AMERICAN ENDOWMENT FOUNDATION

FINANCIAL REPORT

DECEMBER 31, 2012 and 2011

AMERICAN ENDOWMENT FOUNDATION

CONTENTS

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maloney+novotny LLC

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, 2012 and 2011, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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.

Business Advisors and Certified Public Accountants
Cleveland | Canton | Elyria

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, 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.

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 14-15 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.

Maloney + Novotny LLC

Canton, Ohio
May 9, 2013

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

		2012		2011
ASSETS				
Cash and cash equivalents	$	11,952,244	$	8,267,203
Investments		317,419,056		218,443,674
Equipment, net of accumulated depreciation of $24,108 and $21,280 at December 31, 2012 and 2011, respectively		3,867		5,070
TOTAL ASSETS	**$**	**329,375,167**	**$**	**226,715,947**
LIABILITIES AND NET ASSETS				
LIABILITIES				
Deferred compensation plans	$	182,035	$	383,784
Total liabilities		182,035		383,784
NET ASSETS				
Unrestricted		329,193,132		226,332,163
TOTAL LIABILITIES AND NET ASSETS	**$**	**329,375,167**	**$**	**226,715,947**

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

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2012 and 2011

	2012	2011
REVENUES AND SUPPORT		
Direct public support	$ 126,754,726	$ 62,530,890
Interest and dividend income	6,932,163	5,931,512
Realized and unrealized gain (loss) on investments, net of investment fees of $1,364,824 and $1,013,940 in 2012 and 2011, respectively	15,027,622	(11,616,584)
	148,714,511	56,845,818
EXPENSES		
Program services	44,884,302	24,409,465
Management and general	465,801	415,600
Fundraising	501,531	444,683
	45,851,634	25,269,748
INCREASE IN NET ASSETS BEFORE PROVISION FOR UNRELATED BUSINESS INCOME TAX	102,862,877	31,576,070
PROVISION FOR UNRELATED BUSINESS INCOME TAX		
Unrelated business income tax expense	1,908	-
INCREASE IN NET ASSETS	102,860,969	31,576,070
NET ASSETS, BEGINNING OF YEAR	226,332,163	194,756,093
NET ASSETS, END OF YEAR	**$ 329,193,132**	**$ 226,332,163**

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

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 102,860,969	$ 31,576,070
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	(16,392,446)	10,602,644
Non-cash contributions of investments	(62,465,464)	(33,713,843)
Depreciation expense	2,828	3,552
(Decrease) increase in deferred compensation plans	(201,749)	21,102
Net cash provided by operating activities	23,804,138	8,489,525
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	(20,117,472)	(6,406,422)
Purchases of equipment	(1,625)	(3,235)
Net cash (used) by investing activities	(20,119,097)	(6,409,657)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,685,041	2,079,868
CASH AND CASH EQUIVALENTS, beginning of year	8,267,203	6,187,335
CASH AND CASH EQUIVALENTS, end of year	**$ 11,952,244**	**$ 8,267,203**

The accompanying notes are an integral part of these 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:

<u>Unrestricted net assets</u> – 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.

<u>Temporarily-restricted net assets</u> – 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, 2012 and 2011.

<u>Permanently-restricted net assets</u> – Net assets subject to donor-imposed stipulations that they be maintained permanently. There were no permanently restricted net assets at December 31, 2012 and 2011.

C. Concentrations – Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, investments in fixed income instruments and equity securities. The Foundation places its cash investments with two 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, 2012 and 2011, 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.

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. 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.

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. For the year ended December 31, 2012, the provision for federal income tax was $1,908. No provision for federal income tax was recorded for the year ended December 31, 2011. 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, 2012, the Foundation's tax years from 2009 and thereafter remain subject to examination by the Internal Revenue Service, as well as applicable state taxing authorities.

K. Subsequent events – The Foundation has evaluated subsequent events through May 9, 2013, which is the date the financial statements were available to be issued.

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

Note 1. Fair Value of Financial Instruments

The Foundation estimates the fair value of 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. The inputs used to measure fair value are classified into three levels:

- Level 1 – Quoted market prices in active markets for identical assets and liabilities
- Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3 – Unobservable inputs in which little or no market data exists

The asset's or liability's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement.

Note 1. Fair Value of Financial Instruments (continued)

Instruments that are classified within Level 1 of the fair value hierarchy generally include short term investments, mutual funds, corporate and government bonds and equity securities. Level 1 securities represent quoted prices in active markets and therefore do not require significant management judgment.

Instruments that are classified within Level 3 of the fair value hierarchy generally include the following:

Real estate investment trusts (REITS) – consist of a variety of funds that may include illiquid private equity structured funds, commingled funds and limited partnerships that are reported by the Foundation based on the value estimated by the broker.

Notes receivable – consist of illiquid financial instruments consisting of promissory notes and other notes receivable that are reported by the Foundation based on the remaining principal value of the note which approximates fair value.

Multi-asset fund – is a fund open primarily to foundations, endowments and other 501(c)(3) organizations. The fund invests in illiquid securities and derivatives and is reported at net asset value based on the underlying assets.

Partnerships – consist of a wide variety of limited partnerships and LLCs that are valued based on the underlying assets.

Equities and other – consist of privately held securities reported at an appraised value, insurance policies and various other minor transfers/receivables.

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. There have been no changes in the methodologies used from 2011 to 2012. 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.

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.

Note 1. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Investments:				
Short term investments	$ 57,664,405	$ -	$ -	$ 57,664,405
Mutual funds	146,543,517	-	-	146,543,517
Corporate and government bonds	13,052,735	-	-	13,052,735
Equity securities	59,708,357	-	-	59,708,357
REITS	-	-	2,985,824	2,985,824
Notes receivable	-	-	12,459,151	12,459,151
Multi-asset fund	-	-	3,270,751	3,270,751
Partnerships	-	-	9,562,632	9,562,632
Equities and other	3,718,425	64,500	1,219,542	5,002,467
Total	$ 280,687,439	$ 64,500	$ 29,497,900	$ 310,249,839

In addition, at December 31, 2012, investments with no readily determinable market value amounted to $7,169,217.

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

	REITS	Notes receivable	Multi-asset fund	Partnerships	Equities and other	Total
January 1, 2012	$ 2,222,976	$ 9,308,225	$ 3,661,518	$ 7,002,850	$ 7,236,990	$ 29,432,559
Purchases and contributions	850,315	3,214,105	155,499	2,305,382	446,846	6,972,147
Income	-	-	-	24,125	-	24,125
Total unrealized gains and (losses)	(87,467)	261,195	257,754	1,185,961	(3,100)	1,614,343
Grant expenditures	-	-	(804,020)	(955,686)	(6,461,194)	(8,220,900)
Net repayments on notes and other receivables	-	(324,374)	-	-	-	(324,374)
December 31, 2012	$ 2,985,824	$ 12,459,151	$ 3,270,751	$ 9,562,632	$ 1,219,542	$ 29,497,900

Note 1. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Investments:				
Short term investments	$ 33,406,882	$ -	$ -	$ 33,406,882
Mutual funds	91,611,993	-	-	91,611,993
Corporate and government bonds	18,529,199	-	-	18,529,199
Equity securities	38,257,338	-	-	38,257,338
REITS	-	-	2,222,976	2,222,976
Notes receivable	-	-	9,308,225	9,308,225
Multi-asset fund	-	-	3,661,518	3,661,518
Partnerships	-	-	7,002,850	7,002,850
Equities and other	-	102,808	7,236,990	7,339,798
Total	$ 181,805,412	$ 102,808	$ 29,432,559	$ 211,340,779

In addition, at December 31, 2011, investments with no readily determinable market value amounted to $7,102,895.

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

	REITS	Notes receivable	Multi-asset fund	Partnerships	Equities and other	Total
January 1, 2011	$ 1,807,333	$ 9,464,651	$ 3,724,852	$ 5,763,767	$ 1,039,067	$ 21,799,670
Purchases and contributions	444,396	100,000	179,728	1,560,716	6,404,229	8,689,069
Total unrealized gains and (losses)	(28,753)	-	(243,062)	(5,317)	4,121	(273,011)
Grant expenditures	-	(14,743)	-	(316,316)	(210,427)	(541,486)
Net repayments on notes and other receivables	-	(241,683)	-	-	-	(241,683)
December 31, 2011	$ 2,222,976	$ 9,308,225	$ 3,661,518	$ 7,002,850	$ 7,236,990	$ 29,432,559

Note 1. Fair Value of Financial Instruments (continued)

Investment income (loss) consisted of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Investments with a readily determinable market value:		
Interest and dividend income	$ 6,585,296	$ 5,773,772
Realized/unrealized gains (losses)	16,152,446	(8,405,262)
	22,737,742	(2,631,490)
Less: investment management fees	(1,364,824)	(1,013,940)
Net gain (loss) from investments with a readily determinable market value	21,372,918	(3,645,430)
Investments with no readily determinable market value:		
Interest and dividend income	346,867	157,740
Realized/unrealized gains (losses)	240,000	(2,197,382)
Net gain (loss) from investments with no readily determinable market value	586,867	(2,039,642)
Total	$ 21,959,785	$ (5,685,072)

Losses on investments with no readily determinable market value include specific assets that are deemed worthless based on management's annual internal review.

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, 2012). At December 31, 2012 and 2011, there were no outstanding borrowings on the line of credit.

Note 3. Deferred Compensation Plan

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 2012, one of the plans became fully vested and the plan benefit of approximately $206,000 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 $37,200 and $36,891 for the years ended December 31, 2012 and 2011, respectively. The office space is on a month-to-month lease for monthly rent of $2,737 ($32,844 annually). Future minimum lease payments on lease commitments with remaining terms in excess of one year as of December 31, 2012 are as follows:

2013	$ 4,932
2014	4,932
2015	4,932
2016	3,237
2017	576

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 employee benefits expense totaled $26,817 and $20,336 for the years ended December 31, 2012 and 2011, respectively.

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2012 and 2011

	FOR THE YEAR ENDED DECEMBER 31, 2012			
	Program Services	Management & General	Fund-raising	Total
FUNCTIONAL EXPENSES				
Grant expenditures	$ 44,403,335	$ -	$ -	$ 44,403,335
Salaries and benefits	237,821	237,821	237,821	713,463
Development	8,736	9,464	54,600	72,800
Employee benefits	48,926	48,926	48,926	146,778
Miscellaneous expense	38,771	38,772	38,772	116,315
Life insurance expense	25,300	-	-	25,300
Computer systems and depreciation	33,883	33,884	33,883	101,650
Payroll taxes and fees	18,327	18,326	18,326	54,979
Occupancy	11,244	11,244	11,244	33,732
Professional fees	21,435	21,435	21,435	64,305
Travel and education	12,596	12,596	12,596	37,788
Staff development	5,654	5,654	5,654	16,962
Telephone	4,726	4,726	4,726	14,178
Office supplies and expense	6,292	6,292	6,292	18,876
Insurance	-	9,121	-	9,121
Supplies and postage	3,976	3,976	3,976	11,928
Outside services	1,844	1,845	1,844	5,533
Depreciation	-	282	-	282
Service charges	1,196	1,197	1,196	3,589
Brochures and publications	240	240	240	720
Total expenses	**$ 44,884,302**	**$ 465,801**	**$ 501,531**	**$ 45,851,634**

AMERICAN ENDOWMENT FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2012 and 2011

	FOR THE YEAR ENDED DECEMBER 31, 2011			
	Program Services	Management & General	Fund-raising	Total
FUNCTIONAL EXPENSES				
Grant expenditures	$ 23,981,119	$ -	$ -	$ 23,981,119
Salaries and benefits	228,970	228,971	228,971	686,912
Development	7,518	8,145	46,991	62,654
Employee benefits	40,449	40,450	40,450	121,349
Miscellaneous expense	12,903	12,903	12,903	38,709
Life insurance expense	23,140	-	-	23,140
Computer systems and depreciation	29,631	29,632	29,632	88,895
Payroll taxes and fees	15,484	15,485	15,485	46,454
Occupancy	11,244	11,244	11,244	33,732
Professional fees	25,229	25,228	25,228	75,685
Travel and education	10,933	10,933	10,933	32,799
Staff development	7,165	7,165	7,165	21,495
Telephone	5,154	5,154	5,154	15,462
Office supplies and expense	3,932	3,933	3,933	11,798
Insurance	-	9,283	-	9,283
Supplies and postage	3,069	3,070	3,070	9,209
Outside services	1,738	1,737	1,737	5,212
Depreciation	-	480	-	480
Service charges	1,723	1,724	1,724	5,171
Brochures and publications	64	63	63	190
Total expenses	**$ 24,409,465**	**$ 415,600**	**$ 444,683**	**$ 25,269,748**