Financial Statements

Statements Of Financial Position

December 31		2015		2014
Assets				
Cash and cash equivalents	$	4,737,114	$	7,742,536
Investments, net		508,527,819		530,848,703
Interest and dividends receivable, net of allowance		300,684		319,827
Federal excise tax		324,000		54,963
Other assets		212,976		224,856
Total assets	$	514,102,593	$	539,190,885
Liabilities				
Accounts payable and accrued expenses	$	736,371	$	811,293
Grants payable		19,249,984		13,647,695
Deferred federal excise tax		5,115,434		4,113,482
Total liabilities		25,101,789		18,572,470
Net Assets				
Unrestricted		489,000,804		520,618,415
Total liabilities and net assets	$	514,102,593	$	539,190,885

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

Statements Of Activities

For the years ended December 31		2015		2014
Revenues, Gains, And Losses				
Net realized investment gains	$	29,649,259	$	18,837,785
Net unrealized investment (losses) gains		(29,007,888)		16,379,667
Dividend income		5,334,150		5,337,146
Interest income		927,021		1,071,510
Other income		2,070		29,590
Net revenue, gains and losses		6,904,612		41,655,698
Expenses				
Grants expensed		31,378,628		25,805,694
Administrative expenses		5,728,098		6,095,677
Total expenses		37,106,726		31,901,371
(Decrease) increase in net assets before federal excise tax provision		(30,202,114)		9,754,327
Federal excise tax provision		1,415,497		865,020
Net (decrease) in net assets		(31,617,611)		8,889,307
Net assets – beginning		520,618,415		511,729,108
Net assets – ending	$	489,000,804	$	520,618,415

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

Statements Of Cash Flows

For the years ended December 31		2015		2014
Cash Flows From Operating Activities				
(Decrease) increase in net assets	$	(31,617,611)	$	8,889,307
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:				
Depreciation and amortization		45,326		53,578
Net realized gains on investments		(29,649,259)		(18,837,785)
Net unrealized losses (gains) on investments		29,007,888		(16,379,667)
Deferred federal excise tax		1,001,952		(49,410)
Provision for uncollectible program-related loans		177,370		598,825
Changes in assets and liabilities:				
Receivables		(25,719)		(87,570)
Other assets		(7,017)		(7,126)
Accounts payable and accrued expenses		(74,922)		65,511
Grants payable		5,602,289		766,240
Net cash used in operating activities		(25,779,703)		(24,988,097)
Cash Flows From Investing Activities				
Proceeds from sale of investments		119,881,873		113,976,330
Purchase of investments		(97,081,163)		(88,323,993)
Purchase of equipment and improvements		(26,429)		(21,832)
Net cash provided by investing activities		22,774,281		25,630,505
Net increase (decrease) increase in cash and cash equivalents		(3,005,422)		642,408
Cash and cash equivalents – beginning		7,742,536		7,100,128
Cash and cash equivalents – ending	$	4,737,114	$	7,742,536
Supplemental Disclosure Of Cash Flow Information				
Cash paid during the year:				
Income taxes, excise	$	682,347	$	940,000
Interest	$	—	$	—

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

Notes to Financial Statements – December 31, 2015 and 2014

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 $9,253,373 and $8,987,763 at December 31, 2015 and 2014, respectively. The notes receivable are due at various dates, from 2018 through 2032. The loans carry interest rates between 1% and 2%; principal and interest payment arrangements vary by note. As of December 31, 2015 and 2014, the Foundation has unfunded note commitments of $539,300 and $1,320,000, respectively.

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, 2015 and 2014, as provided by the fund managers. Market values as of December 31, 2015 and 2014 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, 2015 and 2014, the Foundation had total unfunded capital commitments to alternative investments of $1,878,806 and $2,305,662, 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, 2015 and 2014, an allowance for uncollectible accounts in the amount of $583,000 is netted against investments in notes receivable.

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, 2015 and 2014, an allowance for uncollectible interest in the amount of $253,061 and $237,236, 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.

NOTE 2 – Investments

Cost and market value of investments were as follows:

	2015		2014	
	Market Value	**Cost**	**Market Value**	**Cost**
Fixed income securities	$ 28,699,390	$ 28,857,500	$ 19,668,306	$ 19,522,066
Common stocks and alternative investments	479,828,429	223,861,854	511,180,397	305,262,083
Total	$ 508,527,819	$ 252,719,354	$ 530,848,703	$ 324,784,149

Market values of investments are based on December 31, 2015 and 2014 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:

	Fair Value Measurements at Reporting Date Using			
December 31, 2015	**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	$ 130,953,675	—	—	$ 130,953,675
Financial	14,264,020	—	—	14,264,020
Services	8,051,040	—	—	8,051,040
Industrial goods	10,366,038	—	—	10,366,038
Basic materials	7,606,029	—	—	7,606,029
Technology	16,245,313	—	—	16,245,313
Healthcare	9,267,323	—	—	9,267,323
Media	6,204,179	—	—	6,204,179
Retail	5,991,046			5,991,046
Closely-held	—	—	$ 100	100
Bonds				
Corporate	—	$ 3,865,952	—	3,865,952
United States Treasury and Agency	—	5,639,144	—	5,639,144
State and Municipal	—	692,055	—	692,055
Foreign	—	171,036	—	171,036
Limited Partnerships	—	193,656,674	67,944,398	261,601,072
Other Investments				
Program-related savings	—	25,221	—	25,221
Program-related loans, net of allowance	—	—	9,253,373	9,253,373
Charitable reserve fund	—	18,331,203	—	18,331,203
Total Fair Value Assets	$ 208,948,663	$ 222,381,285	$ 77,197,871	$ 508,527,819

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	—	—	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

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, 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3): Limited Partnerships	Other Investments	Common Stock	Total
Beginning balance – January 1, 2015	$ 72,977,549	$ 8,987,763	$ 100	$ 81,965,412
Total gains or losses (realized/unrealized) included in changes in net assets	(2,386,102)	—	—	(2,386,102)
Purchases	546,856	780,707	—	1,327,563
Sales proceeds	(3,193,905)	(353,552)	—	(3,547,457)
Write-offs for uncollectible program-related loans	—	(161,545)	—	(161,545)
Ending balance – December 31, 2015	67,944,398	9,253,373	100	77,197,871
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	$ (4,428,892)	$	$	$ (4,428,892)

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)
Write-offs 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 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	9,253,373	Discounted cash flows	Applicable interest and term	—	—

At December 31, 2015, the Foundation's limited partnerships are subject to withdrawal restrictions as follows:

	Limited partnerships
Available for redemption:	
Monthly	$ 251,490,686
Subject to distribution	10,110,386
Total	$ 261,601,072

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 realized investment gains of $2,042,790 and $1,393,386 for the periods ended December 31, 2015 and 2014, respectively, and net unrealized investment gain / loss of $(4,428,892) and $(2,277,100) for the periods ended December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, the Foundation's charitable reserve fund was not subject to withdrawal restrictions. The fund holds mostly fixed income investments and is valued at net asset value. The Foundation owns 81% and 62% of the charitable reserve fund at December 31, 2015 and 2014, respectively.

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, 2015 and 2014, 24% of the total market value of securities, and 68% and 65%, 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 $780,000 and $700,000 for the years ended December 31, 2015 and 2014, respectively, 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, 2015 and 2014 amounted to $151,055 and $148,228, respectively.

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

2016	$	129,461
2017		131,337
2018		131,337
	$	392,135

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:

	2015	2014
Cash	$ 1,743,278	$ 588,719
Receivables	624,684	374,790
Other assets	71,851	64,834
Due to principal fund	(3,100,891)	(2,637,316)
Accounts payable	(736,371)	(811,293)
Grants payable	(19,249,984)	(13,647,695)
Deferred Federal excise tax	6,539	7,016
	$ (20,640,894)	$ (16,060,945)

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

	2015	2014
Income fund	$ (4,579,949)	$ (2,411,746)
Principal fund	(27,037,662)	11,301,053
(Decrease) increase in net assets	(31,617,611)	8,889,307
Net assets – beginning	520,618,415	511,729,108
Net assets – ending	$ 489,000,804	$ 520,618,415

The change in individual funds includes transfers by the Foundation of $26,840,407 and $23,382,266 in 2015 and 2014, 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 $265,000 and $260,000 of compensation for the years ended December 31, 2015 and 2014, respectively. Employer contributions to the plan for the years ended December 31, 2015 and 2014 amounted to $126,137 and $126,837, 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 1% (qualified for reduced excise tax rate) and 2% for 2015 and 2014, and deferred excise taxes were provided at 2% for both 2015 and 2014. The current and deferred portions of the excise tax provisions were $413,545 and $1,001,952 respectively, for a total expense of $1,415,497 in 2015. The current and deferred portions of the excise tax provisions were $914,430 and $(49,410), respectively, netting to $865,020 in 2014.

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 2013, 2014, and 2015 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, 2016.

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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Walthall, LLP

Certified Public Accountants

Cleveland, Ohio
April 28, 2016