The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013, and
Independent Auditors' Report

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Suite 3900
200 Renaissance Center
Detroit, MI 48243
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Kresge Foundation
Troy, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 Foundation'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 Foundation'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 Foundation as of December 31, 2014 and 2013, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 4, 2015

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CASH	$ 654,056	$ 1,073,186
INVESTMENTS—At fair market value	3,614,075,082	3,495,005,524
PROGRAM-RELATED INVESTMENTS—Net of allowance of $1,774,134 and $1,694,709, respectively	32,875,219	31,013,806
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	16,944,878	34,656,443
ACCRUED INTEREST AND DIVIDENDS	1,711,348	1,120,450
PROPERTY AND EQUIPMENT—Net of accumulated depreciation of $7,302,403 and $6,490,801, respectively	13,720,139	11,921,900
OTHER	3,528,040	3,270,301
TOTAL	$3,683,508,762	$3,578,061,610
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Grants payable—net of discount of $60,309 and $126,528, respectively	$ 86,770,702	$ 72,787,511
Accounts payable and other liabilities	4,993,218	4,724,708
Other postemployment benefit liability	16,786,451	10,869,081
Payable under securities lending agreement	16,944,878	34,656,443
Deferred federal excise taxes	13,388,406	14,622,454
Total liabilities	138,883,655	137,660,197
UNRESTRICTED NET ASSETS	3,544,625,107	3,440,401,413
TOTAL	$3,683,508,762	$3,578,061,610

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
INVESTMENT INCOME AND LOSS:		
Interest, dividends, and other income	$ 13,201,812	$ 10,693,269
Net realized and unrealized gains on investments	285,323,856	455,601,831
Investment management fees	(2,582,322)	(2,081,746)
Federal excise tax expense and other	(5,500,732)	(9,929,880)
Net investment income	290,442,614	454,283,474
EXPENSES:		
Grants approved—net of change in discount of ($66,219) and $9,672, respectively	153,799,873	133,720,761
Administrative expenses	27,415,081	24,397,252
Total expenses	181,214,954	158,118,013
OTHER POSTEMPLOYMENT ADJUSTMENTS	(5,003,966)	(509,632)
CHANGE IN UNRESTRICTED NET ASSETS	104,223,694	295,655,829
UNRESTRICTED NET ASSETS:		
Beginning of year	3,440,401,413	3,144,745,584
End of year	$3,544,625,107	$3,440,401,413

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ 104,223,694	$ 295,655,829
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	836,936	897,159
Loss on disposals of property and equipment	10,667	157
Increase in program-related investments provision	79,425	86,340
Change in value of grants payable	66,219	(9,672)
Net realized and unrealized gains on investments	(285,323,856)	(455,601,831)
Increase in accrued interest and dividends	(590,898)	(573,557)
Increase in other assets	(257,739)	(1,006,348)
Increase in approved grants pending payment	13,916,972	3,611,587
Increase in accounts payable and other liabilities	268,510	1,898,824
Increase in other postemployment benefit liability	5,917,370	1,378,618
(Decrease) increase in deferred federal excise taxes	(1,234,048)	5,746,637
Net cash used in operating activities	(162,086,748)	(147,916,257)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,252,159,362	1,253,928,424
Purchases of investments	(1,085,905,064)	(1,027,856,574)
Returns of principal for program-related investments	2,936,644	5,161,493
Disbursements for program-related investments	(4,877,482)	(15,946,298)
Purchases of property and equipment	(2,645,842)	(638,246)
Net cash provided by investing activities	161,667,618	214,648,799
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of lines of credit	-	(66,501,923)
Net cash used in financing activities	-	(66,501,923)
NET (DECREASE) INCREASE IN CASH	(419,130)	230,619
CASH:		
Beginning of year	1,073,186	842,567
End of year	$ 654,056	$ 1,073,186

See notes to financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

The Kresge Foundation (the “Foundation”) is a tax-exempt private foundation that works to expand opportunities in America's cities through grantmaking and investing in arts and culture, education, environment, health, human services, and community development. The Foundation was established in June 1924 as a Michigan trustee corporation. Its office is in Troy, Michigan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Presentation—The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America (GAAP).

Program-Related Investments (PRIs)—In accordance with Section 4944 of the Internal Revenue Code (the “Code”), the Foundation is permitted to make investments that further some aspect of its charitable mission. In 2008, the Foundation began making PRIs. These investments are anticipated to have lower-than-market returns on a risk-adjusted basis. Like grants, these investments count toward the Foundation’s payout requirement in the year of distribution. Return of PRI principal affects the annual payout requirement in a similar manner as a grant refund.

Property and Equipment—Property and equipment represents primarily land and buildings. Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 45 years. The associated depreciation was $836,936 and $897,159 as of December 31, 2014 and 2013, respectively. The Foundation annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

On September 18, 2013, the Board of Trustees approved the expansion of its Troy headquarters. At December 31, 2014 and 2013, the Foundation had $5,741,000 and $455,000, respectively, of commitments outstanding related to the planned construction of the building expansion.

Property and equipment as of December 31, 2014 and 2013, consists of the following:

	2014	2013
Building and improvements	$ 14,226,520	$ 14,251,455
Furniture and fixtures	1,260,936	1,240,740
Computer and office equipment	2,206,309	1,885,608
	17,693,765	17,377,803
Less accumulated depreciation and amortization	(7,302,404)	(6,490,801)
Subtotal depreciable assets—net	10,391,361	10,887,002
Land	500,000	500,000
Art	92,671	91,771
Construction in progress	2,736,107	443,127
Subtotal nondepreciable assets	3,328,778	1,034,898
Total property and equipment—net	$ 13,720,139	$ 11,921,900

Grant Expenditures—Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee substantially meets the terms of the conditions. The Foundation had approximately $106,700,000 and $18,200,000 in conditional grants as of December 31, 2014 and 2013, respectively. At December 31, 2014, conditional grants included $95,000,000 to the Foundation for Detroit's Future (FDF), payable in equal installments over a 19 year-period, subject to any terms and conditions of the Foundation FDF Agreement.

Lines of Credit—The Foundation has an unsecured line of credit totaling $100,000,000 (credit line A) as of December 31, 2014 and credit lines totaling $175,000,000 (credit lines A and B) as of December 31, 2013. The lines of credit have been recorded at carrying value, which approximates fair value. The Foundation's effective rate on credit lines for the three-month LIBOR was 0.71% and .70% and contain a commitment fee on the unused available balance of .13% and .10 to .15% as of December 31, 2014 and 2013, respectively, As of December 31, 2014 and 2013, the outstanding borrowings were $0. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination dates August 31, 2015, and August 27, 2014, for credit lines A and B, respectively. Interest and related fees payable at year-end are included in accounts payable and other liabilities. The Foundation is in compliance with financial covenants on the lines of credit as of December 31, 2014 and 2013.

Tax Status—The Foundation is an organization exempt from federal income taxation under Section 501(c)(3) and is a private foundation as described in Section 509(a) of the Code. The Foundation is subject to federal excise taxes. It is also subject to federal and state income tax on its unrelated business taxable income. Management believes it is no longer subject to federal tax examinations for years prior to December 31, 2011. The Foundation evaluates uncertain tax positions for more-likely-than-not sustainability. The Foundation has concluded that as of December 31, 2014 and 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Investment Risks—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying financial statements.

Adoption of Accounting Pronouncements – In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*. The new guidance removes, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. The guidance is effective for the Foundation beginning after December 15, 2016, with retrospective application required for all comparative periods presented. At this time, the Foundation is evaluating the implications of ASU No. 2015-07 and its effects on the financial statements.

3. INVESTMENTS AND FAIR VALUE

Temporary Investments—The Foundation considers temporary investments to be unsettled trade purchases and sales and cash and cash equivalents held as part of the long-term investment strategy of the Foundation. Cash equivalents are considered to be investments with an original maturity of three months or less. The Foundation records investments as of the trade date. Unsettled trade purchases and sales are reported in the investment category on the statements of financial position. The Foundation had unsettled trade purchases of approximately $40,215,000 and $6,725,000 as of December 31, 2014 and 2013, respectively. The Foundation had unsettled trade sales of approximately $51,616,000 and $13,566,000 as of December 31, 2014 and 2013, respectively.

Fixed-Income, U.S. Equity, and Foreign Equity Securities—Fixed-income, U.S. equity, and foreign equity securities include investments in securities as well as commingled funds. The securities have readily determinable fair market values based on quoted prices in active markets. The commingled funds calculate a net asset value per share in accordance with near term guidance.

Hedge Funds, Natural Resources, Private Equity, and Real Estate—Hedge funds' fair values are based on information provided by the administrators of each underlying fund. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method. Gains and losses on investments include equity earnings from limited partnerships.

Securities Lending - The Foundation participates in a securities lending program with its custodian bank. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of loaned investments. Securities lending collateral is not subject to a master netting arrangement. Loaned investments consist of equity and exchange traded securities. Securities loaned are fully collateralized. All cash collateral received is invested in approved money market and short-term funds. The Foundation maintains effective control of the loaned investments during the term of the agreement. As of December 31, 2014 and 2013, the Foundation had loaned securities with a total market value of approximately $19,335,000 and $33,751,000, respectively, and received related cash collateral of approximately $16,945,000 and $34,656,000, respectively. The carrying value of securities lending collateral approximates fair value as recorded collateral is composed of cash and cash equivalents that are received. Income from the program was approximately $177,000 and $439,000 for the years ended December 31, 2014 and 2013, respectively.

The changes in security lending collateral of approximately $17,711,000 and $24,110,000 as of December 31, 2014 and 2013, respectively, are considered noncash transactions.

Realized and Unrealized Gains/Losses - Net realized gains and change in net unrealized market gains are determined by comparing cost to proceeds and fair market value, respectively. Cost is determined on a first-in, first-out basis. The gains or losses on the Foundation's investment portfolio for the years ended December 31, 2014 and 2013, consists of the following:

	2014	**2013**
Net realized gains	$347,026,273	$169,035,306
Net unrealized (losses) gains	(61,702,417)	286,566,525
Net realized and unrealized gains on investments	$285,323,856	$455,601,831

Fair Value Hierarchy— The Foundation is subject to the provisions of FASB issued ASC 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The carrying amounts reported in the statements of financial position for cash, accrued interest and dividends, accounts payable and other liabilities, borrowings under revolving line of credit, and deferred federal excise taxes approximate fair value because of their short-term nature.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1—Quoted market prices in active markets for identical assets or liabilities.

Level 2—Observable market-based inputs, unobservable inputs that are corroborated by market data, or present valuing techniques.

Level 3—Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Foundation's accounting policies.

In certain instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2014, are as follows:

	2014	Level 1	Level 2	Level 3
Temporary investments	$ 120,357,874	$ 34,946,059	$ 85,411,815	$ -
Fixed-income securities:				
U.S. treasury securities	67,700,896	67,700,896	-	-
Credit and other	128,668,452	43,252	39,616,335	89,008,865
U.S. equity securities	526,757,054	236,816,685	24,391,939	265,548,430
Foreign equity securities	808,806,052	83,087,364	124,107,959	601,610,729
Hedge funds	437,133,293	-	108,026,429	329,106,864
Derivative contracts:				
Equity	18,098,623	-	18,098,623	-
Interest rate	(532,363)	-	(532,363)	-
Foreign exchange	15,070,913	-	15,070,913	-
Natural resources	302,964,127	-	-	302,964,127
Private equity	840,326,866	-	-	840,326,866
Real estate	348,723,295	-	-	348,723,295
Total investments	$ 3,614,075,082	$ 422,594,256	$ 414,191,650	$ 2,777,289,176
Collateral under securities lending agreement	$ 16,944,878	$ 16,944,878	$ -	$ -

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2013, are as follows:

	2013	Level 1	Level 2	Level 3
Temporary investments	$ 103,121,075	$ 35,666,573	$ 67,454,502	$ -
Fixed-income securities				
U.S. treasury securities	67,220,117	67,220,117	-	-
Credit and other	126,999,858	1,915	20,022,995	106,974,948
U.S. equity securities	430,392,635	141,063,891	25,508,072	263,820,672
Foreign equity securities	730,613,723	124,835,350	217,671,910	388,106,463
Hedge funds	483,116,176	-	130,491,767	352,624,409
Derivative contracts:				
Commodity	(117,961)	-	(117,961)	-
Equity	19,739,845	1,635,400	18,104,445	-
Interest rate	1,672,936	-	1,672,936	-
Natural resources	373,467,544	-	-	373,467,544
Private equity	817,451,713	-	-	817,451,713
Real estate	341,327,863	-	-	341,327,863
Total investments	$ 3,495,005,524	$ 370,423,246	$ 480,808,666	$ 2,643,773,612
Collateral under securities lending agreement	$ 34,656,443	$ 34,656,443	$ -	$ -

Negative asset balances are representative of net liability positions on derivative contracts at year-end.

Level 1 classifications consist of U.S. Treasuries and commercial paper with quoted market prices in active markets. Unsettled trade receivable and payable valuations are reflective of cash settlements subsequent to year-end. Fixed-income, U.S. equity securities, foreign equity securities, and certain exchange traded derivatives have readily determinable fair market values based on quoted prices in active markets.

Level 2 classifications consist of agency and Federal Home Loan Bank securities, collateralized loan obligation fixed-income securities, and commingled U.S. equity securities and foreign equity securities that calculate a net asset value per share in accordance with near term guidance described below. The fair value of the derivative investments is based on market prices from the financial institution that is the counterparty to the derivative.

Level 3 classifications consist of public credit fixed-income held through managers and commingled U.S. equity securities and foreign equity securities that do not have readily determinable market values or the securities are not publicly traded or that calculate a net asset value per share but are not within the near term guidance described below. The valuation process for Level 3 investments involves the use of fair value as reported by third-party administrators, fund investment managers, and general partners and is completed on at least a quarterly basis. All valuations are reviewed by management. Fair value estimates for equity securities are based on other market data for the same or comparable instruments and transactions. Commingled hedge funds' fair values are based on information provided by the administrators of each underlying fund; management also takes into consideration consultation with fund investment managers and audited financial information to determine overall reasonableness of the recorded value. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method and are based on information provided by the general partner; management also takes into consideration the audited financial information and K-1 capital account balances to determine overall reasonableness of the recorded value. Management believes that the equity method represents the best estimate of the partnerships' fair value. Audited information is only available annually, based on the partnerships' year-end. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed.

A reconciliation of the beginning and ending balance of the Level 3 investment activity that is measured at fair value using unobservable inputs as of December 31, 2014 and 2013, is as follows:

	2014	**2013**
Balance—beginning of year	$2,643,773,612	$2,797,464,713
Total realized and unrealized gains included in change in net assets	210,403,498	366,257,344
Additions and purchases	466,663,715	404,156,648
Sales and maturities	(633,130,999)	(689,120,975)
Transfers into Level 3	89,579,350	-
Transfers out of Level 3	-	(234,984,118)
Balance—end of year	$2,777,289,176	$2,643,773,612

Unrealized (losses) gains attributable to Level 3 investments held at year end totaled approximately ($40,140,000) and $250,300,000 as of December 31, 2014 and 2013, respectively.

The Foundation's policy related to fair value measurement hierarchy classification, including any level transfers, occurs as of the end of the reporting period. Transfers occurring into and out of Level 3 are recorded in accordance with the near-term guidance of ASU No. 2009-12. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

Gains (realized and unrealized) as reported above are included in net investment income on the statements of activities.

As of December 31, 2014 and 2013, the Foundation had commitments to contribute approximately $691,198,000 and $716,500,000, respectively, in additional capital under the terms of various investment agreements over the next 7–10 years.

In accordance with ASU No. 2009-12, *Fair Value Measurements and Disclosures* (Topic 820): *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, the Foundation classifies such investments as Level 2 when there is the ability to redeem the investment in the near term; however, if the Foundation does not have the ability to redeem its investment in the near term, the Foundation classifies such investments as Level 3. The Foundation defines near term to be within 90 days of the measurement date.

The Foundation uses net asset value (NAV) per share (or its equivalent) to determine the fair value of all the underlying investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Foundation's investment in these funds have a redemption notice period of daily to bi annually. The Foundation's investments in funds that calculate NAV per share (or its equivalent) primarily consist of the following:

	2014				
	Redemption Period				
	90 days or fewer	91 to 180 days	181 to 400 days	Greater than 400 days	Total
Fixed-income	$ -	$ -	$ 73,025,154	$ 4,184,329	$ 77,209,483
U.S. equity	-	-	145,646,667	119,901,763	265,548,430
Foreign equity	124,107,959	86,075,909	396,942,139	118,592,681	725,718,688
Hedge funds	108,026,429	64,750,076	237,777,661	26,579,127	437,133,293
Natural resources	-	-	-	228,572,989	228,572,989
Private equity	-	-	-	840,326,866	840,326,866
Real estate	-	-	-	348,723,295.00	348,723,295.00
Total	$ 232,134,388	$ 150,825,985	$ 853,391,621	$ 1,686,881,050	$ 2,923,233,044

	2013				
	Redemption Period				
	90 days or fewer	91 to 180 days	181 to 400 days	Greater than 400 days	Total
Fixed-income	$ -	$ -	$ 58,031,459	$ 11,170,407	$ 69,201,866
U.S. equity	-	-	151,747,136	112,073,536	263,820,672
Foreign equity	217,671,910	66,283,149	214,165,281	107,658,033	605,778,373
Hedge funds	130,491,767	122,162,989	183,073,427	47,387,993	483,116,176
Natural resources	-	-	-	244,967,358	244,967,358
Private equity	-	-	-	817,451,713	817,451,713
Real estate	-	-	-	341,327,863.00	341,327,863.00
Total	$ 348,163,677	$ 188,446,138	$ 607,017,303	$ 1,682,036,903	$ 2,825,664,021

4. DERIVATIVES

The Foundation accounts for derivative financial instruments in accordance with ASC 815, *Derivatives and Hedging*. The Foundation enters into derivative arrangements to manage a variety of market risks and to adjust asset class exposure. The Foundation recognizes all derivatives as either assets or liabilities measured at fair value. The Foundation has netted liability positions against the investment balance. For accounting purposes, the derivatives do not have hedge designation, and all gains and losses are reported in the net realized and unrealized gains on investments on the statements of activities.

In connection with its derivative activities, the Foundation enters into master netting agreements and collateral support agreements with its counterparties. These agreements provide the Foundation with the right, in the event of default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty. The master netting agreement is taken into account in the Foundation's risk management practices and application of counterparty credit limits.

To determine the amount of exposure to each counterparty, the Foundation nets the exposure on transactions by individual counterparty against the value of any collateral posted by the counterparty (a) when both parties owe determinable amounts, (b) where a legal right of setoff exists, and (c) when the right to setoff is enforceable by law. The thresholds for collateral postings vary by counterparty.

The aggregate fair value of derivative instruments in asset positions on December 31, 2014 and 2013, is approximately $44,336,000 and $32,497,000, respectively. The exposure to counterparty credit risk on December 31, 2014, is reduced by $16,560,000 of collateral held and approximately $11,275,000 of liabilities included in netting arrangements with those counterparties. The exposure to counterparty credit risk on December 31, 2013, is reduced by $5,150,000 of collateral held and approximately $11,203,000 of liabilities included in netting arrangements with those counterparties. The Foundation has never failed to access collateral when required. The Foundation has posted collateral of $1,000,000 to counterparties as of December 31, 2014 and 2013.

The fair values of derivative instruments in the statements of financial position and information about the offsetting of derivative instruments and related collateral amounts as of December 31, 2014 and 2013, are as follows:

	2014			
	Balance Sheet Location	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Statements of Financial Position**	**Net Amounts of Assets Presented in the Statements of Financial Position**
Equity contracts	Investments	$21,302,488	$11,358,500	$ 9,943,988
Interest rate contracts	Investments	784,969	-	784,969
Foreign exchange contracts	Investments	22,248,102	16,477,189	5,770,913
Total derivative instruments		$44,335,559	$27,835,689	$16,499,870

	Balance Sheet Location	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Statements of Financial Position**	**Net Amounts of Liabilities Presented in the Statements of Financial Position**
Equity contracts	Investments	$ 3,203,865	$ 3,203,865	$ -
Interest rate contracts	Investments	1,317,332	894,377	422,955
Foreign exchange contracts	Investments	7,177,189	7,177,189	-
Total derivative instruments		$11,698,386	$11,275,431	$ 422,955

	2013			
	Balance Sheet Location	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Assets Presented in the Statements of Financial Position
Equity contracts	Investments	$29,588,663	$15,022,113	$14,566,550
Interest rate contracts	Investments	2,908,706	1,330,436	1,578,270
Total derivative instruments		$32,497,369	$16,352,549	$16,144,820

	Balance Sheet Location	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Liabilities Presented in the Statements of Financial Position
Commodity contracts	Investments	$ 117,961	$ 117,961	$ -
Equity contracts	Investments	9,848,818	9,848,818	-
Interest rate contracts	Investments	1,235,770	1,235,770	-
Total derivative instruments		$11,202,549	$11,202,549	$ -

The Foundation does not have any gross amounts of financial instruments or cash collateral received or pledged not offset in the statements of financial position, except for $4,040,000 held at one counterparty as of December 31, 2014.

The effect of derivative instruments on the statements of activities as of December 31, 2014 and 2013, is as follows:

		Gain (Loss) Recognized on Derivatives	
	Location of Gains (Losses)	2014	2013
Commodity contracts	Net realized and unrealized gains on investments	$ (2,235,100)	$ (1,134,235)
Equity contracts	Net realized and unrealized gains on investments	8,084,590	50,156,741
Credit contracts	Net realized and unrealized gains on investments	-	(356,400)
Interest rate contracts	Net realized and unrealized gains on investments	(2,838,161)	6,881,427
Foreign exchange contracts	Net realized and unrealized gains on investments	14,531,713	(212,092)
Total derivative instruments		$ 17,543,042	$ 55,335,441

The Foundation is not credit rated, and therefore, no credit rating contingent provisions are required by counterparties.

Counterparty credit risk is the risk that counterparties to derivative contracts will fail to perform according to the terms of the agreements. Nationally recognized statistical rating organizations, such as Standard & Poor's (S&P) and Moody's, assign credit ratings to security issuers that indicate a measure of potential credit risk to investors. The Foundation manages credit risk by reviewing the credit standing of each counterparty and limits exposure to credit risk by requiring that the minimum acceptable credit rating of the counterparty be BBB- and Baa3 for S&P and Moody's, respectively.

5. PROGRAM-RELATED INVESTMENTS

PRIs in the statements of financial position represent various below-market-rate loans and linked deposits with outstanding principal totaling $34,649,353 and $32,708,515 as of December 31, 2014 and 2013, respectively. Interest rates range from .50% to 4.25% at December 31, 2014. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. Net realizable value approximates fair value. There was $2,936,645 and $5,161,493 received as return of principal for the years ended December 31, 2014 and 2013, respectively. The Foundation has PRI commitments of approximately $25,110,000 and $17,387,000 as of December 31, 2014 and 2013.

The loans and linked deposits are scheduled for collection as of December 31, 2014, as follows:

December 31	
2015	$ 3,196,325
2016	5,696,763
2017	2,819,811
2018	2,113,700
2019	6,319,557
2020–2024	14,503,197
	34,649,353
Less allowance	(1,774,134)
Net	$ 32,875,219

Management has reviewed the collectability of all PRIs and has recorded an allowance of $1,774,134 and $1,694,709 as of December 31, 2014 and 2013, respectively. The Foundation establishes a loan loss allowance in accordance with the risk rating assigned to the PRI. The risk rating is based on a combination of financial and organizational factors and is evaluated annually unless more frequent monitoring is required.

The Foundation has entered into nine third party loan guarantee agreements totaling $13,636,000 and $7,336,000, of which loss exposure related to the guarantees is $4,017,000 and $2,079,000 as of December 31, 2014 and 2013, respectively. Per the terms of the $486,000 guarantee agreement, any amount disbursed on that guarantee will convert to a loan receivable. The Foundation has recorded a contingent liability at the larger of the net present value of the guarantees or the minimum amount of probable loss. The Foundation recorded a contingency of $195,530 and $207,023 as of December 31, 2014 and 2013, respectively.

6. GRANTS PAYABLE

Grants payable represent the present value of grants using a .04% and .07% discount rate, as of December 31, 2014 and 2013, respectively. The discount rate is a Level 2 input and is based on the present value of discounted cash flows using the three-month U.S. Treasury rate. The Foundation made grant payments of approximately $143,200,000 and $144,188,000 in 2014 and 2013, respectively.

The Foundation’s future grant commitments, which are scheduled for payment in future years as of December 31, 2014, are as follows:

Years Ending December 31	
2015	$ 48,521,131
2016	22,864,880
2017	10,555,000
2018	2,260,000
2019	1,100,000
2020 and beyond	1,530,000
	86,831,011
Discount	(60,309)
Net	$ 86,770,702

7. EXCISE TAX REQUIREMENTS

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code, but is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined in the Code. The current excise tax is provided at 2% for 2014 and 2013. The deferred excise tax provision is calculated assuming a 2% rate and is based on projected gains that assume complete liquidation of all assets. The current and deferred portions of the excise tax provision for 2014 were approximately $6,608,000 and ($1,234,000), respectively. The current and deferred portions of the excise tax provision for 2013 were approximately $3,573,000 and $5,747,000, respectively. Cash payments for federal excise taxes were $7,400,000 and $4,000,000 for the years ended December 31, 2014 and 2013, respectively. Federal excise taxes payable were $0 for the years ended December 31, 2014 and 2013. The unrelated business income tax expense for 2014 and 2013 was $1,664,000 and $1,995,000, respectively. The unrelated business taxes payable were $49,000 and $1,616,000 for the years ended December 31, 2014 and 2013, respectively. Unrelated business income tax refunds receivable were approximately $0 and $504,000 for the years ended December 31, 2014 and 2013, respectively. The Foundation recorded a deferred tax asset of $1,790,000 and $1,693,000 related to unrelated business income net operating loss carry forwards for the years ending December 31, 2014 and 2013, respectively.

8. OTHER POSTEMPLOYMENT BENEFITS

The Foundation is subject to the provisions of FASB-issued ASC 715, *Compensation — Retirement Benefits*, which requires recognition of the overfunded or underfunded status of the other postemployment benefit plan as an asset or liability in the statements of financial position and recognition of changes in the funded status in the year in which the changes occur. The funded status of the plan is measured as the difference between the fair value of plan assets and the benefit obligation.

The Foundation provides certain health care and life insurance benefits for retired employees. The Foundation’s employees may become eligible for these postemployment employee benefits. Actuarial assumptions and participant data changes are reported in other postemployment adjustments in the statement of activities.

The other postemployment benefit plan–funded status and amounts recognized in the Foundation's statements of financial position and statements of activities as of and for the years ended December 31, 2014 and 2013, are as follows:

	Postemployment Employee Benefits	
	2014	**2013**
Fair value of plan assets	$ -	$ -
Benefit obligation	(16,786,451)	(10,869,081)
Funded status of the plan	$ (16,786,451)	$ (10,869,081)
Accrued benefit liability recognized in the statement of financial position—January 1	$ (10,869,081)	$ (9,490,463)
Service cost	$ 746,914	$ 812,892
Interest cost	521,119	376,192
Prior-service cost amortization	(127,526)	(127,526)
Net amortization loss	-	-
Benefit cost recognized in the statements of activities	$ 1,140,507	$ 1,061,558
Actuarial loss (gain) recognized in the statements of activities	$ 5,003,966	$ 509,632
Employer contributions	$ 227,103	$ 192,572
Benefits paid	$ (227,103)	$ (192,572)
Benefit obligation—December 31	$ (16,786,451)	$ (10,869,081)

The postemployment employee benefit liability is included in the accounts payable and other liability balance on the statements of financial position for the years ended December 31, 2014 and 2013. The increase in actuarial loss of approximately $5,000,000 for December 31, 2014 can be attributed to a $2,700,000 loss due to the change in the discount rate from 4.85% at December 31, 2013 to 3.90% at December 31, 2014, a $600,000 loss due to new premium rates, a $1,600,000 million loss due to updated mortality assumptions and approximately $100,000 in amortization of prior service cost.

Assumptions and Dates Used for Liability	Postemployment Employee Benefits 2014	2013
Discount rate	3.90 %	4.85 %
Compensation increase rate	4.00	4.00
Measurement date	December 31	
Assumptions Used to Determine Expense		
Discount rate	4.85 %	3.90 %
Compensation increase rate	4.00	4.50
Health care cost trend rate assumptions:		
Initial trend rate	7.00	7.50
Ultimate trend rate	5.00	5.00
Year ultimate trend is reached	2018	2018

A one-percentage-point change in assumed health care cost trends rates as of December 31, 2014, would have the following effects:

	One-Percentage Point Increase	Decrease
Effect on postemployment benefit obligations	$ 3,592,788	$ (2,768,094)

Expected amortization during 2015 for amortization of net prior service credit and amortization of net loss are $127,526 and $342,329, respectively.

Future Expected Benefit Payments	
2015	$ 282,715
2016	315,552
2017	355,884
2018	406,497
2019	468,661
2020–2024	3,460,503

9. SUBSEQUENT EVENTS

There have been no other subsequent events through June 4, 2015, the date these financial statements were issued, requiring adjustment to, or disclosure in, the financial statements.

* * * * * *