Consolidated Financial Statements

The Cleveland Foundation
Years Ended December 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

The Cleveland Foundation

Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

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Report of Independent Auditors

The Board of Directors
The Cleveland Foundation

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cleveland Foundation at December 31, 2014 and 2013, and the changes in its consolidated net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

August 14, 2015

The Cleveland Foundation

Consolidated Statements of Financial Position

	December 31	
	2014	**2013**
Assets		
Cash	**$ 13,454,889**	$ 12,638,830
Short-term investments	**162,011,930**	146,307,570
Investments	**1,988,652,097**	1,950,935,387
Other investments	**16,568,386**	18,593,255
Property and other assets	**4,679,187**	4,331,702
	$2,185,366,489	$2,132,806,744
Liabilities and net assets		
Accounts payable, accrued expenses, and payable for unsettled trades	**$ 17,503,107**	$ 8,631,480
Grants payable	**27,031,211**	23,256,987
Organizational funds and other obligations	**105,295,041**	96,144,229
Total liabilities	**149,829,359**	128,032,696
Net assets:		
Unrestricted:		
For grant-making purposes	**4,222,174**	5,401,847
Board-designated:		
Administrative purposes	**12,614,081**	11,333,379
Property	**1,288,636**	1,450,415
Total unrestricted	**18,124,891**	18,185,641
Temporarily restricted	**850,524,734**	839,018,988
Permanently restricted	**1,166,887,505**	1,147,569,419
	2,035,537,130	2,004,774,048
	$2,185,366,489	$2,132,806,744

See accompanying notes.

The Cleveland Foundation

Consolidated Statements of Activities

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Donor contributions	**$ 72,195**	**$ 29,343,141**	**$ 3,520,970**	**$ 32,936,306**
Dividend and interest income	**42,263**	**35,327,063**	**–**	**35,369,326**
Net realized and unrealized investment gains	**7,025,615**	**60,939,512**	**15,797,116**	**83,762,243**
Net assets released from restrictions	**114,665,429**	**(114,665,429)**	**–**	**–**
Other income	**88,494**	**561,459**	**–**	**649,953**
Total revenue, gains, and other support	**121,893,996**	**11,505,746**	**19,318,086**	**152,717,828**
Expenses				
Grants expensed	**101,651,046**	**–**	**–**	**101,651,046**
Trustee bank and investment management fees	**6,368,114**	**–**	**–**	**6,368,114**
Other expenses	**685,321**	**–**	**–**	**685,321**
Administrative expenses:				
Program	**6,687,509**	**–**	**–**	**6,687,509**
Development	**4,437,175**	**–**	**–**	**4,437,175**
Fund management	**2,125,581**	**–**	**–**	**2,125,581**
Total administrative expenses	**13,250,265**	**–**	**–**	**13,250,265**
Total expenses	**121,954,746**	**–**	**–**	**121,954,746**
(Decrease) increase in net assets	**(60,750)**	**11,505,746**	**19,318,086**	**30,763,082**
Net assets at beginning of year	**18,185,641**	**839,018,988**	**1,147,569,419**	**2,004,774,048**
Net assets at end of year	**$ 18,124,891**	**$ 850,524,734**	**$ 1,166,887,505**	**$ 2,035,537,130**

See accompanying notes.

The Cleveland Foundation

Consolidated Statements of Activities

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Donor contributions	$ 109,521	$ 36,349,320	$ 1,194,675	$ 37,653,516
Dividend and interest income	32,201	33,557,601	–	33,589,802
Net realized and unrealized investment gains	7,095,479	131,160,665	121,076,106	259,332,250
Net assets released from restrictions	93,855,659	(93,855,659)	–	–
Other income	97,751	661,873	–	759,624
Total revenue, gains, and other support	101,190,611	107,873,800	122,270,781	331,335,192
Expenses				
Grants expensed	81,368,990	–	–	81,368,990
Trustee bank and investment management fees	6,079,401	–	–	6,079,401
Other expenses	734,921	–	–	734,921
Administrative expenses:				
Program	6,496,229	–	–	6,496,229
Development	4,072,036	–	–	4,072,036
Fund management	2,043,391	–	–	2,043,391
Total administrative expenses	12,611,656	–	–	12,611,656
Total expenses	100,794,968	–	–	100,794,968
Increase in net assets	395,643	107,873,800	122,270,781	230,540,224
Net assets at beginning of year	17,789,998	731,145,188	1,025,298,638	1,774,233,824
Net assets at end of year	$ 18,185,641	$ 839,018,988	$ 1,147,569,419	$ 2,004,774,048

See accompanying notes.

The Cleveland Foundation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2014	**2013**
Operating activities		
Increase in net assets	**$ 30,763,082**	$ 230,540,224
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	**229,082**	222,915
Net unrealized investment gains	**(58,905,653)**	(230,174,606)
Permanently restricted contributions	**(3,520,970)**	(1,194,675)
Increase in other assets	**(509,264)**	(1,156,192)
Increase (decrease) in accounts payable and accrued expenses	**8,871,627**	(6,246,892)
Increase (decrease) in grants payable	**3,774,224**	(635,148)
Net cash used in operating activities	**(19,297,872)**	(8,644,374)
Investing activities		
Purchases of property and equipment	**(67,303)**	(331,919)
Proceeds from sale or maturity of investments	**457,983,699**	323,133,515
Purchases of investments	**(441,323,435)**	(304,808,766)
Net cash provided by investing activities	**16,592,961**	17,992,830
Financing activities		
Permanently restricted contributions	**3,520,970**	1,194,675
Net cash provided by financing activities	**3,520,970**	1,194,675
Net increase in cash and cash equivalents	**816,059**	10,543,131
Cash at beginning of year	**12,638,830**	2,095,699
Cash at end of year	**$ 13,454,889**	$ 12,638,830

See accompanying notes.

1. Description and Purpose of The Foundation

The Cleveland Foundation (The Foundation) is a not-for-profit organization established in 1914. The mission statement of The Foundation is "to enhance the lives of all residents of Greater Cleveland, now and for generations to come, by working together with our donors to build community endowment, address needs through grantmaking, and provide leadership on key community issues."

The consolidated financial statements include the accounts of The Cleveland Foundation (charitable corporation), The Greater Cleveland Foundation, The Cleveland Foundation (community trust approved by Resolutions of Trust) and the following affiliated supporting organizations: The City of Cleveland's Cable Television Minority Arts and Education Fund, The Davis Fund, The Higley Fund, The Sherwick Fund, The Billie Howland Steffee Family Fund, Medical Mutual of Ohio Charitable Foundation, Sullivan Scholars Foundation, and The Thatcher Family Fund. The affiliated supporting organizations were established under the provisions of Section 509(a)(3) of the Internal Revenue Code. The Foundation is responsible for expenditures of these affiliated supporting organizations for specific charitable purposes. All significant interorganizational balances and transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

The Internal Revenue Service has ruled that the charitable corporation, The Greater Cleveland Foundation, the community trust and the affiliated supporting organizations are tax-exempt organizations that are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant Accounting Policies (continued)

Concentration of Credit Risk

Financial instruments that potentially expose The Foundation to concentrations of credit risk include cash and cash equivalents and investments. As a matter of policy, The Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with original maturities of three months or less, excluding amounts limited to use by the Board of Directors or other arrangements, to be cash and cash equivalents.

Short-Term Investments

Short-term investments represent investments with maturities of one year or less, are recorded at fair value, and consist from time to time of money market funds, short-term collective funds, mutual funds, certificates of deposit, commercial paper, short-term corporate bonds, variable rate demand notes, U.S. Treasury bills, and U.S. Treasury or agency notes or bonds with maturities under one year.

Investments and Investment Income

Investments are recorded at fair value.

Realized investment gains or losses are the differences between the carrying value of an investment and net proceeds received on the trade date. Unrealized investment gains or losses are the differences between carrying value and fair value at each statement of financial position date. These amounts are reported in the consolidated statements of activities as net realized and unrealized investment gains and losses.

Investment income generated by permanently and temporarily restricted net assets (excluding net realized and unrealized investment gains and losses) is reported as temporarily restricted until the program restriction of the donor is met.

2. Significant Accounting Policies (continued)

Net unrealized and realized investment gains and losses are reported as unrestricted, temporarily restricted, or permanently restricted based upon the absence or presence of a restriction of the underlying asset.

Organizational Funds

The Foundation acts as fiduciary agent for various not-for-profit organizations. The Foundation's responsibilities as fiduciary agent include, but are not limited to, safeguarding of assets, record-keeping of transactions, investment management, and ensuring appropriate distributions. The Foundation's policy as fiduciary agent is to record funds received as an investment and an equal liability. The Foundation, as fiduciary agent, has recorded $101,937,225 and $92,335,227 at December 31, 2014 and 2013, respectively, related to organizational funds in investments and an equal liability in organizational funds and other obligations in the consolidated statements of financial position.

The Foundation does not include the change in investments and the change in organizational funds in the consolidated statements of activities and consolidated statements of cash flows.

3. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are assets the use of which is restricted by donors or grantors for a specific time period or purpose. Unrestricted net assets are assets on which no restrictions have been placed or that arise from the general operations of The Foundation. Temporarily restricted gifts, grants, and bequests are recorded as an addition to temporarily restricted net assets in the period received. Assets restricted by donors or grantors for specific operating purposes are reported in unrestricted revenue, gains, and other support to the extent expended within the period. Permanently restricted net assets consist of amounts held in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction ends or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give cash and other assets to The Foundation are reported as temporarily restricted contributions at their net realizable value at the date the promise is received on the consolidated statements of activities. Conditional promises to give and indications of intentions to give are reported at fair value at the date assets are received.

3. Temporarily and Permanently Restricted Net Assets (continued)

The endowment funds of The Foundation are the portion of The Foundation's temporarily restricted net assets and permanently restricted net assets that are governed by the resolutions of the trusts establishing The Foundation. The funds are the result of trusts established by donors with the intention that the funds will exist in perpetuity.

When the intent of the donor is that the assets are to remain in perpetuity, the assets are reported in accordance with the stipulations of the governing instruments of The Foundation. Per the governing instruments, the Board of Trustees of The Foundation may distribute 20% of the principal of the donated trust assets over a five-year period. This amount is recognized as temporarily restricted net assets, with the remainder of net assets recognized as permanently restricted net assets.

The Foundation's endowment consists of more than 500 individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The Foundation believes that these endowment funds are not subject to the Uniform Prudent Management of Institutional Funds Act adopted by the state of Ohio in 2009.

Return Objectives

The endowment funds are actively managed by five trustee banks in collaboration with the Board of Directors of The Foundation. An Investment Committee comprised of board members and volunteers has established a set of investment policies that guide investment decisions. The Investment Committee is responsible for establishing an asset allocation strategy and monitoring the performance of investment managers. The Investment Committee reports to the Board of Directors on a quarterly basis. The investment policies of The Foundation describe the type of investments that may be employed to achieve the total return objectives identified in the policies.

The long-term return objective is to maintain the purchasing power of The Foundation's investments by earning a return to cover The Foundation's spending policy (for both grants and administration) and inflation over time. Investment performance is monitored by the Investment Committee against the long-term return objective and a set of standard market benchmark indexes. Actual rates of return may vary from the long-term return objective.

3. Temporarily and Permanently Restricted Net Assets (continued)

Investment Strategy

To achieve the long-term return objective, The Foundation implements an investment strategy that is diversified among equities, fixed income, and alternative investments. The Foundation is diversified not only in terms of asset class, but also by employing a broad number of investment managers that provide a diversity of style and skills. By using this approach, The Foundation is attempting to limit risk while still taking advantage of opportunities presented within various market cycles.

Spending Policy

The Foundation has an annual spending policy for grant-making and administrative expense that is based upon the investment return over multiple periods. The intent is to tie spending to investment performance and limit volatility in spending while maintaining the purchasing power of the endowment assets over time. The policy includes a formula that applies a percentage rate to the average market value of the endowment assets for the 12 quarters ending the previous June 30. The Board of Directors approves the rate annually within a range of 4.5% to 5.5% and approved 5.0% (5.5% for temporarily and permanently restricted funds with an unrestricted purpose) for 2014 and 2013.

Changes in endowment net assets are as follows:

	2014		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, January 1, 2014	**$ 335,312,744**	**$ 1,147,569,419**	**$1,482,882,163**
Investment return:			
Investment income	**25,890,142**	**–**	**25,890,142**
Net appreciation (realized and unrealized)	**44,724,700**	**15,797,116**	**60,521,816**
Total investment return	**70,614,842**	**15,797,116**	**86,411,958**
Contributions	**319,445**	**3,520,970**	**3,840,415**
Released from restriction	**(65,203,702)**	**–**	**(65,203,702)**
Endowment net assets, December 31, 2014	**$ 341,043,329**	**$ 1,166,887,505**	**$1,507,930,834**

3. Temporarily and Permanently Restricted Net Assets (continued)

	2013		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, January 1, 2013	$ 297,945,761	$ 1,025,298,638	$1,323,244,399
Investment return:			
Investment income	26,563,482	–	26,563,482
Net appreciation (realized and unrealized)	76,611,457	121,076,106	197,687,563
Total investment return	103,174,939	121,076,106	224,251,045
Contributions	–	1,194,675	1,194,675
Released from restriction	(65,807,956)	–	(65,807,956)
Endowment net assets, December 31, 2013	$ 335,312,744	$ 1,147,569,419	$ 1,482,882,163

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the entity to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014 and 2013.

4. Investments

Investments and short-term investments are comprised of the following:

	December 31			
	2014		**2013**	
Short-term investments (primarily money market funds):	**$ 162,011,930**	**$ 162,011,930**	$ 146,307,570	$ 146,307,570
U.S. government obligations:				
U.S. treasuries	**33,970,751**		37,379,347	
U.S. government agencies and asset-backed	**34,688,854**	**68,659,605**	29,227,319	66,606,666
Bonds:				
Corporate	**46,793,414**		39,690,475	
Corporate asset-backed and other	**6,263,258**	**53,056,672**	6,010,677	45,701,152
Common and preferred stocks:				
Domestic	**220,226,715**		200,242,674	
International	**32,829,435**	**253,056,150**	20,324,033	220,566,707
Common trust funds:				
Domestic and other equity	**129,627,648**		109,944,216	
International equity	**259,921,538**		266,276,506	
Fixed income	**15,761,693**	**405,310,879**	18,116,728	394,337,450
Mutual and exchange-traded funds:				
Domestic equity and other	**352,051,687**		395,392,835	
International equity	**121,162,056**		129,901,926	
Fixed income	**98,345,131**	**571,558,874**	103,069,730	628,364,491
Alternative investments:				
Absolute return	**218,720,866**		198,580,154	
Hedged equity	**205,190,399**		165,156,705	
Private equity	**163,776,882**		159,971,270	
Real assets	**30,377,542**		53,658,224	
Other	**18,944,228**	**637,009,917**	17,992,568	595,358,921
Total investments		**$ 2,150,664,027**		$ 2,097,242,957

The primary investment objectives of short-term investments are liquidity and preservation of principal, with a secondary objective of earning a competitive market rate of return.

4. Investments (continued)

Common trust funds include The Foundation's interest in non-publicly traded, liquid commingled funds. The investment objective for common trust funds is long-term total return equal to or better than market returns.

Alternative investments are comprised principally of limited partnership interests in absolute return, hedged equity, private equity, and real assets funds. The funds' investment managers employ both traditional strategies (long only) in marketable securities and less traditional strategies (long- and short-equity or fixed income, event-driven, macro, relative value, and arbitrage strategies) that may include the use of options, futures, and other derivative instruments.

The investment objective for absolute return funds is long-term capital appreciation with less volatile and/or uncorrelated returns. Absolute return funds include investment strategies where a majority of the underlying securities may or may not be traded on public exchanges. This asset class includes a variety of active strategies, including arbitrage, event-driven, market neutral, long-short equity and distressed investing.

The investment objective for hedged equity is long-term capital appreciation with low volatility. Hedged equity funds include investment strategies where the majority of the underlying securities are traded on public exchanges. Managers in this class can be long or short equities and utilize options, futures, and other derivatives.

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

The investment objective for real assets is to protect against inflation and increase long-term returns. Real assets include liquid and illiquid investments in funds that own real estate, commodities, oil and gas, inflation-protected fixed income securities, and other assets.

At December 31, 2014, The Foundation has outstanding capital contribution commitments with several alternative investment funds of approximately $47,284,000.

4. Investments (continued)

At December 31, 2014, The Foundation's alternative investments are subject to various withdrawal restrictions as follows:

Available for redemption:	
Monthly	$ 206,310,684
Quarterly	96,756,528
Annually	114,832,223
Subtotal	417,899,435
Subject to distribution	202,857,830
Subject to lock-up provisions:	
One to three years	16,252,652
Total alternative investments	$ 637,009,917

Investments that are available for redemption may be redeemed by The Foundation generally with 30- to 60-day advance notice on a monthly, quarterly, or annual basis subject to the terms of the investment agreement.

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

Investments subject to lock-up provisions cannot be redeemed by The Foundation currently. After expiration of the lock-up provisions, the funds may be redeemed by The Foundation on a monthly, quarterly, or annual redemption basis subject to the terms of the investment agreement.

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

5. Fair Value Measurement

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants. It represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal, or most advantageous, market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

The carrying values of cash, accounts payable, accrued expenses, and grants payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of other investments, primarily notes receivable, are reasonable estimates of fair value due to the interest rates on notes receivable approximating current lending rates.

Accounting Standards Codification (ASC) 820, *Fair Value Measurement,* establishes a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, observable inputs, and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances and unobservable inputs. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Fair value for Level 1 is based upon quoted market prices that are comprised of publicly traded securities, registered money markets, and mutual and exchange-traded funds. Investments in securities traded on a national securities exchange are valued at the last reported sales price each day as reported by a recognized pricing service. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at fair value, based on the mean of the most recent bid and ask price and other market information available.

Fair value for Level 2 non-registered money market funds and common trust funds are valued at net asset value as a practical expedient. Fair value for Level 2 American Depositary Receipts (ADRs) of foreign common and preferred stocks are valued at quoted market prices (adjusted for currency rates).

5. Fair Value Measurement (continued)

Fair value for Level 2 U.S. government obligations and bonds is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 2 and 3 alternative investments is based on observable inputs and unobservable inputs, respectively, that reflect The Foundation's own assumptions about the valuation that are significant to the fair value measurement market participants would use in pricing the asset and include the best information available. The Foundation utilizes net asset value, or its equivalent, as a practical expedient to determine fair value for alternative investments. Certain types of investments are classified within Level 3 of the fair value hierarchy because they are subject to lock-up provisions or distribution and therefore trade infrequently and have little or no price transparency. The transaction price is initially used as the best estimate of fair value. This valuation is adjusted when changes to inputs and assumptions are corroborated by evidence. The Foundation collects and reviews the audited financial statements of the alternative investment and reconciles the audited net asset values to The Foundation's accounting records annually. For positions that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

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

Total investments, subject to fair value measurement, are reflected in the consolidated statements of financial position as follows:

	2014	**2013**
Short-term investments	**$ 162,011,930**	$ 146,307,570
Investments	**1,988,652,097**	1,950,935,387
Total	**$ 2,150,664,027**	$ 2,097,242,957

5. Fair Value Measurement (continued)

Total investments subject to fair value measurement, aggregated by the level in the fair value hierarchy, are as follows:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments (primarily money market funds)	**$ 76,494,835**	**$ 85,517,095**	**$ –**	**$ 162,011,930**
U.S. government obligations	**–**	**68,659,605**	**–**	**68,659,605**
Bonds	**–**	**53,056,672**	**–**	**53,056,672**
Common and preferred stocks	**237,934,346**	**15,121,804**	**–**	**253,056,150**
Common trust funds	**–**	**405,310,879**	**–**	**405,310,879**
Mutual and exchange-traded funds	**571,558,874**	**–**	**–**	**571,558,874**
Alternative investments:				
Absolute return	**–**	**101,310,157**	**117,410,709**	**218,720,866**
Hedged equity	**–**	**155,552,340**	**49,638,059**	**205,190,399**
Private equity	**–**	**–**	**163,776,882**	**163,776,882**
Real assets	**–**	**–**	**30,377,542**	**30,377,542**
Other	**–**	**18,944,228**	**–**	**18,944,228**
Total	**$ 885,988,055**	**$ 903,472,780**	**$ 361,203,192**	**$2,150,664,027**

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments (primarily money market funds)	$ 71,732,133	$ 74,575,437	$ –	$ 146,307,570
U.S. government obligations	–	66,606,666	–	66,606,666
Bonds	–	45,701,152	–	45,701,152
Common and preferred stocks	210,868,069	9,698,638	–	220,566,707
Common trust funds	–	394,337,450	–	394,337,450
Mutual and exchange-traded funds	628,364,491	–	–	628,364,491
Alternative investments:				
Absolute return	–	104,639,567	93,940,587	198,580,154
Hedged equity	–	105,330,047	59,826,658	165,156,705
Private equity	–	–	159,971,270	159,971,270
Real assets	–	4,606,011	49,052,213	53,658,224
Other	–	17,992,568	–	17,992,568
Total	$ 910,964,693	$ 823,487,536	$ 362,790,728	$2,097,242,957

5. Fair Value Measurement (continued)

The Foundation believes its valuation methods are appropriate and consistent with other market participants and represent a reasonable estimate of fair value. The use of different methodologies or assumptions to determine the fair value of certain financial instruments, particularly alternative investments, could result in a different estimate of fair value.

The change in fair value of The Foundation's financial instruments within Level 3 of the valuation hierarchy as of December 31, 2014 and 2013, is as follows:

	2014	**2013**
Fair value beginning of year	**$ 362,790,728**	$ 359,504,651
Realized gains	**17,299,822**	771,074
Unrealized gains attributable to financial assets held at end of year	**16,664,379**	12,784,988
Purchases	**65,142,164**	26,732,536
Sales	**(100,693,901)**	(37,002,521)
Fair value end of year	**$ 361,203,192**	$ 362,790,728

6. Partial Benefit Funds

Partial benefit funds provide, each in varying amounts, payment of annuities to certain individuals, including trustees' fees and other expenses of the trusts, prior to payment of the balance of the corpus to The Foundation. The Foundation received income from the partial benefit funds of $11,075,694 and $10,682,849 in 2014 and 2013, respectively. This represented approximately 99% of the income from partial benefit funds in 2014 and 2013. At December 31, 2014 and 2013, the fair value of partial benefit funds included in investments on the consolidated statements of financial position was $242,796,094 and $238,868,246, respectively.

7. Contributions

The Foundation receives contributions from various sources. Donor contributions received are recorded on the consolidated statements of activities. Receipts of organizational funds are not included on the consolidated statements of activities, but are reflected in investments and in organizational funds and other obligations in the consolidated statements of financial position. Total contributions received are as follows:

	2014	2013
Donor contributions	**$ 32,936,306**	$ 37,653,516
Organizational funds	**10,095,391**	18,144,675
	$ 43,031,697	$ 55,798,191

Donor contributions include approximately $2,119,700 in 2014 and $4,239,000 in 2013 received from other foundations and not-for-profits to jointly fund certain grants.

8. Grants and Distributions

The Board of Directors authorized grants of $98,198,142 for 2014 and $84,810,674 for 2013, and program-related investments of $1,550,000 for 2014 and $1,150,000 for 2013. Authorized grants in 2014 included two large grants recognizing the Foundation's Centennial. In addition, distributions from organizational funds of $4,103,835 and $2,969,027 were made in 2014 and 2013, respectively.

Unconditional grants are expensed upon approval by the Board of Directors. Conditional grants, which are approved by the Board of Directors and payable upon the performance of specified conditions by the grantees, are expensed when the specified conditions are satisfied.

Changes in grants payable are as follows:

	2014	2013
Grants payable at beginning of year	**$ 23,256,987**	$ 23,892,135
Unconditional grants expensed	**101,651,046**	81,368,990
Payments made	**(97,876,822)**	(82,004,138)
Grants payable at end of year	**$ 27,031,211**	$ 23,256,987

8. Grants and Distributions (continued)

Grants payable at December 31, 2014, are scheduled to be disbursed as follows: 2015 – $20,856,291, 2016 – $3,938,190, and 2017 and thereafter – $2,236,730. At December 31, 2014 and 2013, total authorized conditional grants were $18,007,418 and $19,874,429, respectively. These grants will be expensed when the conditions underlying the grant are met.

9. Affiliated Supporting Organizations

The total assets of affiliated supporting organizations included in the consolidated financial statements are as follows:

	December 31	
	2014	**2013**
The City of Cleveland's Cable Television Minority Arts and Education Fund	**$ 4,363,180**	$ 4,174,730
The Davis Fund	**2,345,695**	2,284,607
The Higley Fund	**12,235,081**	11,574,519
The Sherwick Fund	**24,762,777**	24,077,210
The Billie Howland Steffee Family Fund	**6,368,735**	6,216,951
Medical Mutual of Ohio Charitable Foundation	**2,112,417**	2,118,307
Sullivan Scholars Foundation	**3,970,645**	4,037,771
The Thatcher Family Fund	**5,377,129**	4,987,625
	$ 61,535,659	$ 59,471,720

The Treu-Mart Fund is a supporting organization of both The Foundation and the Jewish Federation of Cleveland. Financial transactions and account balances of The Treu-Mart Fund are not included in the accompanying consolidated financial statements because The Foundation does not have control over the distribution of The Treu-Mart Fund. Fair value of investments held by The Treu-Mart Fund at December 31, 2014 and 2013, were $17,290,088 and $17,661,155, respectively.

10. Other Investments

Other investments of $16,568,386 and $18,593,255 in 2014 and 2013, respectively, primarily include program-related investments (notes receivable and investments in limited partnerships that support certain program initiatives). Notes receivable are due at various dates from 2015 through 2019, except for two loans for which the due dates are 2026 and 2034. The loans carry fixed interest rates between 2% and 4%; principal and interest payment arrangements vary by note.

11. Administrative Expenses

Administrative expenses include the following:

	2014	**2013**
Staff expense, including salaries, benefits and other	**$ 9,151,354**	$ 8,980,559
Office expense, including rent, systems and supplies	**2,280,063**	2,313,545
Other expense	**1,818,848**	1,317,552
	$ 13,250,265	$ 12,611,656

12. Operating Lease

The Foundation leases office space under a primary operating lease agreement, which expires in 2020. Rental expense was $932,395 in 2014 and $898,405 in 2013. Future minimum rental commitments under the non-cancelable primary operating lease at December 31, 2014, are $897,138 in 2015, $922,770 in 2016, $974,035 in 2017, $974,035 in 2018, $974,035 in 2019, and $649,357 thereafter.

13. Retirement Plan

The Foundation has defined contribution retirement plans. The Foundation made contributions based upon specified percentages of salary for all employees. Retirement plan expense was $618,495 in 2014 and $591,063 in 2013. All contributions under the plan vest with employees at the time the contributions are made.

14. Subsequent Events

In preparing these financial statements, The Foundation evaluated subsequent events through the time the financial statements were available to be issued on August 14, 2015; in compliance with applicable accounting standards, all material subsequent events have been either recognized in the consolidated financial statements or disclosed in the notes to the consolidated financial statements.

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