

AMERICAN ENDOWMENT FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2010 and 2009

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 statements of financial position of American Endowment Foundation as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Foundation. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Endowment Foundation as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Maloney + Novotny LLC

Canton, Ohio
May 9, 2011

AMERICAN ENDOWMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,187,335	\$ 8,066,542
Investments, net	188,926,053	151,837,885
Equipment, net of accumulated depreciation of \$38,481 and \$34,808 at December 31, 2010 and 2009, respectively	<u>5,387</u>	<u>8,048</u>
TOTAL ASSETS	\$ <u>195,118,775</u>	\$ <u>159,912,475</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Deferred compensation plan	<u>362,682</u>	<u>362,682</u>
Total liabilities	362,682	362,682
NET ASSETS		
Unrestricted	<u>194,756,093</u>	<u>159,549,793</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>195,118,775</u>	\$ <u>159,912,475</u>

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

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES AND SUPPORT		
Direct public support	\$ 47,753,018	\$ 31,303,323
Interest and dividend income	5,158,525	3,711,714
Realized and unrealized gain on investments, net	<u>5,950,412</u>	<u>9,287,537</u>
	58,861,955	44,302,574
EXPENSES		
Program services	22,882,041	18,245,386
Management and general	376,459	353,559
Fundraising	<u>397,155</u>	<u>365,631</u>
	23,655,655	18,964,576
INCREASE IN NET ASSETS BEFORE PROVISION FOR FEDERAL INCOME TAX	35,206,300	25,337,998
PROVISION FOR UNRELATED BUSINESS INCOME TAX		
Unrelated business income tax expense	<u>-</u>	<u>1,104</u>
INCREASE IN NET ASSETS	35,206,300	25,336,894
NET ASSETS, BEGINNING OF YEAR	<u>159,549,793</u>	<u>134,212,899</u>
NET ASSETS, END OF YEAR	<u>\$ 194,756,093</u>	<u>\$ 159,549,793</u>

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

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 35,206,300	\$ 25,336,894
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Realized and unrealized (gain) on investments	(6,759,897)	(9,907,445)
Non-cash contributions of investments	(26,304,088)	(16,682,072)
Depreciation expense	3,673	5,784
Net cash provided (used) by operating activities	<u>2,145,988</u>	<u>(1,246,839)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	(4,024,183)	(1,299,725)
Purchases of property and equipment	(1,012)	(1,100)
Net cash (used) by investing activities	<u>(4,025,195)</u>	<u>(1,300,825)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,879,207)	(2,547,664)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,066,542</u>	<u>10,614,206</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,187,335</u>	<u>\$ 8,066,542</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for federal income taxes	\$ <u>-</u>	\$ <u>1,104</u>
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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 by making it more attractive and enjoyable for donors to practice family philanthropy. 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.

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, 2010 and 2009.

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, 2010 and 2009.

C. Concentrations – Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, investments in corporate fixed income instruments and equity securities. The Foundation places its cash investments with financial institutions. The cash investments are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the years ended December 31, 2010 and 2009, the Foundation had invested amounts in excess of federal insurance limits.

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 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. Investment income – Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in unrestricted revenue unless the income is restricted by the donor.
- 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 \$1,000. Depreciation is computed using the straight-line method based on the estimated useful lives of the equipment.
- G. Contributions – Contributions are recognized as revenue when they are received or unconditionally pledged. 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.
- H. 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.
- I. 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Organization and Summary of Significant Accounting Policies (continued)

- J. 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 federal income tax on unrelated business income. No provision for federal income tax was recorded for the year ended December 31, 2010. For the year ended December 31, 2009, the Foundation recorded a federal income tax provision of \$1,104 for unrelated business activity.

In January 2009, the Foundation implemented new provisions of “Accounting for Income Taxes” which clarify the accounting for uncertainty in income taxes recognized in an entity’s financial statements. The provisions prescribe certain criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. These provisions also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The implementation did not have a material impact on the Foundation’s financial statements. There were no unrecognized tax benefits as of the date of adoption or as of December 31, 2010 or 2009.

As of December 31, 2010, the Foundation’s tax years from 2007 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state taxing authorities.

- K. Subsequent events – The Foundation has evaluated subsequent events through May 9, 2011, the date on which the financial statements were available to be issued.

AMERICAN ENDOWMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Fair Value of Financial Instruments

The Foundation follows the provisions of generally accepted accounting principles (GAAP). GAAP defines fair value and provides guidance for measuring fair value and expands disclosures about fair value measurements in accordance with accounting principles generally accepted in the United States of America. These provisions do not require any new fair value measurements, but rather apply to all other accounting pronouncements that require or permit fair value measurements.

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets or liabilities in active markets and quotes prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 – Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which assumptions utilize management's estimates of market participant assumptions.

The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Fair Value of Financial Instruments (continued)

The Foundation's financial assets include marketable equity securities and other investments, which typically do not have readily determinable market values, that consist mainly of limited partnership interests or units of limited liability company operating entities. The Foundation determines the fair values of the marketable equity securities and limited partnership interests using quoted market prices, broker/dealer prices or statements of account received from investment managers, which were principally based on quoted market or broker/dealer prices. The Foundation believes that these fair value determinations still follow appropriate methodology even given recent changes in the overall financial markets. The Foundation carries its other investments, which typically do not have readily determinable market values, at the lower of adjusted fair value at 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 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.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2010 are as follows:

	<u>As of December 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Short term investments	\$ 23,167,891	\$ -	\$ -	\$ 23,167,891
Mutual funds	89,561,985	-	-	89,561,985
Corporate and government bonds	7,271,619	-	-	7,271,619
Real estate investment trusts	-	-	1,807,333	1,807,333
Equity securities	37,964,984	-	-	37,964,984
Other investments	<u>-</u>	<u>64,500</u>	<u>19,992,337</u>	<u>20,056,837</u>
Total	\$ <u>157,966,479</u>	\$ <u>64,500</u>	\$ <u>21,799,670</u>	\$ <u>179,830,649</u>

In addition, at December 31, 2010, investments with no readily determinable market value amounted to \$9,095,404.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Fair Value of Financial Instruments (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Insurance policies</u>	<u>Notes receivable</u>	<u>Other investments</u>	<u>Total</u>
January 1, 2010	\$ 224,547	\$ 9,692,934	\$ 10,339,849	\$ 20,257,330
Purchases, sales, issuances and settlements, net	135,815	677,092	1,262,910	2,075,817
Total unrealized gains and (losses)	178,360	14,750	852,854	1,045,964
Grant expenditures	(120,442)	(185,460)	(538,874)	(844,776)
Net repayments on notes and other receivables	-	(734,665)	-	(734,665)
December 31, 2010	<u>\$ 418,280</u>	<u>\$ 9,464,651</u>	<u>\$ 11,916,739</u>	<u>\$ 21,799,670</u>

Fair values of assets and liabilities measured on a recurring basis at December 31, 2009 are as follows:

	<u>As of December 31, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Short term investments	\$ 25,084,331	\$ -	\$ -	\$ 25,084,331
Mutual funds	63,625,290	-	-	63,625,290
Corporate and government bonds	4,551,635	-	-	4,551,635
Real estate investment trusts	-	-	1,425,225	1,425,225
Equity securities	24,623,752	-	-	24,623,752
Other investments	-	128,500	18,832,105	18,960,605
Total	<u>\$ 117,885,008</u>	<u>\$ 128,500</u>	<u>\$ 20,257,330</u>	<u>\$ 138,270,838</u>

In addition, at December 31, 2009, investments with no readily determinable market value amounted to \$13,567,047.

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Fair Value of Financial Instruments (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Insurance policies</u>	<u>Notes receivable</u>	<u>Other investments</u>	<u>Total</u>
January 1, 2009	\$ 549,766	\$ 10,208,452	\$ 6,263,641	\$ 17,021,859
Contributions and earnings	5,358	100,000	3,358,857	3,464,215
Total unrealized gains and (losses)	12,636	-	744,446	757,082
Grant expenditures	(343,213)	-	(10,000)	(353,213)
Net repayments on notes and other receivables	<u>-</u>	<u>(615,518)</u>	<u>(17,095)</u>	<u>(632,613)</u>
December 31, 2009	<u>\$ 224,547</u>	<u>\$ 9,692,934</u>	<u>\$ 10,339,849</u>	<u>\$ 20,257,330</u>

Investment income (loss) consisted of the following for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investments with a readily determinable market value:		
Interest and dividend income	\$ 5,036,632	\$ 3,627,164
Realized/unrealized gains	<u>11,414,009</u>	<u>17,486,337</u>
	16,450,641	21,113,501
Less: investment management fees	<u>(809,485)</u>	<u>(619,908)</u>
Net gain from investments with a readily determinable market value	15,641,156	20,493,593
Investments with no readily determinable market value:		
Interest and dividend income	121,893	84,550
Realized/unrealized (losses)	<u>(4,654,112)</u>	<u>(7,578,892)</u>
Net (loss) from investments with no readily determinable market value	<u>(4,532,219)</u>	<u>(7,494,342)</u>
Total	<u>\$ 11,108,937</u>	<u>\$ 12,999,251</u>

AMERICAN ENDOWMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Line of Credit

The Foundation has a line of credit with Morgan Bank, N.A. with a borrowing limit of \$200,000. Interest is charged on any outstanding balances on a monthly basis, at the Wall Street Journal prime rate (3.25% at December 31, 2010). At December 31, 2010, there were no outstanding borrowings on the line of credit.

Note 3. Deferred Compensation Plan

The Foundation sponsors an unfunded deferred compensation plan for certain key employees that provides 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.

Note 4. Operating Leases

The Foundation leases office space and various equipment under operating leases. Total rent expense under these operating leases was \$37,126 and \$36,211 for the years ended December 31, 2010 and 2009, respectively. Future minimum lease payments as of December 31, 2010 under these leases are as follows:

Year ending December 31,

2011	\$36,876
2012	672

Note 5. Retirement Plan

Effective January 1, 2007, the Foundation adopted a 401(k) plan for its employees. The Foundation contributes 3% of each participant's eligible wages to the plan. Amounts included in salaries and benefits that were charged to operations totaled \$19,275 and \$17,213 for the years ended December 31, 2010 and 2009, respectively.

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maloney+novotny_{LLC}

Independent Auditors' Report on Accompanying Information

To the Board of Directors
American Endowment Foundation
Hudson, Ohio

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information for the years ended December 31, 2010 and 2009 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maloney + Novotny LLC

Canton, Ohio
May 9, 2011

Accompanying Information

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2010 and 2009

FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services	Management & General	Fund- raising	Total
FUNCTIONAL EXPENSES				
Grant expenditures	\$ 22,487,467	\$ -	\$ -	\$ 22,487,467
Salaries and benefits	203,295	203,295	203,295	609,885
Development	6,132	6,642	38,322	51,096
Employee benefits	33,398	33,398	33,397	100,193
Miscellaneous expense	15,849	15,847	15,846	47,542
Life insurance expense	29,611	-	-	29,611
Computer systems	27,017	27,017	27,016	81,050
Payroll taxes and fees	14,626	14,626	14,626	43,878
Occupancy	11,244	11,244	11,244	33,732
Professional fees	21,776	21,776	21,777	65,329
Travel and education	9,749	9,749	9,750	29,248
Staff development	5,546	5,546	5,546	16,638
Telephone	5,342	5,342	5,342	16,026
Office supplies and expense	3,265	3,265	3,266	9,796
Insurance	-	9,740	-	9,740
Supplies and postage	2,659	2,659	2,660	7,978
Outside services	1,615	1,615	1,616	4,846
Depreciation	-	1,248	-	1,248
Service charges	3,327	3,327	3,328	9,982
Brochures and publications	123	123	124	370
Total expenses	\$ 22,882,041	\$ 376,459	\$ 397,155	\$ 23,655,655

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

AMERICAN ENDOWMENT FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2010 and 2009

FOR THE YEAR ENDED DECEMBER 31, 2009				
FUNCTIONAL EXPENSES	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- raising</u>	<u>Total</u>
Grant expenditures	\$ 17,820,225	\$ -	\$ -	\$ 17,820,225
Salaries and benefits	191,479	191,479	197,281	580,239
Development	-	7,708	23,122	30,830
Employee benefits	29,985	29,985	30,895	90,865
Miscellaneous expense	13,809	13,809	14,228	41,846
Life insurance expense	92,728	-	-	92,728
Computer systems	22,695	22,695	23,382	68,772
Payroll taxes and fees	13,883	13,883	14,304	42,070
Occupancy	11,132	11,132	11,468	33,732
Professional fees	15,515	15,515	15,986	47,016
Travel and education	12,042	12,042	12,406	36,490
Staff development	5,527	5,527	5,695	16,749
Telephone	4,409	4,409	4,543	13,361
Office supplies and expense	4,591	4,591	4,730	13,912
Insurance	-	11,401	-	11,401
Supplies and postage	3,160	3,160	3,256	9,576
Outside services	1,733	1,733	1,787	5,253
Depreciation	-	2,017	-	2,017
Service charges	2,009	2,009	2,071	6,089
Brochures and publications	464	464	477	1,405
Total expenses	\$ <u>18,245,386</u>	\$ <u>353,559</u>	\$ <u>365,631</u>	\$ <u>18,964,576</u>

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