GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

GREATER MILWAUKEE FOUNDATION

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KPMG LLP
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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, 2013 and 2012, 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, 2013 and 2012, 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
November 5, 2014

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	62,557,823	48,897,122
Accounts receivable, prepaid expenses and accrued investment income		616,170	1,514,110
Investments, at fair value		647,560,160	559,434,090
Loans receivable		287,230	299,850
Beneficial interest in charitable trusts		4,489,202	4,494,190
Property, furniture and equipment, net		343,508	345,975
Total assets	$	715,854,093	614,985,337
Liabilities and Net Assets			
Liabilities:			
Accrued expenses	$	1,013,396	925,898
Grants payable		14,724,739	11,342,081
Liability for pooled income funds		95,766	88,363
Agency endowment funds		30,670,017	26,187,033
Total liabilities		46,503,918	38,543,375
Net assets:			
Undesignated funds		83,141,989	68,598,676
Field of interest funds		173,390,528	139,370,522
Donor-designated funds		169,732,983	155,288,236
Donor-advised funds		236,023,406	206,134,010
Total unrestricted net assets		662,288,906	569,391,444
Temporarily restricted net assets		7,061,269	7,050,518
Total net assets		669,350,175	576,441,962
Total liabilities and net assets	$	715,854,093	614,985,337

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	**Temporarily restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Total**
Revenues, gains, and losses:						
Contributions	$ 34,843,255	249,892	35,093,147	26,070,964	81,594	26,152,558
Interest and dividend income	9,871,081	1,474,228	11,345,309	10,117,702	22,714	10,140,416
Realized net gains on investments	42,254,817	19,240	42,274,057	20,781,550	1,683	20,783,233
Unrealized net gains (losses) on investments	47,155,829	(5,036)	47,150,793	38,080,459	6,294	38,086,753
Administrative fee on agency endowment funds	236,699	—	236,699	211,089	—	211,089
Change in actuarial valuation of split-interest agreements	—	310,077	310,077	—	335,592	335,592
Total revenues, gains and losses	134,361,681	2,048,401	136,410,082	95,261,764	447,877	95,709,641
Grants and expenses:						
Grants approved for charitable purposes	36,487,735	—	36,487,735	28,275,492	—	28,275,492
Program-related expenses	1,110,501	—	1,110,501	973,722	—	973,722
Supporting services:						
Custodial and investment management fees	1,083,437	—	1,083,437	999,645	—	999,645
Administrative expenses, net	4,820,196	—	4,820,196	4,568,091	—	4,568,091
Total grants and expenses	43,501,869	—	43,501,869	34,816,950	—	34,816,950
Release of temporary restrictions	2,037,650	(2,037,650)	—	424,657	(424,657)	—
Increase in net assets	92,897,462	10,751	92,908,213	60,869,471	23,220	60,892,691
Net assets, beginning of year	569,391,444	7,050,518	576,441,962	508,521,973	7,027,298	515,549,271
Net assets, end of year	$ 662,288,906	7,061,269	669,350,175	569,391,444	7,050,518	576,441,962

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 92,908,213	60,892,691
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	82,212	78,002
Realized net gains on investments	(42,274,057)	(20,783,233)
Unrealized net gains on investments	(47,150,793)	(38,086,753)
Change in actuarial valuation of split-interest agreements	(310,077)	(335,592)
Changes in assets and liabilities:		
Increase in accrued investment and loan interest receivable	885,947	1,203,410
Increase (decrease) in accrued expenses	87,498	(117,630)
Increase (decrease) in grants payable	3,382,658	(3,611,369)
Increase in agency endowment funds	4,482,984	3,338,973
Net change in other assets and liabilities	2,384	2,176
Net cash provided by operating activities	12,096,969	2,580,675
Cash flows from investing activities:		
Proceeds from sale of investments	352,507,565	106,566,809
Purchase of investments	(351,208,787)	(85,192,740)
Purchase of property, furniture, and equipment	(79,744)	(23,647)
Proceeds from repayment of notes receivable	24,614	25,805
Net cash provided by investing activities	1,243,648	21,376,227
Cash flows from financing activities:		
Payments from charitable trusts	322,714	30,617
Payments to pooled income participants	(2,630)	(2,811)
Net cash provided by financing activities	320,084	27,806
Net increase in cash and cash equivalents	13,660,701	23,984,708
Cash and cash equivalents at beginning of year	48,897,122	24,912,414
Cash and cash equivalents at end of year	$ 62,557,823	48,897,122

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:”

- Bucyrus Foundation, Inc.
- The Ceres Foundation, Inc.
- 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.

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.

(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 contributions recorded under split-interest agreements in 2013 and 2012.

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2013, 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 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 361 donors as of December 31, 2013, 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.

(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 5% spending rate in 2013 and 2012 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.

(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.

(m) New Accounting Pronouncements

The Foundation adopted the provision of FASB Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, the changes are primarily clarifications of existing guidance or wording changes to align with IFRS. The Foundation adopted the provisions of the ASU in 2013. The adoption of ASU 2011-04 did not have a material effect on the Foundation's combined financial statements.

(Continued)

(2) Investments

The cost and fair value of investments as of December 31, 2013 and 2012 are summarized as follows:

Investment	2013 Cost	2013 Fair value	2012 Cost	2012 Fair value
Traditional investments:				
U.S. government obligations	$ 4,584,645	4,503,633	4,813,873	5,013,065
U.S. Treasury	5,039,304	4,937,365	5,133,354	5,388,188
Government obligation mutual funds	183,499	180,644	149,054	153,237
Corporate bonds	6,975,458	6,945,479	7,108,777	7,507,320
Other asset-backed securities	1,176,232	1,149,658	766,308	768,581
Bond mutual funds	112,770,844	116,523,189	103,123,778	113,001,660
Equity mutual funds	191,254,425	263,289,186	180,117,967	211,243,411
Commingled securities	52,129,501	64,264,363	44,838,297	51,768,197
Common and preferred stock	72,785,701	100,549,981	66,474,324	77,429,199
Cash surrender value of life insurance	2,526,979	2,526,981	2,518,115	2,518,118
Total traditional investments	449,426,588	564,870,479	415,043,847	474,790,976
Alternative investments:				
Absolute return hedge funds	4,029,859	10,425,273	14,171,698	33,225,265
Equity hedge funds	25,986,786	33,631,066	10,592,430	14,002,371
Private equities	5,837,310	6,278,491	5,534,733	5,642,713
Corporate high-yield bonds	269,068	265,834	622,090	675,435
Other high-yield bonds	15,073,982	26,530,057	15,715,571	25,759,207
Real estate investment trust	6,313,584	5,558,960	6,605,446	5,338,123
Total alternative investments	57,510,589	82,689,681	53,241,968	84,643,114
Total investments	$ 506,937,177	647,560,160	468,285,815	559,434,090

Unrealized net gains reported in the Foundation’s combined statements of activities in 2013 and 2012 were $47,150,793 and $38,086,753, respectively. Realized and unrealized net gains on agency endowment funds were $4,257,507 and $2,790,133 in 2013 and 2012, respectively, (note 5).

(3) Grants

Grants approved for charitable purposes and therefore recognized in the combined statements of activities during 2013 and 2012 are as follows:

	2013	2012
Total approved grants	$ 42,450,508	36,531,623
Interfund grants	(5,826,328)	(7,506,817)
Returned or canceled grants	(111,986)	(750,866)
Adjustment to present value	(24,459)	1,552
	$ 36,487,735	28,275,492

Grants payable at December 31, 2013 are scheduled for payment as follows:

Year of payment	Amount
2014	$ 7,695,755
2015	2,644,779
2016	1,615,413
2017	744,105
2018	543,297
Thereafter	1,481,390
	$ 14,724,739

(4) Functional Classification of Expenses

Total expenses of the Foundation during 2013 and 2012 are classified by function as follows:

	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

	2012			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 28,275,492	—	—	28,275,492
Program-related expenses	875,032	6,321	92,369	973,722
Custodial and investment management fees	—	998,655	990	999,645
Administrative expenses	1,231,451	2,140,968	1,195,672	4,568,091
Total approved distributions and expenses	$ 30,381,975	3,145,944	1,289,031	34,816,950

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 2013 and 2012 are summarized as follows:

	2013	2012
Administrative expenses:		
Personnel	$ 3,228,572	3,116,238
Occupancy	459,546	459,411
Office furniture and equipment	82,212	78,002
Other expenses	1,090,055	963,902
	4,860,385	4,617,553
Less reimbursement for services and fees provided to other organizations	(40,189)	(49,462)
Administrative expenses, net	$ 4,820,196	4,568,091

(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:

	2013	2012
Liability for agency endowment funds, beginning of year	$ 26,187,033	22,848,060
Change in commitments outstanding for distributions	—	(5,000)
Receipts	2,703,206	2,268,287
Investment income	331,478	338,522
Realized and unrealized gains on investments	4,257,507	2,790,133
Distributions	(2,497,402)	(1,775,136)
Custodial and investment management fees	(75,106)	(66,744)
Administrative expense allocations	(236,699)	(211,089)
Liability for agency endowment funds, end of year	$ 30,670,017	26,187,033

(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, 2013 and 2012, the Foundation awarded discretionary grants over $50,000 totaling $1,307,000 and $524,000, 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 contributes 10% of eligible employee compensation. Employees are allowed to contribute to the plan. Participants are 100% vested in the employer and employee contributions. The Foundation’s expense related to this plan was $226,264 and $221,220 in 2013 and 2012, respectively.

(8) Commitment and Contingency

The Foundation leases office space under two operating leases that expire on June 30, 2019 and December 31, 2013. Future minimum lease payments due under these leases, not including utility adjustments, are:

Year:		
2014	$	417,379
2015		365,452
2016		371,830
2017		378,393
2018		385,142
After 2018		259,816
	$	2,178,012

Total rent expense, including utility adjustments, was $412,937 and $411,405 in 2013 and 2012, 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 $397,191,840 and $340,105,897 were estimated using the net asset value per share provided by external investment managers as of December 31, 2013 and 2012, respectively. Commingled bond and equity funds, without redemption restrictions, were classified as Level 2 with a fair value of $130,457,740 and $103,314,142 as of December 31, 2013 and 2012, respectively. Commingled bond and equity funds, and other equity securities, with redemption restrictions, were classified as Level 3 with a fair value of $119,910,580 and $116,014,051 as of December 31, 2013 and 2012, 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, 2013 and 2012 (in thousands):

		December 31, 2013					
		Level 1	Level 2	Level 3	Total	Redemption frequency	Days 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 funds	(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		

		December 31, 2012				Redemption	Days
		Level 1	**Level 2**	**Level 3**	**Total**	**frequency**	**notice**
Cash and cash equivalents		$ 48,897,122	—	—	48,897,122		
Investments:							
U.S. government obligations		5,013,065	—	—	5,013,065	Daily	3 days
U.S. Treasury		5,388,188	—	—	5,388,188	Daily	3 days
Government obligation mutual funds		153,237	—	—	153,237	Daily	3 days
Corporate bonds		7,507,320	—	—	7,507,320	Daily	3 days
Other asset-backed securities		768,581	—	—	768,581	Daily	3 days
Bond mutual funds		100,318,700	12,682,960		113,001,660	Daily, Monthly	1–10 days
Equity mutual funds		138,075,028	53,655,283	19,513,100	211,243,411	Daily, Monthly	1–30 days
Comingled funds:							
Comingled bond funds	(a)	—	25,655,496	—	25,655,496	Daily	1–3 days
Comingled U.S. equities	(b)	—	—	14,792,298	14,792,298	Quarterly, Annually	60 days
Comingled international equities	(c)	—	11,320,403	—	11,320,403	Daily	1–3 days
Subtotal		—	36,975,899	14,792,298	51,768,197		
Common and preferred Stock		77,429,199	—	—	77,429,199	Daily	3 days
Cash surrender value of life insurance		2,518,118	—	—	2,518,118	n/a	n/a
Alternative investments:							
Multistrategy hedge funds	(d)	—	—	33,225,265	33,225,265	Next redemption date: 12/31/13	100 days
Long/short equity hedge funds	(e)	—	—	14,002,371	14,002,371	Next redemption date 3/31/13 and 9/30/15 Quarterly	60–70 days
Private equity	(f)	—	—	5,642,713	5,642,713	No liquidity	n/a
Corporate high-yield bonds	(g)	675,435	—		675,435	Daily	3 days
Other high-yield bonds	(g)	2,259,025	—	23,500,182	25,759,207	Daily, Monthly	1–30 days
Private real assets	(h)	1	—	5,338,122	5,338,123	No liquidity; Quarterly	30 days
Subtotal		2,934,461	—	81,708,653	84,643,114		
Total investments		340,105,897	103,314,142	116,014,051	559,434,090		
Beneficial interest in charitable trust		—	—	4,494,190	4,494,190		
Total assets		$ 389,003,019	103,314,142	120,508,241	612,825,402		

(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, 2013: US Bank, JP Morgan, GMF investment pools: fully liquidated as of December 31, 2013. Proceeds will be received in 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 10% of total investment cannot be redeemed until December 31, 2014; approximately 41% of total investment cannot be redeemed until September 30, 2015; approximately 11% of total investment cannot be redeemed until December 31, 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 $2,645,500 and $3,258,500 as of December 31, 2013 and 2012, 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 and 2) Real estate investments in the U.S., Europe, and Asia. As of December 31, 2013, approximately 73% total investments can never be redeemed, but instead, these assets are distributed as the underlying assets are sold. These investments had unfunded commitments of $1,110,684 and $1,502,684 as of December 31, 2013 and 2012, respectively.

There were no transfers between investment levels in 2013. $5,422,724 of comingled U.S. equities were transferred out of Level 3 into Level 1 during the year ended December 31, 2012.

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, 2013 and 2012:

		Equity mutual funds	Comingled funds	Alternative investments	Beneficial interest in charitable trusts
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
Balances, December 31, 2011	$	17,090,373	17,657,637	83,792,663	4,199,802
Purchases		—	—	3,059,342	—
Liquidations/Distributions		—	—	(10,582,021)	—
Net realized gains (losses) included in change in net assets		—	—	5,604,957	—
Net unrealized gains (losses) included in change in net assets		2,422,727	2,557,385	(166,288)	294,388
Transfers out of Level 3		—	(5,422,724)	—	—
Balances, December 31, 2012	$	19,513,100	14,792,298	81,708,653	4,494,190

(10) Subsequent Events

Subsequent events have been evaluated through November 5, 2014, 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.