
Grants payable	34,595	26,275
Charitable gift annuities payable	18,391	20,391
Funds held as agency endowments	2,236,893	1,698,566
Total liabilities	<u>2,372,136</u>	<u>1,812,930</u>
NET ASSETS		
Unrestricted	5,941,046	5,147,130
Temporarily restricted	8,795,847	8,169,882
Permanently restricted	29,192	29,192
Total net assets	<u>14,766,085</u>	<u>13,346,204</u>
Total liabilities and net assets	<u>\$ 17,138,221</u>	<u>\$ 15,159,134</u>

See accompanying notes to the financial statements.

EVANSTON COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES

	For the Year Ended December 31, 2012				For the Year Ended December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Support revenue								
Board-designated endowment and field of interest contributions	\$ 142,690	\$ 55,113	\$ -	\$ 197,803	\$ 174,463	\$ 1,148,735	\$ -	\$ 1,323,198
Operating contributions	675,734	23,887	-	699,621	591,106	25,468	-	616,574
Other fund contributions	349,855	803,522	-	1,153,377	172,794	654,766	-	827,560
	<u>1,168,279</u>	<u>882,522</u>	<u>-</u>	<u>2,050,801</u>	<u>938,363</u>	<u>1,828,969</u>	<u>-</u>	<u>2,767,332</u>
Program revenue								
Tuition and fees plus event revenue - net	<u>98,073</u>	<u>-</u>	<u>-</u>	<u>98,073</u>	<u>79,818</u>	<u>-</u>	<u>-</u>	<u>79,818</u>
Investment income (loss)								
Interest and dividends	249,758	280,092	-	529,850	212,564	246,740	-	459,304
Realized gains (losses) on investments, net	(23,553)	(26,678)	-	(50,231)	(59,138)	(65,511)	-	(124,649)
Unrealized gains (losses) on investments, net	731,298	592,706	-	1,324,004	(81,821)	(290,434)	-	(372,255)
Funds held as agency endowments	<u>(199,513)</u>	<u>-</u>	<u>-</u>	<u>(199,513)</u>	<u>23,260</u>	<u>-</u>	<u>-</u>	<u>23,260</u>
	<u>757,990</u>	<u>846,120</u>	<u>-</u>	<u>1,604,110</u>	<u>94,865</u>	<u>(109,205)</u>	<u>-</u>	<u>(14,340)</u>
Net assets released from restrictions	<u>1,102,677</u>	<u>(1,102,677)</u>	<u>-</u>	<u>-</u>	<u>879,894</u>	<u>(879,894)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,127,019</u>	<u>625,965</u>	<u>-</u>	<u>3,752,984</u>	<u>1,992,940</u>	<u>839,870</u>	<u>-</u>	<u>2,832,810</u>
EXPENSES								
Program services	<u>2,056,050</u>	<u>-</u>	<u>-</u>	<u>2,056,050</u>	<u>1,816,842</u>	<u>-</u>	<u>-</u>	<u>1,816,842</u>
Supporting services								
Management and general	149,406	-	-	149,406	174,114	-	-	174,114
Fund raising	<u>127,647</u>	<u>-</u>	<u>-</u>	<u>127,647</u>	<u>121,581</u>	<u>-</u>	<u>-</u>	<u>121,581</u>
	<u>277,053</u>	<u>-</u>	<u>-</u>	<u>277,053</u>	<u>295,695</u>	<u>-</u>	<u>-</u>	<u>295,695</u>
Total expenses	<u>2,333,103</u>	<u>-</u>	<u>-</u>	<u>2,333,103</u>	<u>2,112,537</u>	<u>-</u>	<u>-</u>	<u>2,112,537</u>
INCREASE (DECREASE) IN NET ASSETS	793,916	625,965	-	1,419,881	(119,597)	839,870	-	720,273
Net assets, beginning of year	<u>5,147,130</u>	<u>8,169,882</u>	<u>29,192</u>	<u>13,346,204</u>	<u>5,266,727</u>	<u>7,330,012</u>	<u>29,192</u>	<u>12,625,931</u>
NET ASSETS, END OF YEAR	<u>\$ 5,941,046</u>	<u>\$ 8,795,847</u>	<u>\$ 29,192</u>	<u>\$14,766,085</u>	<u>\$ 5,147,130</u>	<u>\$ 8,169,882</u>	<u>\$ 29,192</u>	<u>\$13,346,204</u>

See accompanying notes to the financial statements.

EVANSTON COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

		Supporting Services			
	Program Services	Management and General	Fund Raising	Total	Total
Personnel					
Salaries	\$ 327,067	\$ 67,423	\$ 56,272	\$ 123,695	\$ 450,762
Payroll taxes and benefits	90,129	23,682	16,027	39,709	129,838
Staff and board expenses	<u>5,370</u>	<u>2,137</u>	<u>1,657</u>	<u>3,794</u>	<u>9,164</u>
Total personnel	422,566	93,242	73,956	167,198	589,764
Annual report and newsletters	34,034	-	7,296	7,296	41,330
Class and meeting expense	19,886	-	-	-	19,886
Communications	12,572	2,049	25,008	27,057	39,629
Dues and subscriptions	3,182	2,735	582	3,317	6,499
Office supplies and expense	6,981	13,790	3,921	17,711	24,692
Postage	410	4,547	9,998	14,545	14,955
Printing	2,604	3,943	-	3,943	6,547
Professional fees	112,695	19,468	1,177	20,645	133,340
Occupancy expenses	32,377	5,836	5,709	11,545	43,922
Depreciation	<u>3,795</u>	<u>3,796</u>	<u>-</u>	<u>3,796</u>	<u>7,591</u>
Total operating expenses	<u>651,102</u>	<u>149,406</u>	<u>127,647</u>	<u>277,053</u>	<u>928,155</u>
Donor advised grants	145,436	-	-	-	145,436
Foundation grants awarded	577,449	-	-	-	577,449
Fiscal sponsorship grants and expenses	<u>682,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>682,063</u>
Total grants and related expenses	<u>1,404,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,404,948</u>
Total functional expenses	<u>\$ 2,056,050</u>	<u>\$ 149,406</u>	<u>\$ 127,647</u>	<u>\$ 277,053</u>	<u>\$ 2,333,103</u>

See accompanying notes to the financial statements.

EVANSTON COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

		Supporting Services			
	Program Services	Management and General	Fund Raising	Supporting Services Total	Total
Personnel					
Salaries	\$ 309,229	\$ 76,829	\$ 50,632	\$ 127,461	\$ 436,690
Payroll taxes and benefits	90,545	26,081	14,321	40,402	130,947
Staff and board expenses	<u>5,307</u>	<u>1,876</u>	<u>1,402</u>	<u>3,278</u>	<u>8,585</u>
Total personnel	405,081	104,786	66,355	171,141	576,222
Annual report and newsletters	39,285	-	8,256	8,256	47,541
Class and meeting expense	15,918	-	-	-	15,918
Communications	5,203	1,876	25,489	27,365	32,568
Dues and subscriptions	2,041	2,044	117	2,161	4,202
Investment expenses	3,379	-	-	-	3,379
Office supplies and expense	5,610	12,946	3,012	15,958	21,568
Postage	905	5,624	11,938	17,562	18,467
Printing	7,880	9,501	968	10,469	18,349
Professional fees	54,255	27,796	1,423	29,219	83,474
Occupancy expenses	45,794	5,542	4,023	9,565	55,359
Depreciation	<u>4,000</u>	<u>3,999</u>	<u>-</u>	<u>3,999</u>	<u>7,999</u>
Total operating expenses	<u>589,351</u>	<u>174,114</u>	<u>121,581</u>	<u>295,695</u>	<u>885,046</u>
Donor advised grants	195,736	-	-	-	195,736
Foundation grants awarded	452,191	-	-	-	452,191
Fiscal sponsorship grants and expenses	<u>579,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>579,564</u>
Total grants and related expenses	<u>1,227,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,227,491</u>
Total functional expenses	<u>\$ 1,816,842</u>	<u>\$ 174,114</u>	<u>\$ 121,581</u>	<u>\$ 295,695</u>	<u>\$ 2,112,537</u>

See accompanying notes to the financial statements.

EVANSTON COMMUNITY FOUNDATION
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,419,881	\$ 720,273
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net investment (gains) losses	(1,273,773)	496,904
Depreciation	7,591	7,999
Stock gifts donated to investment account	(326,782)	(160,626)
(Increase) decrease in:		
Pledges receivable	(6,891)	113,249
Contributions receivable	28,071	(19,038)
Investment income receivable	(6)	12,523
Other receivables	8,110	(13,343)
Prepaid expenses and other	2,208	(5,166)
Increase (decrease) in:		
Accounts payable and accrued expenses	12,186	(3,272)
Deferred revenue	2,373	1,050
Grants payable	8,320	940
Agency funds	538,327	235,419
Charitable gift annuities payable	(2,000)	(2,000)
Net cash provided by operating activities	<u>417,615</u>	<u>1,384,912</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(45,025)	(18,110)
Sale of investments	1,032,473	794,677
Purchase of investments	<u>(1,655,586)</u>	<u>(1,952,193)</u>
Net cash used in investing activities	<u>(668,138)</u>	<u>(1,175,626)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(250,523)	209,286
Cash and cash equivalents		
Beginning of year	<u>1,311,944</u>	<u>1,102,658</u>
End of year	<u><u>\$ 1,061,421</u></u>	<u><u>\$ 1,311,944</u></u>

See accompanying notes to the financial statements.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION ACTIVITIES

Evanston Community Foundation, Inc. (the “Foundation”) is an Illinois not-for-profit organization. The Foundation’s mission is to help Evanston thrive now and forever as a vibrant, inclusive and just community by building, connecting and distributing resources and knowledge through local organizations for the public good.

The Foundation –

- Builds endowments for current and future opportunities
- Fosters private philanthropy
- Focuses the impact of collective giving
- Allocates grants
- Provides community leadership training

The Foundation strengthens the community’s nonprofit organizations and serves its donors through innovative grantmaking and partnerships with other philanthropic organizations and individuals. The Foundation evaluates the effectiveness of its grantmaking through periodic interactions with grantees.

Communityworks is currently the Foundation’s most prominent strategic initiative. The Communityworks impact plan, “Every Child Ready for Kindergarten, Every Youth Ready for Work” was approved by the Board in 2006 and launched in 2007. More than \$200,000 in grants and program services were provided through this initiative in each of 2012 and 2011.

In 2011, the Foundation approved twenty-five special 25th anniversary awards of \$1,000 each to recognize important work accomplished by Evanston nonprofit organizations with Foundation funding. As another anniversary initiative, in 2012 the Foundation approved four of the five available challenge grants of \$5,000 each to stimulate the establishment of organizational endowment funds. Ongoing programs and activities include responsive grants, Leadership Evanston, *root2fruit* capacity-building grants, and workshops to increase the effectiveness of the community's nonprofits. Other activities include consultation with donors and nonprofits. Through the intersection of these activities, the Foundation fosters collaborative community leadership and encourages local charitable giving.

The Foundation’s primary funding sources are contributions, grants, and investment earnings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

BASIS OF PRESENTATION

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND ACCOUNTING

For internal purposes and in order to comply with restrictions donors place on contributions or designations made by the Board, the principles of fund accounting are used. The Foundation has established separate funds for significant contributions intended for specific use, either as directed by the donor or as determined by the Board. At the inception of a fund, the Foundation and the donor execute an agreement defining the spending policy and providing for the allocation of investment returns and accounting and investment expenses. In addition, fund agreements provide for the Foundation to assess an annual fee for fund services and administration.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NET ASSET CLASSIFICATIONS

Net assets are classified according to the Foundation's governing documents and, depending on the specific terms of fund agreements with the donor, may be recorded as permanently restricted, temporarily restricted or unrestricted.

Unrestricted net assets are those assets that are not subject to donor-imposed stipulations plus those resources for which temporary, donor-imposed stipulations have been satisfied. Unrestricted net assets may also be designated for specific purposes by action of the Foundation's Board of Directors (the "Board").

Donor Advised Funds are established by the Board with contributions received from individual donors and are governed by agreements that allow the donors to recommend distributions to designated 501(c)(3) charitable organizations. Although donors retain the right to request distributions to specified organizations or organizations to be named in the future, the Board is not obligated to comply with the donor distribution request and therefore these funds are also considered unrestricted.

Temporarily restricted net assets are those assets subject to donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets include gifts and bequests which donors have specified must be maintained in perpetuity. Donors may specify that the related income may increase the corpus, be expended for such purpose as specified by the donor, or if none specified, then for general purposes as directed by the Foundation's management and Board of Directors.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in banks and money market funds.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECEIVABLES

Receivables consist of pledges, contributions and accrued investment income, and are reported at net realizable value, which is the amount management expects to collect from balances outstanding at year-end. Unconditional promises to give or pledges expected to be collected within one year are recorded at net realizable value at the date of receipt. To the extent there are any unconditional promises to give expected to be collected in future years, those are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates determined to be applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met. Management considers receivables to be collectible at December 31, 2012 and 2011. Accordingly, no allowance for doubtful accounts is required. Pledges receivable at December 31, 2012 and 2011 were due within one year.

INVESTMENTS AND SPENDING POLICY

The Foundation has an Investment and Spending Policy to preserve, in perpetuity, the purchasing power of its assets while providing a growing stream of income to fund grants and programs, and to support its operations (see Note 5). Investments consist of marketable securities that are stated at fair market value primarily based on quoted market prices. Investment income is recorded on the accrual basis; purchases and sales of investment securities are reflected on a trade-date basis. Unrealized gains or losses on such securities are based on the change in market value of the assets from the beginning to the end of the fiscal year. Realized gains or losses are based on the change in market value of the assets from the date acquired to the date of sale.

The Foundation's articles of incorporation and fund agreements provide for distributions from the funds of the Foundation in accordance with the Investment and Spending Policy. The policy provides for spending a maximum of 6% and a minimum of 3.5% of the three-year moving average of the fund market value. The Board determines the percentage to be used for the spending objective as part of the budget process. The policy also provides for the Foundation to spend funds which do not affect the board-designated endowment funds, such as contributions for current grantmaking, programs or administrative expenses; income from fees and tuition; grants from donor advised funds; distributions from agency funds; charitable gift annuity payments; and other amounts determined by the Board to be allocated to the budget.

OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment are recorded at cost and depreciated over their estimated useful lives on a straight-line basis. Major renewals and betterments of \$500 or more which extend the useful life of an asset are capitalized, while routine maintenance and repairs are expensed as incurred. The estimated useful lives for determining depreciation of the various classes of assets are as follows:

Computers, software and website	3 years
Office equipment	3-5 years
Furniture	7 years

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

RECOGNITION OF SUPPORT AND REVENUE

Contributions from the general public or private foundation grants are recognized as support revenue. All contributions and private grants are considered available for unrestricted use unless specifically restricted by the donor or by laws and regulations.

Contributions primarily consist of cash and securities received from donors. Securities and other assets received as contributions are recorded at fair market value at the date of gift.

Tuition, fees, and events are recognized during the period they are earned and are reflected net of scholarships of \$7,320 in 2012 and \$5,230 in 2011.

CONTRIBUTED GOODS AND SERVICES

The Foundation occasionally receives donated goods and services for its meetings and programs. In 2012 and 2011, the Foundation received and recorded in-kind donations with a value of \$1,096 and \$17,582, respectively. In addition, a substantial number of unpaid volunteers and members of the Foundation's Board of Directors make significant contributions of their time to the Foundation and its programs. The value of these services is not reflected in these financial statements since they do not meet the criteria for recognition.

GRANT EXPENSE

Grants made are recorded in the year that the funds are authorized by the Board of Directors. Funds authorized but not disbursed are reported in the statements of financial position as grants payable.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses are charged directly to programs, management and general or fundraising categories based upon specific identification where possible. Other costs have been allocated to the programs and supporting services based on appropriate methods determined by management. These costs include, among others, salaries and related taxes and benefits, insurance, occupancy costs, telephone, supplies and professional fees.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENTS

In May 2011, the Financial Accounting Standards Board issued guidance in Accounting Standards Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU No. 2011-04”). ASU No. 2011-04 was issued to improve comparability of fair value application, measurements and disclosures between U.S. GAAP reporting and IFRS reporting. ASU No. 2011-04 clarifies fair value definitions and enhances fair value measurement guidance with respect to highest and best use measurements, equity instrument measurements, and measurement of financial instruments that are managed within a portfolio. Additionally, ASU No. 2011-04 expands disclosures for unobservable inputs used in Level 3 fair value measurements. ASU No. 2011-04 is effective for annual periods beginning after December 15, 2011. The Foundation has adopted this guidance in 2012.

NOTE 3 – TAX STATUS

The Foundation is an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of the state tax law. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Foundation recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Foundation has no on-going federal or state income tax audits. However, its tax returns for 2009 and subsequent years remain open to examination.

NOTE 4 – CONCENTRATIONS

In 2012, five donors provided 40% of total support revenues. In 2011, four donors provided 49% of total support revenues.

The Foundation maintains its cash in bank deposit and money market accounts which, at times, may exceed the federally insured limit. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The invested assets of the Foundation are held in a custodial account of a major financial institution that maintains private insurance in an amount exceeding the Foundation’s assets to cover any potential fiduciary loss. Investments 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 investments will occur in the near term and that such changes could materially affect the Foundation and the amounts reported in the statements of activities. The Foundation has a diversified investment portfolio designed to maximize investment return and minimize market risk.

NOTE 5 - INVESTMENTS

The Foundation’s objective is to achieve over time an annual total return that exceeds budgeted spending plus an amount equal to the increase in the Consumer Price Index during the preceding year. The current spending policy is to distribute an amount equal to 5% of a moving three year average of the Foundation’s endowed fund balances. The Foundation’s Board of Directors approves the spending policy each year, within the range of 3.5% to 6%.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – INVESTMENTS (Continued)

The investment policy has guidelines regarding both percentage allocations to asset classes as well as to holdings within asset classes. The Foundation's Board has adopted the following asset allocation strategy to achieve its investment objective. The 2012 and 2011 portfolios were within policy guidelines.

	Overall Asset Allocation	Intra Asset-Class Allocation		
		Domestic Markets	Foreign Including Emerging Markets	Other Categories
Equities	45-65%	min. 30%	max. 20%	
Fixed income	15-35%	min. 15%	max. 10%	
Other*	0-20%			max. of 10% in any of 4 subcategories*

*Other may include investments in real estate, commodity indexes, hedge funds, or private equity.

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles provide a uniform framework for the definition, measurement and disclosure of fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. Therefore, the fair values of common stock, corporate bonds, mutual funds and U.S. government securities are based on quoted market prices, when available.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

The Foundation's financial assets valued using Level 2 inputs are based primarily on the net asset value as reported by the investment management company, based upon the quoted market prices of the underlying fund investments.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. There were no Level 3 assets as of December 31, 2012 and 2011.

The assets' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at December 31, 2012 and 2011.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

		Fair Value Measurements at Reporting Date Using	
	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
December 31, 2012			
Equity mutual funds			
Domestic	\$ 7,355,370	\$ 7,355,370	\$ -
International	1,940,994	1,940,994	-
Fixed income mutual funds			
Domestic	2,619,704	2,619,704	-
International	869,427	869,427	-
U.S. treasury obligations	1,298,126	1,298,126	-
Other	<u>1,868,432</u>	<u>1,083,580</u>	<u>784,852</u>
Total	<u>\$ 15,952,053</u>	<u>\$ 15,167,201</u>	<u>\$ 784,852</u>
December 31, 2011			
Equity mutual funds			
Domestic	\$ 6,386,467	\$ 6,386,467	\$ -
International	1,421,665	1,421,665	-
Fixed income mutual funds			
Domestic	2,410,375	2,410,375	-
International	901,229	901,229	-
U.S. treasury obligations	1,279,954	1,279,954	-
Other	<u>1,328,695</u>	<u>640,228</u>	<u>688,467</u>
Total	<u>\$ 13,728,385</u>	<u>\$ 13,039,918</u>	<u>\$ 688,467</u>

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

At December 31, 2012 and 2011, the Foundation has certain mutual fund investments offered through an investment management company. Such mutual funds are not valued with quoted market pricing from a public exchange, but are valued based upon the net asset value as reported by the investment company. The net asset value of the respective mutual fund is primarily based upon quoted market prices for the underlying securities held by the mutual fund and is classified within Level 2 of the fair value hierarchy. Each mutual fund has its own investment strategy and policies as governed by the investment management company. At December 31, 2012 and 2011, the Foundation maintained an investment in a multi-asset mutual fund which seeks to achieve a return that exceeds inflation through investment in global stocks and bonds, as well as investments in commodities, REITS and other readily marketable investments.

NOTE 7 – OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment consists of the following at December 31, 2012 and 2011:

	2012	2011
Computers, software and website	\$ 130,641	\$ 85,617
Office equipment	15,666	15,666
Furniture	<u>16,368</u>	<u>16,368</u>
	162,675	117,651
Less: accumulated depreciation	<u>104,689</u>	<u>97,099</u>
	<u>\$ 57,986</u>	<u>\$ 20,552</u>

Depreciation expense was \$7,591 in 2012 and \$7,999 in 2011. During 2011, the Foundation retired obsolete computers and related items with an original cost and accumulated depreciation of \$8,795.

NOTE 8 – FUNDS HELD AS AGENCY ENDOWMENTS

Funds held as agency endowments represent assets of other non-profit organizations that have been conveyed to the Foundation to establish funds for the benefit of the organizations. The assets become a part of the Foundation's investment portfolio, and receive an allocation of investment returns, as well as of investment and accounting expenses. These funds are also assessed an administrative fee. The Foundation may receive contributions to these funds from the general public, and the organizations receive periodic distributions from the funds.

In accordance with generally accepted accounting principles, these assets are reported in the statements of financial position as a liability entitled *Funds held as agency endowments*. Accordingly, such assets received by the Foundation are not included in the statements of activities as contributions to the Foundation.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – ENDOWMENT FUNDS

The composition of endowment funds by type of fund as of December 31, 2012 and 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2012				
Board-designated endowments	\$ 4,666,463	\$ -	\$ -	\$ 4,666,463
Board-directed field of interest endowment funds	-	7,634,344	-	7,634,344
Donor-designated endowment funds	-	822,526	29,192	851,718
	<u>\$ 4,666,463</u>	<u>\$ 8,456,870</u>	<u>\$ 29,192</u>	<u>\$ 13,152,525</u>
December 31, 2011				
Board-designated endowments	\$ 4,225,928	\$ -	\$ -	\$ 4,225,928
Board-directed field of interest endowment funds	-	7,062,519	-	7,062,519
Donor-designated endowment funds	-	757,904	29,192	787,096
	<u>\$ 4,225,928</u>	<u>\$ 7,820,423</u>	<u>\$ 29,192</u>	<u>\$ 12,075,543</u>

Changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, January 1, 2011	\$ 4,224,744	\$ 7,002,803	\$ 29,192	\$ 11,256,739
Contributions	174,463	1,151,287	-	1,325,750
Transfers	(3,051)	14,053	179	11,181
Investment income	99,306	169,785	781	269,872
Net realized gains	(123,258)	(278,139)	(960)	(402,357)
Amounts released for expenditure	<u>(146,276)</u>	<u>(239,366)</u>	<u>-</u>	<u>(385,642)</u>
Endowment net assets, December 31, 2011	4,225,928	7,820,423	29,192	12,075,543
Contributions	145,620	143,765	-	289,385
Transfers	5,351	-	(3,575)	1,776
Investment income	514,163	860,436	967	1,375,566
Net realized gains (losses)	(14,667)	(26,333)	2,608	(38,392)
Amounts released for expenditure	<u>(209,932)</u>	<u>(341,421)</u>	<u>-</u>	<u>(551,353)</u>
Endowment net assets, December 31, 2012	<u>\$ 4,666,463</u>	<u>\$ 8,456,870</u>	<u>\$ 29,192</u>	<u>\$ 13,152,525</u>

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – NET ASSETS

Accounting policies related to Net Assets are presented in Note 2. Information regarding the three categories of net assets is as follows:

Unrestricted net assets at December 31, 2012 and 2011 consist of:

	<u>2012</u>	<u>2011</u>
Endowed Funds		
Board-designated Endowment Fund for Evanston	\$ 3,139,922	\$ 2,826,749
Board-designated Foundation and Leadership		
Endowment Funds	<u>1,526,541</u>	<u>1,399,179</u>
Total Endowed Funds	<u>4,666,463</u>	<u>4,225,928</u>
Unendowed Funds		
General Operating Fund	131,290	19,902
Donor Advised Funds	<u>1,143,293</u>	<u>901,300</u>
Total Unendowed Funds	<u>1,274,583</u>	<u>921,202</u>
	<u>\$ 5,941,046</u>	<u>\$ 5,147,130</u>

The Board-designated Endowment Fund for Evanston, and the Foundation and Leadership Endowment Funds have been earmarked by the Board to grow in perpetuity while generating annual spending allowances to support Foundation operations, grantmaking and programs. The General Operating Fund was established in 2000 for funding the Foundation's day-to-day operations.

In 2012, the Board approved, as requested, spending from unrestricted Donor Advised Funds in the amount of \$197,736, with \$145,436 paid to other charitable organizations, and a total of \$52,300 transferred to other funds of the Foundation. In 2011, the Board approved, as requested, spending from unrestricted Donor Advised Funds in the amount of \$254,338, with \$195,736 paid to other charitable organizations, and a total of \$58,602 transferred to other funds of the Foundation. Donor Advised Funds may also be temporarily restricted as to purpose.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – NET ASSETS (Continued)

Temporarily restricted net assets at December 31, 2012 and 2011 consist of:

	2012	2011
Endowed, Temporarily Restricted Funds		
Board-directed field of interest funds		
Acorn Fund	\$ 31,762	\$ 29,444
All Our Sons Fund	206,476	192,532
Arts in Community Fund	175,766	159,970
Balkcom Family Fund for Literacy and Affordable Housing	38,001	19,391
Communityworks Fund	6,194,269	5,785,250
Cultural Diversity Fund	26,920	25,227
Evanston Swims	582	-
Leonard Fisher Fund for Nursing Education	45,989	40,235
Fund for Women and Girls	307,247	283,803
Green Communities Fund	39,192	37,745
Leadership Fund	371,556	309,839
Lydia Martin Memorial Fund for Children and the Arts	49,915	46,405
Lorraine Hairston Morton Fund for Youth	30,047	28,057
Skokie Community Fund	17,131	12,056
Sweers Fund for Children and the Arts	20,788	19,384
Faith Vilas Fund for Youth	78,703	73,181
	<u>7,634,344</u>	<u>7,062,519</u>
Donor-designated funds		
Beatty Family Scholarship Fund	82,243	76,975
William K. Beatty Medical History Scholarship Fund	63,958	58,631
Virginia L. and William Beatty Volunteer Service Award Fund	50,453	46,743
Chicago Youth Scholarship Fund	360,791	338,514
Chuck Remen Memorial Fund	20,343	18,977
Citizens Lighthouse Community Land Trust Fund	-	15,333
Foster Reading Center Fund	94,297	87,048
Fund for Curt's Café	10,972	-
Heiberger Memorial Garden Fund	26,303	23,730
Rayna and Marvin Miller Fund for Interfaith Housing Center	45,677	36,659
Bruce E. Mitchell Short Story Fund	18,745	15,213
Normal W. Thomas Jr. Scholarship Fund	18,480	16,679
Rose and Andy Thomas Jr. Scholarship Fund	30,264	23,402
	<u>822,526</u>	<u>757,904</u>
Subtotal - Endowed, Temporarily Restricted Funds	<u>8,456,870</u>	<u>7,820,423</u>

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – NET ASSETS (Continued)

	2012	2011
Donor advised funds, restricted as to purpose, unendowed		
Friends of the Arts Fund	34,591	31,208
Jon Kimmel Memorial Fund	36,065	31,967
Avi Kurganoff Memorial Fund	35,805	-
	<u>106,461</u>	<u>63,175</u>
Other temporarily restricted funds, unendowed		
Acorn Spendable	500	-
Charitable Gift Annuities	30,171	25,088
Climate Action Fund	11,765	10,974
Communityworks Impact Fund	31,485	72,014
Evanston 150 Project	7,850	15,772
Evanston Gun Buyback Fund	16,266	-
Evanston Police and Fire Fund	13,611	8,934
i3 Project	-	500
Illinois Early Childhood Fellowship (Note 14)	96,915	134,195
Skokie Community Fund	3,750	225
Women and Girls Special Initiative Fund	3,359	3,379
Gifts Temporarily Restricted for Period after December 31	16,844	15,203
	<u>232,516</u>	<u>286,284</u>
Total temporarily restricted net assets	<u>\$ 8,795,847</u>	<u>\$ 8,169,882</u>

Permanently restricted net assets consist solely of the Anderson Fund.

NOTE 11 – FISCAL SPONSORSHIPS

The Foundation serves as fiscal sponsor for two projects, the Illinois Early Childhood Fellowship (Fellowship) and Evanston 150 (Ev150). As fiscal sponsor, the Foundation manages these projects on behalf of other entities, providing project oversight including administrative and financial services, and applies for and receives grants to fund the program objectives of the projects.

The Fellowship is an initiative developed and funded by a consortium of six Chicago area funders to build leadership capacity in the field of early childhood care and education. The Foundation has served as a fiscal sponsor for the Fellowship since 2008; as of July 1, 2013, the Foundation's fiscal sponsorship agreement with the Fellowship has been extended through June 30, 2014.

Ev150 is a community-wide initiative supported by seven local funders to celebrate Evanston's sesquicentennial in 2013. Through a community-wide process, Evanston residents generated more than 2,013 ideas for Evanston's future, and the ten projects that generated the most community support are currently being implemented. The Foundation served as fiscal sponsor in 2011 and will continue its role through 2013.

EVANSTON COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - LEASE

In December 2003, the Foundation relocated and entered into a sixty-five month lease agreement for office space in Evanston, Illinois, which expired on April 30, 2009. In November 2008, the lease was amended, extending the expiration date to April 30, 2012. The amended lease provides for minimum rental payments of \$4,577 per month plus annual escalation, subject to additional rent for increases in taxes and operating expenses. In 2011, the Foundation received a rent abatement of \$3,051. In January 2012, the lease was amended, extending the expiration date to June 30, 2014. The amended lease provides for minimum rental payments of \$3,910 per month plus annual escalation, subject to additional rent for increases in taxes and operating expenses.

Rent expense was \$42,919 in 2012 and \$54,507 in 2011. Future minimum base rental payments are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2013	\$ 47,795
2014	<u>24,332</u>
	<u>\$ 72,127</u>

NOTE 13 – RETIREMENT AND PENSION PLAN

The Foundation has a non-contributory 403(b) plan in place for eligible employees. Employees are eligible to participate on the first of the month following employment. Effective January 1, 2009, the plan was amended to conform to new regulatory requirements.

NOTE 14 – CONDITIONAL PROMISES TO GIVE

In February 2008, the Foundation received a \$2,000,000 grant from the Grand Victoria Foundation to support its “Every Child Ready for Kindergarten, Every Youth Ready for Work” initiative. The grant monies were allocated \$1,000,000 for the temporarily restricted Communityworks Fund and \$1,000,000 for the Board-designated Foundation Endowment Fund. At the time, Grand Victoria Foundation also agreed to provide another \$2,000,000 in matching funds for new gifts collected by September 30, 2011. In December 2008, the Foundation received \$1,000,000 of the matching funds from the Grand Victoria Foundation for the Communityworks Fund. The Foundation collected the remaining \$1,000,000 in matching funds from Grand Victoria Foundation between January 1, 2009 and September 30, 2011. The matching funds were allocated to the Communityworks and Board-designated Foundation Funds on the same basis as the original donor gifts.

NOTE 15 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through August 13, 2013, the date which the financial statements were available to be issued.