Financial Statements

Statements Of Financial Position

December 31	2014	2013
Assets		
Cash and cash equivalents	$ 7,742,536	$ 7,100,128
Investments, net	530,848,703	521,866,588
Interest and dividends receivable, net of allowance	319,827	284,713
Federal excise tax	54,963	18,332
Other assets	224,856	249,476
Total assets	**$ 539,190,885**	**$ 529,519,237**
Liabilities		
Accounts payable and accrued expenses	$ 811,293	$ 745,782
Grants payable	13,647,695	12,881,455
Deferred federal excise tax	4,113,482	4,162,892
Total liabilities	18,572,470	17,790,129
Net Assets		
Unrestricted	520,618,415	511,729,108
Total liabilities and net assets	**$ 539,190,885**	**$ 529,519,237**

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

Statements Of Activities

For the years ended December 31	2014	2013
Revenues, Gains, And Losses		
Net realized investment gains	$ 18,837,785	$ 25,070,192
Net unrealized investment gains	16,379,667	70,552,123
Dividend income	5,337,146	4,884,918
Interest income	1,071,510	1,208,659
Other income	29,590	1,463
Net revenue, gains and losses	41,655,698	101,717,355
Expenses		
Grants expensed	25,805,694	24,766,101
Administrative expenses	6,095,677	5,121,263
Total expenses	31,901,371	29,887,364
Increase in net assets before federal excise tax provision	9,754,327	71,829,991
Federal excise tax provision	865,020	2,194,774
Net increase in net assets	8,889,307	69,635,217
Net assets – beginning	511,729,108	442,093,891
Net assets – ending	**$ 520,618,415**	**$ 511,729,108**

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

Statements Of Cash Flows

For the years ended December 31	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	$ 8,889,307	$ 69,635,217
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	53,578	68,674
Net realized gains on investments	(18,837,785)	(25,070,192)
Net unrealized gains on investments	(16,379,667)	(70,552,123)
Deferred federal excise tax	(49,410)	1,044,443
Provision for uncollectible program-related loans	598,825	221,411
Changes in assets and liabilities:		
Receivables	(87,570)	1,643,800
Other assets	(7,126)	(4,468)
Accounts payable and accrued expenses	65,511	248,219
Grants payable	766,240	2,340,955
Net cash used in operating activities	(24,988,097)	(20,424,064)
Cash Flows From Investing Activities		
Proceeds from sale of investments	113,976,330	163,351,548
Purchase of investments	(88,323,993)	(145,213,991)
Purchase of equipment and improvements	(21,832)	(31,873)
Net cash provided by investing activities	25,630,505	18,105,684
Net increase (decrease) in cash and cash equivalents	642,408	(2,318,380)
Cash and cash equivalents – beginning	7,100,128	9,418,508
Cash and cash equivalents – ending	**$ 7,742,536**	**$ 7,100,128**
Supplemental Disclosure Of Cash Flow Information		
Cash paid during the year:		
Income taxes, excise	**$ 940,000**	**$ 900,000**
Interest	**$ —**	**$ —**

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

Notes to Financial Statements – December 31, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies

Nature of operations The George Gund Foundation ("the Foundation") is a private foundation located in Greater Cleveland which makes grants to educational, community service, and philanthropic organizations.

Basis of accounting The Foundation's financial statements are presented on the accrual basis of accounting. Accordingly, revenues are recorded when earned, and expenses are recognized when incurred. The Foundation has only unrestricted net assets.

Use of estimates The preparation of financial statements in conformity with 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.

Cash and cash equivalents Cash and cash equivalents consist of highly-liquid investments with maturity dates of three months or less, which are readily convertible into cash.

Investments Marketable and U.S. government securities are reported at their market values. Securities traded on a national securities exchange are valued at the last reported trading price on the last business day of the year. Realized gains or losses are determined by comparison of asset cost to net proceeds received. Unrealized gains or losses are determined by comparison of asset cost to market values at the end of the year.

Investments include program-related loans, net of allowance, which are due from various not-for-profit organizations, valued at $8,987,763 and $9,824,067 at December 31, 2014 and 2013, respectively. The notes receivable are due at various dates, from 2016 through 2038. The loans carry interest rates between 1% and 3%; principal and interest payment arrangements vary by note. As of December 31, 2014, the Foundation has unfunded note commitments of $1,320,000. There were no unfunded note commitments at December 31, 2013.

The Foundation invests in certain alternative investments which include investments in limited partnerships. Market values represent the Foundation's pro rata interest in the net assets of each limited partnership as of December 31, 2014 and 2013, as provided by the fund managers. Market values as of December 31, 2014 and 2013 are not based on audited financial information supplied by the general partner or manager of the funds. Audited information is only available annually based on the partnerships' or funds' year end. Management reviews monthly valuations provided by the general partner or manager of the funds and assesses the reasonableness of the fair values provided at the interim dates and included in the financial statements. As of December 31, 2014 and 2013, the Foundation had total unfunded capital commitments to alternative investments of $2,305,662 and $2,580,662, respectively. Because of the inherent uncertainty of the valuation of alternative investments, the market values reflected in the accompanying financial statements may differ significantly from realizable values.

Allowance for uncollectible accounts Investments in program-related loans are stated at the present value of the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for uncollectible accounts and a credit to a valuation allowance, based on its assessment of the current status of individual accounts. At December 31, 2014, an allowance for uncollectible accounts in the amount of $583,000 is netted against investments in notes receivable. There was no allowance at December 31, 2013.

Interest receivable is stated at the present value of the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for uncollectible interest and a credit to a valuation allowance, based on its assessment of the current status of individual accounts. At December 31, 2014 and 2013, an allowance for uncollectible interest in the amount of $237,236 and $221,411, respectively, is netted against interest receivable.

Furniture, equipment, and leasehold improvements Furniture, equipment, and leasehold improvements are stated at cost. Amortization and depreciation is recorded using both straight-line and accelerated methods over the estimated useful lives of the assets. Depreciation and amortization expense amounted to $53,578 and $68,674 for the years ended December 31, 2014 and 2013, respectively.

Fair value measurement - definition and hierarchy The Foundation follows FASB ASC 820-10, "Fair Value Measurements." Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches, including market, income, and/or cost approaches. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumptions used in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels, based on the reliability of inputs, as follows:

Level 1 – Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Assets and liabilities utilizing Level 1 inputs include: exchange-traded equity securities that are actively traded.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Assets and liabilities utilizing Level 2 inputs include: government bonds, corporate bonds, foreign bonds, private equity investments, charitable reserve funds, and program related savings.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Assets and liabilities utilizing Level 3 inputs include: equity securities that are not actively traded, private equity investments, and program related investments held in loans.

Reclassifications Certain amounts have been reclassified to conform to the 2014 presentation.

Note 2 – Investments

Cost and market value of investments were as follows:

	2014		2013	
	Market Value	**Cost**	**Market Value**	**Cost**
Fixed income securities	$ 19,668,306	$ 19,522,066	$ 21,577,402	$ 22,037,262
Common stocks and alternative investments	511,180,397	305,262,083	500,289,186	291,402,819
Total	**$ 530,848,703**	**$ 324,784,149**	**$ 521,866,588**	**$ 313,440,081**

Market values of investments are based on December 31, 2014 and 2013 published quotations, except that estimates are used when quotations are not available. Fixed income securities consist of U.S. government securities, U.S. government guaranteed securities, corporate securities, and charitable reserve funds. Common stocks and alternative investments consist principally of U.S. and international equity securities, program-related investments, and investments in limited partnerships.

Note 3 – Fair Value Disclosure and Measurement

Published market quotations do not necessarily represent realizable values, particularly where sizable holdings of a company's stock exist, as in the case of the Foundation's holding of the Kellogg Company common stock.

The Foundation's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820-10. See Note 1 for a discussion of the Foundation's policies regarding this hierarchy.

The following fair value hierarchy tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis:

December 31, 2014	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Corporate Stock				
Consumer goods	$ 132,173,905	—	—	$ 132,173,905
Financial	18,039,182	—	—	18,039,182
Services	15,617,054	—	—	15,617,054
Industrial goods	13,435,242	—	—	13,435,242
Basic materials	7,214,285	—	—	7,214,285
Technology	16,726,940	—	—	16,726,940
Healthcare	8,330,357	—	—	8,330,357
Other	6,451,414	—	—	6,451,414
Closely– held	—	—	$ 100	100
Bonds				
Corporate	—	$ 4,601,095	—	4,601,095
United States Treasury and Agency	—	5,954,180	—	5,954,180
State and Municipal	—	1,081,144	—	1,081,144
Foreign	—	252,523	—	252,523
Limited Partnerships	—	211,201,448	72,977,549	284,178,997
Other Investments				
Program-related savings	—	25,158	—	25,158
Program-related loans, net of allowance	—	—	8,987,763	8,987,763
Charitable reserve fund	—	7,779,364	—	7,779,364
Total Fair Value Assets	**$ 217,988,379**	**$ 230,894,912**	**$ 81,965,412**	**$ 530,848,703**

December 31, 2013	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Corporate Stock				
Consumer goods	$ 132,339,479	—	—	$ 132,339,479
Financial	13,420,379	—	—	13,420,379
Services	15,249,822	—	—	15,249,822
Industrial goods	13,166,901	—	—	13,166,901
Basic materials	8,799,900	—	—	8,799,900
Technology	16,256,434	—	—	16,256,434
Healthcare	5,734,625	—	—	5,734,625
Other	4,086,018	—	—	4,086,018
Closely– held	—	—	$ 100	100
Bonds				
Corporate	—	$ 5,140,787	—	5,140,787
United States Treasury and Agency	—	4,909,533	—	4,909,533
State and Municipal	—	693,371	—	693,371
Foreign	—	806,834	—	806,834
Limited Partnerships	—	203,291,197	78,095,168	281,386,365
Other Investments				
Program-related savings	—	25,095	—	25,095
Program-related loans	—	—	9,824,067	9,824,067
Charitable reserve fund	—	10,026,878	—	10,026,878
Total Fair Value Assets	**$ 209,053,558**	**$ 224,893,695**	**$ 87,919,335**	**$ 521,866,588**

The following table provides a reconciliation of changes in Level 3, assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2014:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Limited Partnerships	Other Investments	Common Stock	Total
Beginning balance – January 1, 2014	$ 78,095,168	$ 9,824,067	$ 100	$ 87,919,335
Total gains or losses (realized/unrealized) included in changes in net assets	(883,714)	—	—	(883,714)
Purchases	275,000	30,000	—	305,000
Sales proceeds	(4,508,905)	(283,304)	—	(4,792,209)
Increase in provision for uncollectible program-related loans	—	(583,000)	—	(583,000)
Ending balance – December 31, 2014	**$ 72,977,549**	**$ 8,987,763**	**$ 100**	**$ 81,965,412**
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (2,277,100)	$ —	$ —	$ (2,277,100)

The following table provides a reconciliation of changes in Level 3, assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Limited Partnerships	Other Investments	Common Stock	Total
Beginning balance – January 1, 2013	$ 64,303,400	$ 9,525,064	$ 100	$ 73,828,564
Total gains or losses (realized/unrealized) included in changes in net assets	15,388,201	2,536	—	15,390,737
Purchases	1,014,783	500,000	—	1,514,783
Sales proceeds	(2,611,216)	(203,533)	—	(2,814,749)
Ending balance – December 31, 2013	**$ 78,095,168**	**$ 9,824,067**	**$ 100**	**$ 87,919,335**
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 13,741,461	$ 2,536	$ —	$ 13,743,997

The following table represents the Foundation’s level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Values	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Closely held stock	$ 100	Recent sales	Recent sales	—	—
Program-related loans	8,987,783	Discounted cash flows	Applicable interest and term	—	—

At December 31, 2014, the Foundation's limited partnerships are subject to withdrawal restrictions as follows:

	Limited partnerships
Available for redemption:	
Monthly	$ 271,909,647
Subject to distribution	12,269,350
Total	$ 284,178,997

Investments that are available for redemption may be redeemed by the Foundation generally with 15- to 30-day advance notice on a monthly basis, subject to the terms of the investment agreement.

Investments subject to distribution cannot be redeemed by the Foundation, but rather will be distributed by the limited partnership upon the liquidation of the underlying assets of the partnership. Distributions are generally expected, but not guaranteed, over the next five to ten years.

The investment objective for limited partnerships is long-term capital appreciation in excess of what is available in the public markets. Private equity funds generally hold illiquid debt and equity securities of public and/or privately-held companies. This asset class includes venture capital, buyout, and distressed funds.

Gains and losses (realized and unrealized) from Level 3 investments included in changes in net assets include net investment gains of $1,393,386 and $1,646,740 for the periods ended December 31, 2014 and 2013, respectively, and net unrealized investment gain/loss of $(2,277,100) and $13,743,997 for the periods ended December 31, 2014 and 2013, respectively.

At December 31, 2014, the Foundation's charitable reserve fund is not subject to withdrawal restrictions. The fund holds mostly fixed income investments and is valued at net asset value. The Foundation owns 62% of the common trust fund at December 31, 2014.

Note 4 – Credit Concentration

Aside from its holdings in the Kellogg Company, the Foundation's portfolio of investments is highly diversified; however, at December 31, 2014 and 2013, 24% of the total market value of securities, and 65% and 74%, respectively, of dividend income in each year are attributable to ownership of Kellogg Company stock.

Note 5 – Grants

Grants are expensed upon approval by the Board of Trustees, payable upon the performance of specified conditions, and paid when the specified conditions are satisfied. Discretionary grants in amounts up to $10,000 and cumulative for the year up to $700,000 for the periods ended December 31, 2014 and 2013, are recommended by the program officers and approved by the executive director, expensed upon approval, and ratified by the Board of Trustees at the following board meeting. Grants that are cancelled or in excess of needed amounts are included as a reduction of grant expense in the year they are cancelled or returned.

Note 6 – Leases

The Foundation occupies office space in the Landmark Office Towers under a lease that terminates on December 31, 2018. Base annual rentals are $120,080 for the remaining term of the lease, with escalation charges from these base rentals. There are renewal options for additional periods. Rental expense for the years ended December 31, 2014 and 2013 amounted to $148,228 and $143,787, respectively.

The future minimum lease commitments under leases with terms in excess of one year are as follows:

2015	$	127,585
2016		129,461
2017		131,337
2018		131,337
	$	**519,720**

Note 7 – Net Assets

Net assets include two board-designated funds (principal and income), both of which consist entirely of unrestricted net assets. The principal fund consists of investments in securities and receives the realized and unrealized gains or losses on those assets. The income fund receives interest and dividends on the principal fund investments which are used for grants and administrative expenses. The statements of financial position included the following income fund accounts:

		2014		**2013**
Cash	$	588,719	$	2,023,249
Receivables		374,790		303,045
Other assets		64,834		57,708
Due to principal fund		(2,637,316)		(2,412,437)
Accounts payable		(811,293)		(745,782)
Grants payable		(13,647,695)		(12,881,455)
Deferred Federal excise tax		7,016		6,473
	$	**(16,060,945)**	**$**	**(13,649,199)**

The following is a summary of the changes in total net assets:

		2014		**2013**
Income fund	$	(2,411,746)	$	(3,548,342)
Principal fund		11,301,053		73,183,559
Increase in net assets		8,889,307		69,635,217
Net assets – beginning		511,729,108		442,093,891
Net assets – ending	**$**	**520,618,415**	**$**	**511,729,108**

The change in individual funds includes transfers by the Foundation of $23,382,266 in 2014 and $21,006,348 in 2013, respectively, from the principal fund to the income fund.

Note 8 – Employee Benefit Plan

The Foundation has an employee's tax-sheltered annuity plan for all eligible employees. Such a plan is intended to comply with the requirements of Section 403(b) of the Internal Revenue Code (IRC). Employer contributions are required at 9% of the participants' compensation up to the social security wage base for the year, and 14.7% of the participant's compensation in excess of this wage base, with a limit of $260,000 and $255,000 of compensation for the years ended December 31, 2014 and 2013, respectively. Employer contributions to the plan for the years ended December 31, 2014 and 2013 amounted to $126,837 and $128,584, respectively. Participants are also permitted to make salary reduction contributions to the plan.

Note 9 – Excise Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the IRC, but is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including net realized gains, as defined by the IRC.

Deferred federal excise taxes are provided on the unrealized appreciation or depreciation of investments and interest and dividend income and certain expenses being reported for financial statement purposes in different periods than for tax purposes.

Current excise taxes were provided at 2% for 2014 and 2013, and deferred excise taxes were provided at 2% for both 2014 and 2013. The current and deferred portions of the excise tax provisions were $914,430 and $(49,410) respectively, netting to $865,020 in 2014. The current and deferred portions of the excise tax provisions were $1,150,331 and $1,044,443, respectively, netting to $2,194,774 in 2013.

The Organization follows the provisions of FASB ASC 740-10, “Income Taxes,” which provides guidance on the recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition issues. Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the accompanying financial statements.

Accrued interest relating to uncertain tax positions would be recorded as a component of interest expense and penalties relating to uncertain tax positions would be recorded as a component of general and administrative expenses

The federal tax returns of the Organization for 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Note 10 – Subsequent Events

The Organization has evaluated subsequent events from the statement of financial position date through April 28, 2015.

Independent Auditors' Report

To the Board of Trustees, The George Gund Foundation

We have audited the accompanying financial statements of The George Gund Foundation (an Ohio private foundation), which comprise the statements of financial position as of December 31, 2014 and 2013, 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.

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 audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The George Gund Foundation at December 31, 2014 and 2013, 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.

Walthall, LLP

Certified Public Accountants

Cleveland, Ohio
April 28, 2015