GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

GREATER MILWAUKEE FOUNDATION

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KPMG LLP
Suite 1500
777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report

Greater Milwaukee Foundation Board:

We have audited the accompanying combined financial statements of the Greater Milwaukee Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly in all material respects, the financial position of the Greater Milwaukee Foundation as of December 31, 2014 and 2013, and the changes in its combined net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Milwaukee, Wisconsin
August 28, 2015

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2014 and 2013

Assets	**2014**	**2013**
Cash and cash equivalents	$ 142,990,238	62,557,823
Accounts receivable, prepaid expenses and accrued investment income	588,527	616,170
Investments, at fair value	686,964,599	647,560,160
Loans receivable	275,266	287,230
Beneficial interest in charitable trusts	4,308,196	4,489,202
Property, furniture and equipment, net	392,641	343,508
Total assets	$ 835,519,467	715,854,093
Liabilities and Net Assets		
Liabilities:		
Accrued expenses	$ 1,028,181	1,013,396
Grants payable	16,467,151	14,724,739
Liability for pooled income funds	95,176	95,766
Agency endowment funds	31,172,940	30,670,017
Total liabilities	48,763,448	46,503,918
Net assets:		
Undesignated funds	81,561,911	83,141,989
Field of interest funds	179,107,659	173,390,528
Donor-designated funds	273,063,080	169,732,983
Donor-advised funds	245,813,458	236,023,406
Total unrestricted net assets	779,546,108	662,288,906
Temporarily restricted net assets	7,209,911	7,061,269
Total net assets	786,756,019	669,350,175
Total liabilities and net assets	$ 835,519,467	715,854,093

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	**Temporarily restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Total**
Revenues, gains, and losses:						
Contributions	$ 137,901,013	220,762	138,121,775	34,843,255	249,892	35,093,147
Interest and dividend income	10,668,586	110,115	10,778,701	9,871,081	1,474,228	11,345,309
Realized net gains on investments	56,899,362	5,233	56,904,595	42,254,817	19,240	42,274,057
Unrealized net (losses) gains on investments	(34,038,351)	212	(34,038,139)	47,155,829	(5,036)	47,150,793
Administrative fee on agency endowment funds	273,217	—	273,217	236,699	—	236,699
Change in actuarial valuation of split-interest agreements	—	(181,477)	(181,477)	—	310,077	310,077
Total revenues, gains and losses	171,703,827	154,845	171,858,672	134,361,681	2,048,401	136,410,082
Grants and expenses:						
Grants approved for charitable purposes	32,497,642	—	32,497,642	36,487,735	—	36,487,735
Transfers to other charitable organizations	14,042,872	—	14,042,872	—	—	—
Program-related expenses	1,387,255	—	1,387,255	1,110,501	—	1,110,501
Supporting services:						
Custodial and investment management fees	1,275,382	—	1,275,382	1,083,437	—	1,083,437
Administrative expenses, net	5,249,677	—	5,249,677	4,820,196	—	4,820,196
Total grants and expenses	54,452,828	—	54,452,828	43,501,869	—	43,501,869
Release of temporary restrictions	6,203	(6,203)	—	2,037,650	(2,037,650)	—
Increase in net assets	117,257,202	148,642	117,405,844	92,897,462	10,751	92,908,213
Net assets, beginning of year	662,288,906	7,061,269	669,350,175	569,391,444	7,050,518	576,441,962
Net assets, end of year	$ 779,546,108	7,209,911	786,756,019	662,288,906	7,061,269	669,350,175

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 117,405,844	92,908,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	88,075	82,212
Realized net gains on investments	(56,904,595)	(42,274,057)
Unrealized net losses (gains) on investments	34,038,139	(47,150,793)
Change in actuarial valuation of split-interest agreements	181,477	(310,077)
Changes in assets and liabilities:		
Increase in accrued investment and loan interest receivable	15,649	885,947
Increase in accrued expenses	14,785	87,498
Increase in grants payable	1,742,412	3,382,658
Increase in agency endowment funds	502,923	4,482,984
Net change in other assets and liabilities	1,774	2,384
Net cash provided by operating activities	97,086,483	12,096,969
Cash flows from investing activities:		
Proceeds from sale of investments	339,636,494	352,507,565
Purchase of investments	(356,174,477)	(351,208,787)
Purchase of property, furniture, and equipment	(137,208)	(79,744)
Proceeds from repayment of notes receivable	23,958	24,614
Net cash (used in) provided by investing activities	(16,651,233)	1,243,648
Cash flows from financing activities:		
Payments from charitable trusts	—	322,714
Payments to pooled income participants	(2,835)	(2,630)
Net cash (used in) provided by financing activities	(2,835)	320,084
Net increase in cash and cash equivalents	80,432,415	13,660,701
Cash and cash equivalents at beginning of year	62,557,823	48,897,122
Cash and cash equivalents at end of year	$ 142,990,238	62,557,823

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The combined financial statements include the accounts of the Greater Milwaukee Foundation Trust (a community trust), the Greater Milwaukee Foundation, Inc. (a charitable corporation), and the following supporting organizations, collectively described hereafter as "the Foundation:"

- Greater Cedarburg Foundation, Inc.
- Greater Milwaukee Foundation Holdings, Inc.
- Hepburn "Bootstrap" Foundation, Inc.
- Honkamp Family Foundation
- Jay Kay Foundation, Inc.
- Oconomowoc Area Foundation, Inc.
- Strattec Foundation, Inc.
- West Bend Community Foundation, Inc.

In 2014, the Foundation transferred $14,042,872, which comprised the assets of the Ceres Foundation, Inc., formerly included in the combined financial statements as a supporting organization of the Foundation, to an unrelated private foundation. This distribution is included in the statements of activities as transfers to other charitable organizations. The fund transfer agreement effectively dissolved the Ceres Foundation, Inc. with the intention of dividing the assets between a private foundation and the Foundation. The Foundation's $5,000,000 share of the assets was returned to the Foundation in 2015 and was used to establish a donor advised fund. This fund is to be terminated over the next five years through the use of the assets as grants approved from charitable purposes.

Common management by the Greater Milwaukee Foundation Board is the basis for combination of the above-listed organizations. The combined financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The statements reflect the combined assets and financial activity of various trusts and funds administered by the Foundation. Interfund transactions and balances have been eliminated.

Net assets and revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Although most contributions to the Foundation include donor-imposed restrictions, the variance power established in the amended Declaration of Trust and the Corporate By-Laws for Greater Milwaukee Foundation Trust and Greater Milwaukee Foundation, Inc., respectively, gives the Foundation unilateral variance power to alter the restriction on any donation without the donor's approval. The provisions regarding variance power have been included in the Foundation's governing instruments since it was established in 1915. This variance power applies to all of the funds created within the Foundation. In addition, the total return spending policy adopted by the Foundation allows the Foundation to supplement income with distributions from the original corpus of gifts, if necessary, to maintain distribution levels authorized by the Foundation board. Accordingly, net assets of the Foundation and changes therein are classified as unrestricted net assets for financial reporting purposes except for those assets that have time restrictions, which will delay receipt of funds into the Foundation. Assets with time restrictions are recorded as temporarily restricted net assets.

Notwithstanding the unrestricted classification, the Foundation consistently follows the practice of respecting donors' grant-making preferences, as stated in their wills or gift agreements, when they establish a fund with the Foundation.

The Foundation's component funds, which have been combined for presentation purposes, are of various types reflecting the purposes of the donors who have contributed to them and are described as follows:

Undesignated Funds

Undesignated funds are those over which the board has full discretion in making distributions for charitable purposes to meet community needs.

Field of Interest Funds

Field of interest funds are unrestricted funds used at the board's discretion to meet a general field of charitable need specified by the donor.

Donor-Designated Funds

Donor-designated funds are unrestricted funds where the donor has designated an agency or institution for which support will be provided.

Donor-Advised Funds

Donor-advised funds are unrestricted funds for which the donor has reserved the right to make nonbinding distribution recommendations to the board.

Temporarily Restricted Net Assets

Foundation assets which will not be available for Foundation use until an event occurs such as the maturation of a remainder trust interest or life insurance policy.

(b) Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and gains and expenses and losses during the reporting period. Actual results could differ from those estimates. Significant estimates include the estimated fair value of certain investment securities that are not traded on national security exchanges, the estimated beneficial interests in charitable trusts, and the estimated liability for pooled income funds.

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(c) Cash Equivalents

Cash equivalents are valued at cost, which approximates market. For purposes of the combined statements of cash flows, the Foundation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Investment Securities

The investment portfolio is held and managed by various financial institutions. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investments are valued at quoted market value, except for life insurance policies, closely held stock, and certain alternative investments. Life insurance policies are valued at the cash surrender value of the underlying policies. Closely held stocks, stocks not traded on national security exchanges, are valued at independently appraised values in the absence of readily ascertainable market values. Certain alternative investments are valued at the Foundation's interest in the equity of the investee based on the audited financial statements of the underlying funds. Because of the inherent uncertainty of certain valuations, estimated fair values might differ significantly from the fair values that would have been used had a ready market for the investments existed.

The Foundation's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the combined statements of financial position and the combined statements of activities.

(e) Loans Receivable

Loans receivable are valued at the outstanding principal amount, which is the original cost less payments received. Should a loan receivable be determined to be doubtful of collection, it would be written down, by way of a charge to expense, to the amount expected to be collected.

(f) Beneficial Interest in Charitable Trusts

The Foundation's split-interest agreements with donors consist of charitable lead trusts, charitable remainder trusts, pooled life income funds, and a retained life estate for which the Foundation is either the remainder beneficiary or both the fiscal agent and remainder beneficiary. These agreements are recognized for financial reporting purposes if the Foundation receives documentation of the terms of its beneficial interest and the designation of the Foundation as beneficiary is irrevocable. Agreements known to the Foundation that do not meet both conditions are not recorded in the Foundation's combined financial statements. Assets related to split-interest agreements are recorded at fair value. There were no new contributions recorded under split-interest agreements in 2014 and 2013.

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2014, the Foundation was aware of numerous deferred gifts that are either revocable or include provisions allowing the principal to be invaded by income beneficiaries. The amount of future contribution revenue related to these gifts will not be recorded in the Foundation's combined financial statements until the gift becomes irrevocable

(Continued)

and the probable amount is known. While it is not possible to precisely determine the future revenue related to such gifts, the Foundation has identified approximately 381 donors as of December 31, 2014, who have indicated that they have made some form of deferred gift.

The contributions receivable and investments related to the agreements recorded by the Foundation are temporarily restricted in nature and the net assets are classified as temporarily restricted for financial reporting purposes. When mature, these balances will become unrestricted by virtue of the donors' designation or by the variance power of the Foundation board.

(g) Property, Furniture, and Equipment

Cost of leasehold improvements, office furniture, and equipment are capitalized and depreciated using the straight-line method over the assets estimated useful life, ranging from 4 to 10 years.

(h) Contributions

Contributions are recorded at fair value when received or when the Foundation is notified of an irrevocable gift. Gifts of real estate and personal property are recorded at fair value at the date of the gift.

During 2014, the Foundation received a $100 million cash contribution for the construction of a new, NBA-quality arena to be built in the City of Milwaukee. The Foundation retained variance power over this contribution, therefore it was recorded as an unrestricted contribution in the 2014 statement of activities. The operating agreement that governs the use of the contribution specifies certain transfers of funds during 2015, which will ultimately be paid in the form of a grant as the construction of the arena progresses.

(i) Grants Payable

The Foundation makes awards and grants based on the board of directors' approval. The minimum amount for which the Foundation is obligated is recorded as grants payable in the combined statements of financial position. Grants payable are reported at the present value of estimated future cash outflows using a discount rate that approximates the federal funds rate.

(j) Charitable Distributions

Charitable distributions are made primarily from income accounts in accordance with the stipulations of the various individual trust or fund instruments and as approved by the board of the Foundation.

The Foundation utilizes a total return spending policy that allows for a long-term investment approach in order to achieve an expected return greater than the total of the spending rate and inflation rate and which will maintain the purchasing power of the corpus. The Foundation utilized a 4.75% and 5% spending rate in 2014 and 2013, respectively, based on a 20-quarter trailing average investment balance determined on a market value basis in order to allocate investment income from component funds for grant purposes. If the traditional yield (interest and dividend income) is not sufficient to support the spending rate, income derived from the accumulated realized gains of the component funds is used. If the traditional yield exceeds the spending rate, the excess income remains invested in the component funds.

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(k) Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service recognizing it as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) and classifying it as a public charity.

The Foundation follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC Topic 740 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC Topic 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. The Foundation does not have a liability recorded for unrecognized tax benefits.

(l) Agency Endowment Funds

In accordance with FASB ASC Topic 958, *Not-for-Profit Organizations*, the Foundation recognizes a liability when it receives a transfer of assets and the resource provider (i.e., a not-for-profit organization) specifies itself or an affiliate as the beneficiary.

The statement also requires the Foundation, when accepting cash or other financial assets from a not-for-profit organization, to recognize the fair value of those assets as a liability to the specified beneficiary (generally the same not-for-profit organization) concurrent with recognition of the assets received from the not-for-profit organization if the Foundation agrees to any of the following: (1) use of those assets on behalf of the not-for-profit organization, (2) transfer of those assets to the not-for-profit organization, (3) use of the return on those assets to benefit the not-for-profit organization, or (4) apply any of the above to an unaffiliated specified beneficiary determined by the not-for-profit organization.

When a third-party donor explicitly grants the Foundation variance power, the Foundation will continue to recognize the fair value of any assets it receives as a contribution received when the designated beneficiary is a not-for-profit organization. As more fully discussed in note 1(a), the Foundation has unilateral variance power to alter the restriction of any donation without the donor's approval. Therefore, assets received from third-party donors, even those with donor-imposed restrictions, are recognized as contributions received and unrestricted net assets.

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(2) Investments

The cost and fair value of investments as of December 31, 2014 and 2013 are summarized as follows:

	2014		2013	
Investment	**Cost**	**Fair value**	**Cost**	**Fair value**
Traditional investments:				
U.S. government obligations	$ 6,019,745	6,122,258	4,584,645	4,503,633
U.S. Treasury	2,986,257	2,995,608	5,039,304	4,937,365
Government obligation mutual funds	195,212	195,695	183,499	180,644
Corporate bonds	12,261,711	12,534,565	6,975,458	6,945,479
Other asset-backed securities	983,740	976,075	1,176,232	1,149,658
Bond mutual funds	136,788,767	140,439,489	112,770,844	116,523,189
Equity mutual funds	234,671,828	287,184,588	191,254,425	263,289,186
Commingled securities	55,466,345	70,244,403	52,129,501	64,264,363
Common and preferred stock	63,579,026	82,651,540	72,785,701	100,549,981
Foreign government bonds	149,180	155,850	—	—
Cash surrender value of life insurance	2,867,150	2,867,150	2,526,979	2,526,981
Total traditional investments	515,968,961	606,367,221	449,426,588	564,870,479
Alternative investments:				
Absolute return hedge funds	4,029,859	10,601,074	4,029,859	10,425,273
Equity hedge funds	28,623,517	36,984,283	25,986,786	33,631,066
Private equities	6,178,359	6,901,536	5,837,310	6,278,491
Corporate high-yield bonds	535,296	502,843	269,068	265,834
Other high-yield bonds	22,222,129	21,661,929	15,073,982	26,530,057
Real estate investment trust	4,918,720	3,945,713	6,313,584	5,558,960
Total alternative investments	66,507,880	80,597,378	57,510,589	82,689,681
Total investments	$ 582,476,841	686,964,599	506,937,177	647,560,160

Unrealized net (losses) gains reported in the Foundation's combined statements of activities in 2014 and 2013 were $(34,038,139) and $47,150,793, respectively. Realized and unrealized net gains on agency endowment funds were $1,143,569 and $4,257,507 in 2014 and 2013, respectively, (note 5).

(Continued)

(3) Grants

Grants approved for charitable purposes and therefore recognized in the combined statements of activities during 2014 and 2013 are as follows:

	2014	2013
Total approved grants	$ 40,445,245	42,450,508
Interfund grants	(7,223,188)	(5,826,328)
Returned or canceled grants	(728,193)	(111,986)
Adjustment to present value	3,778	(24,459)
	$ 32,497,642	36,487,735

Grants payable at December 31, 2014 are scheduled for payment as follows:

Year of payment	Amount
2015	$ 8,459,226
2016	3,129,314
2017	1,636,674
2018	3,186,293
2019	37,127
Thereafter	18,517
	$ 16,467,151

(4) Functional Classification of Expenses

Total expenses of the Foundation during 2014 and 2013 are classified by function as follows:

	2014			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 32,497,642	—	—	32,497,642
Transfers to other organizations	14,042,872	—	—	14,042,872
Program-related expenses	1,306,495	3,410	77,350	1,387,255
Custodial and investment management fees	—	1,275,320	62	1,275,382
Administrative expenses	1,371,232	2,554,427	1,324,018	5,249,677
Total approved distributions and expenses	$ 49,218,241	3,833,157	1,401,430	54,452,828

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	2013			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 36,487,735	—	—	36,487,735
Program-related expenses	1,022,473	—	88,028	1,110,501
Custodial and investment management fees	—	1,083,437	—	1,083,437
Administrative expenses	1,358,655	2,181,731	1,279,810	4,820,196
Total approved distributions and expenses	$ 38,868,863	3,265,168	1,367,838	43,501,869

The administrative expenses of the Foundation are funded through a proportionate assessment on the market value of the individual funds, contributions, fees for services, and internal grants specifically designated for administrative purposes. Administrative expenses are charged to the different functions based on allocations or direct charges to the function. Administrative expenses in 2014 and 2013 are summarized as follows:

	2014	2013
Administrative expenses:		
Personnel	$ 3,438,059	3,228,572
Occupancy	446,685	459,546
Office furniture and equipment	88,075	82,212
Other expenses	1,316,580	1,090,055
	5,289,399	4,860,385
Less reimbursement for services and fees provided to other organizations	(39,722)	(40,189)
Administrative expenses, net	$ 5,249,677	4,820,196

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(5) Agency Endowment Funds

Agency endowment funds are unrestricted funds received from nonprofit organizations that designate themselves as beneficiaries. Accordingly, agency endowment funds are reported as liabilities rather than as unrestricted net assets of the Foundation. The liability balances and activities related to agency endowment funds are summarized as follows:

	2014	2013
Liability for agency endowment funds, beginning of year	$ 30,670,017	26,187,033
Receipts	1,792,337	2,703,206
Investment income	350,439	331,478
Realized and unrealized gains on investments	1,143,569	4,257,507
Distributions	(2,432,469)	(2,497,402)
Custodial and investment management fees	(77,736)	(75,106)
Administrative expense allocations	(273,217)	(236,699)
Liability for agency endowment funds, end of year	$ 31,172,940	30,670,017

(6) Related-Party Transactions

It is the policy of the Foundation that all board members and staff personnel avoid any conflict between their own individual interests and the interests of the Foundation. The Foundation has a conflict-of-interest policy whereby board members must advise the board of any direct or indirect interest in any transaction or relationship with the Foundation and abstain from voting for the approval or denial of any grants or expenditures that affect their individual, professional, or business interests. During the years ended December 31, 2014 and 2013, the Foundation awarded discretionary grants over $50,000 totaling $805,000 and $1,307,000, respectively, to related-party organizations.

(7) Employee Benefit Plan

The Foundation sponsors a defined-contribution plan covering substantially all Foundation employees who have completed one year and 1,000 hours of service. The Foundation contributed 5% and 10% of eligible employee compensation in the years 2014 and 2013, respectively. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2014. Participants are 100% vested in the employer and employee contributions. The Foundation's expense related to this plan was $205,342 and $226,264 in 2014 and 2013, respectively.

(8) Commitment and Contingency

The Foundation leases office space under an operating lease that expires on June 30, 2019. Future minimum lease payments due under this, not including utility adjustments, are:

Year:		
2015	$	421,108
2016		371,830
2017		378,393
2018		385,142
2019		259,816
	$	1,816,289

Total rent expense, including utility adjustments, was $398,783 and $412,937 in 2014 and 2013, respectively.

(9) Fair Value of Financial Instruments

The carrying amount reported in the combined statements of financial position for the following approximates fair value because of the short maturities of these investments: cash and cash equivalents, accounts receivable, prepaid expenses, accrued income, accounts payable, and accrued liabilities.

The Foundation adopted the provisions of ASC Topic 820 for fair value measurements of financial assets and financial liabilities as of July 1, 2008. ASC Topic 820 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) that are observable in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, where there is little or no market data, requiring the Foundation to develop its own assumptions of fair value for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used.

Cash and cash equivalents, accounts receivable, prepaid expenses, accrued income, accounts payable, and accrued liabilities: The carrying amount reported in the balance sheet for these assets approximates the fair value of these assets and are short term in duration.

Investments: The fair values of investments are based on valuations provided by external investment managers and the custodian financial institutions. Valuations of investments in Level 1, which include money market instruments, accrued investment income, bond and equity mutual funds and equity securities, are provided by the custodian financial institutions based on observable market quotation prices. Valuations of certain investments in Level 2, which include U.S. government obligations, asset and mortgage-backed securities, are provided by the custodian financial institutions based on observable inputs other than quoted prices, such as pricing services or indices.

In conjunction with the adoption of ASC Topic 820, the Foundation also adopted the measurement provisions of ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU No. 2009-12)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. ASU No. 2009-12 allows the Foundation to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Investment Companies*. Investments in commingled bond and equity funds and other equity securities with a fair value of $481,188,680 and $397,191,840 were estimated using the net asset value per share provided by external investment managers as of December 31, 2014 and 2013, respectively. Commingled bond and equity funds, without redemption restrictions, were classified as Level 2 with a fair value of $116,170,300 and $130,457,740 as of December 31, 2014 and 2013, respectively. Commingled bond and equity funds, and other equity securities, with redemption restrictions, were classified as Level 3 with a fair value of $89,605,619 and $119,910,580 as of December 31, 2014 and 2013, respectively. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of the Foundation’s interest in the funds.

The investment strategy of the commingled bond funds is to achieve favorable income-oriented returns from diversified portfolios of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities. The investment strategy of the commingled equity funds is to seek investment results that achieve or exceed major market indices. Derivative instruments may be used in these funds in an attempt to hedge existing long and short positions in order to maximize returns and minimize risk.

The primary investment objectives for the other equity securities are to achieve a higher than average rate of return relative to the level of risk assumed, by pursuing trading strategies that are based primarily upon convertible hedging (based on equities, bonds, and related derivative instruments); directional, relative value, and event-driven hedging; long/short debt and equity trading; and among others, risk arbitrage.

The following tables present the balance of assets measured at fair value on a recurring basis as of December 31, 2014 and 2013 (in thousands):

		December 31, 2014					
		Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Cash and cash equivalents		$ 142,990,238	—	—	142,990,238		
Investments:							
U.S. government obligations		6,122,258	—	—	6,122,258	Daily	3 days
U.S. Treasury		2,995,608	—	—	2,995,608	Daily	3 days
Government obligation mutual funds		195,695	—	—	195,695	Daily	3 days
Corporate bonds		12,534,565	—	—	12,534,565	Daily	3 days
Other asset-backed securities		976,075	—	—	976,075	Daily	3 days
Bond mutual funds		126,735,449	13,859,890	—	140,595,339	Daily, Monthly	1–10 days
Equity mutual funds		237,613,878	49,570,710	—	287,184,588	Daily, Monthly	1–30 days
Comingled funds:							
Comingled bond funds	(a)	—	39,071,389	—	39,071,389	Daily	1–10 days
Comingled U.S. equities	(b)	—	—	31,173,014	31,173,014	Next redemption date: 12/31/19	60 days-6 months
Subtotal		—	39,071,389	31,173,014	70,244,403		
Common and preferred Stock		82,651,540	—	—	82,651,540	Daily	3 days
Cash surrender value of life insurance		2,867,150	—	—	2,867,150	n/a	n/a
Alternative investments:							
Multistrategy hedge funds	(d)	—	—	10,601,074	10,601,074	Next redemption date: 12/31/16	100 days
Long/short equity hedge fund	(e)	—	—	36,984,283	36,984,283	Redeemable: 60% as of 09/30/15	45–95 days
Private equity	(f)	—	—	6,901,536	6,901,536	No liquidity	n/a
Corporate high-yield bonds	(g)	502,843	—	—	502,843	Daily	3 days
Other high-yield bonds	(g)	7,993,618	13,668,311	—	21,661,929	Daily, Monthly	1–45 days
Private real assets	(h)	1	—	3,945,712	3,945,713	No liquidity	n/a
Subtotal		8,496,462	13,668,311	58,432,605	80,597,378		
Total investments		481,188,680	116,170,300	89,605,619	686,964,599		
Beneficial interest in charitable trust		—	—	4,308,196	4,308,196		
Total assets		$ 624,178,918	116,170,300	93,913,815	834,263,033		

		December 31, 2013				Redemption	Days
		Level 1	Level 2	Level 3	Total	frequency	notice
Cash and cash equivalents		$ 62,557,823	—	—	62,557,823		
Investments:							
U.S. government obligations		4,503,633	—	—	4,503,633	Daily	3 days
U.S. Treasury		4,937,365	—	—	4,937,365	Daily	3 days
Government obligation mutual funds		180,644	—	—	180,644	Daily	3 days
Corporate bonds		6,945,479	—	—	6,945,479	Daily	3 days
Other asset-backed securities		1,149,658	—	—	1,149,658	Daily	3 days
Bond mutual funds		103,840,229	12,682,960	—	116,523,189	Daily, Monthly	1–10 days
Equity mutual funds		169,649,722	74,043,359	19,596,105	263,289,186	Daily, Monthly	1–30 days
Comingled funds:							
Comingled bond funds	(a)	—	30,681,013	—	30,681,013	Daily	1–3 days
Comingled U.S. equities	(b)	—	—	20,532,942	20,532,942	Quarterly, Annually	60 days
Comingled international equities	(c)	—	13,050,408	—	13,050,408	Daily	1–3 days
Subtotal		—	43,731,421	20,532,942	64,264,363		
Common and preferred Stock		100,549,981	—	—	100,549,981	Daily	3 days
Cash surrender value of life insurance		2,526,981	—	—	2,526,981	n/a	n/a
Alternative investments:							
Multistrategy hedge funds	(d)	—	—	10,425,273	10,425,273	Next redemption date: 12/31/13	100 days
Long/short equity hedge fund	(e)	—	—	33,631,066	33,631,066	Redeemable: 10% as of 12/31/14; 41% as of 9/30/15; 11% as of 12/31/15	45–90 days
Private equity	(f)	—	—	6,278,491	6,278,491	No liquidity	n/a
Corporate high-yield bonds	(g)	265,834	—	—	265,834	Daily	3 days
Other high-yield bonds	(g)	2,642,313	—	23,887,744	26,530,057	Daily, Monthly	1–30 days
Private real assets	(h)	1	—	5,558,959	5,558,960	No liquidity; Quarterly	30 days
Subtotal		2,908,148	—	79,781,533	82,689,681		
Total investments		397,191,840	130,457,740	119,910,580	647,560,160		
Beneficial interest in charitable trust		—	—	4,489,202	4,489,202		
Total assets		$ 459,749,663	130,457,740	124,399,782	714,607,185		

(a) This class primarily invests in a diversified portfolio of intermediate and long-term debt instruments, such as notes and bonds issued by the U.S. Treasury; mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae; corporate debt issued by both U.S. and foreign issuers; and commercial mortgage-backed securities.

(b) This class includes investments in collective investment trusts, limited liability companies, and limited partnerships that invest primarily in U.S. equity securities.

(c) This class includes investments in collective investment trusts that invest primarily in non-U.S. equity securities in developed markets.

(d) This class includes investments in hedge funds that utilize a multi-strategy, multi-manager approach. There is one class of shares – Class A. There is a redemption lock-up period, which expires on December 31. If not redeemed, shares are automatically reinvested at December 31 for the lock-up period. The following is the lock-up summary as of December 31, 2014: BMO investment pool, cannot be redeemed until December 31, 2016.

(e) This class includes investments in hedge funds that invest in U.S. and non-U.S. equity securities, debt securities, options, other derivatives, or financial instruments, in both long and short positions. Approximately 40% of total investment cannot be redeemed until September 30, 2015.

(f) This class includes investments in limited partnerships with variety of private investment strategies, including venture capital, buyouts, foreign private equity, real estate, and resource related investments. These investments can never be redeemed, but instead, are distributed as the underlying assets are sold. These investments had unfunded commitments of $4,735,500 and $2,645,500 as of December 31, 2014 and 2013, respectively.

(g) This class includes an investment in a bond fund that invests in public and private issue debt securities that are generally rated below investment grade or deemed to be below investment grade by the fund. This diversified portfolio may include: domestic and foreign corporate bonds, bank debt, convertible bonds, preferred stocks, and other financial instruments.

(h) This class includes private equity funds that invest in the following: 1) Energy and natural resource investments in the U.S. and throughout the world, 2) Real estate investments in the U.S., Europe, and Asia, and 3) Technology, Media, Financial Services, Consumer and Industrial sectors in the U.S. and throughout the world. As of December 31, 2014, approximately 49% total investments can never be redeemed, but instead, these assets are distributed as the underlying assets are sold. These investments had unfunded commitments of $2,584,681 and $1,110,684 as of December 31, 2014 and 2013, respectively.

(Continued)

The following tables present the Foundation's activity for all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs, as defined in ASC Topic 820 for the years ended December 31, 2014 and 2013:

		Equity mutual funds	Comingled funds	Alternative investments	Beneficial interest in charitable trusts
Balances, December 31, 2013	$	19,596,105	20,532,942	79,781,533	4,489,202
Purchases		—	7,000,000	8,436,003	—
Liquidations/distributions (a)		(19,041,261)	—	(36,114,122)	—
Net realized gains (losses) included in change in net assets		(5,693,778)	—	13,836,894	—
Net unrealized gains (losses) included in change in net assets		5,138,934	3,640,072	(7,507,705)	(181,006)
Balances, December 31, 2014	$	—	31,173,014	58,432,603	4,308,196
Balances, December 31, 2012	$	19,513,100	14,792,298	81,708,653	4,494,190
Purchases		—	—	16,255,000	—
Liquidations/distributions		—	—	(13,584,197)	—
Net realized gains (losses) included in change in net assets		—	—	19,698,729	—
Net unrealized gains (losses) included in change in net assets		83,005	5,740,644	(24,296,652)	(4,988)
Balances, December 31, 2013	$	19,596,105	20,532,942	79,781,533	4,489,202

(a) In 2014, the Foundation sold a high-yield bond fund and an equity mutual fund which were classified as level 3 investments as of December 31, 2013. Certain level 2 investments were purchased with the proceeds of these sales which increased level 2 commingled U.S. equities by $9,556,334 and level 2 other high-yield bonds by $13,668,311 as of December 31, 2014.

There were no transfers between investment levels in 2013.

(10) Subsequent Events

Subsequent events have been evaluated through August 28, 2015, which is the date the combined financial statements were available to be issued, noting no subsequent events requiring recording or disclosure in the combined financial statements or related notes.