



**THE WALLACE FOUNDATION**

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Directors  
The Wallace Foundation:

We have audited the accompanying financial statements of The Wallace Foundation (the Foundation), which comprise the balance sheets as of December 31, 2013 and 2012, 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 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Wallace Foundation as of December 31, 2013 and 2012, and changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

June 10, 2014

**THE WALLACE FOUNDATION**

Balance Sheets

December 31, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash equivalents and cash	\$ 27,278,220	11,663,605
Investments (note 3)	1,482,451,903	1,384,923,340
Other assets and receivables	3,289,935	1,935,669
Fixed assets, net of accumulated depreciation of \$2,270,915 in 2013 and \$2,143,376 in 2012	<u>1,942,140</u>	<u>2,131,710</u>
Total assets	<u>\$ 1,514,962,198</u>	<u>1,400,654,324</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accrued expenses and other payables	\$ 2,361,265	1,606,307
Grants payable (note 4)	18,819,673	17,731,020
Deferred liabilities (note 5)	<u>7,472,097</u>	<u>6,301,029</u>
Total liabilities	28,653,035	25,638,356
Net assets – unrestricted	<u>1,486,309,163</u>	<u>1,375,015,968</u>
Total liabilities and net assets	<u>\$ 1,514,962,198</u>	<u>1,400,654,324</u>

See accompanying notes to financial statements.

**THE WALLACE FOUNDATION**

Statements of Activities

Years ended December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Interest and dividends	\$ 10,166,525	13,009,589
Realized gains	107,120,054	29,508,255
Total investment income	117,286,579	42,517,844
Investment fees	(3,201,011)	(3,207,131)
Excise and income taxes (note 6)	(701,673)	(156,634)
Total investment expenses	(3,902,684)	(3,363,765)
Unrealized gains, net of deferred tax (note 6)	71,495,709	103,737,635
Contributions	1,594,938	2,360
Net revenues	186,474,542	142,894,074
<b>Expenses:</b>		
Grants and related activities	63,276,235	66,077,726
Operating expenses	11,905,112	9,393,401
Total expenses	75,181,347	75,471,127
Change in net assets	111,293,195	67,422,947
<b>Net assets:</b>		
Beginning of year	1,375,015,968	1,307,593,021
End of year	\$ 1,486,309,163	1,375,015,968

See accompanying notes to financial statements.

**THE WALLACE FOUNDATION**

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Change in net assets	\$ 111,293,195	67,422,947
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized gains on investments	(72,805,041)	(105,933,196)
Realized gains on investments	(107,120,054)	(29,508,255)
Depreciation	288,164	286,956
Changes in assets and liabilities:		
Accrued investment income	(21,519)	1,801,027
Other assets and receivables	(1,354,266)	(980,767)
Accrued expenses and other payables	754,958	590,692
Grants payable	1,088,653	2,994,127
Deferred liabilities	1,171,068	2,066,489
Net cash used in operating activities	(66,704,842)	(61,259,980)
Cash flows from investing activities:		
Sales of investments	686,012,134	430,304,670
Purchases of investments	(603,594,083)	(368,272,883)
Purchases of fixed assets	(98,594)	(55,755)
Net cash provided by investing activities	82,319,457	61,976,032
Net increase in cash equivalents and cash	15,614,615	716,052
Cash equivalents and cash at beginning of year	11,663,605	10,947,553
Cash equivalents and cash at end of year	\$ 27,278,220	11,663,605

See accompanying notes to financial statements.

## THE WALLACE FOUNDATION

Notes to Financial Statements

December 31, 2013 and 2012

### (1) Nature of Operations

The Wallace Foundation (the Foundation) is the philanthropic legacy of DeWitt and Lila Acheson Wallace, the co-founders of Reader's Digest. The mission of the Foundation is to improve learning and enrichment opportunities for children. The Foundation's approach is to identify areas where a gap in knowledge is a barrier to progress. By working to fill those knowledge gaps through grants for innovation, research, and communication, the Foundation aims to spur beneficial changes for fields as a whole, not just for individual grantees. As a result, the Foundation gathers and publishes insights useful to policymakers and those who work in the areas where the Foundation concentrates its philanthropy. Today, the Foundation works in five areas: strengthening education leadership to improve student achievement, helping disadvantaged students gain more time for learning during the summer break and the school year, enhancing after-school opportunities, engaging more young people in high-quality arts learning experiences, and building appreciation and demand for the arts.

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

The accounts of the Foundation are maintained on the accrual basis of accounting.

#### (b) Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a private foundation as defined in Section 509(a) of the Code. As required by the Code, the Foundation distributes annually at least 5% of the average of the fair market value of its assets no later than the 12-month period following the end of its fiscal year.

The Foundation recognizes the effects of income tax positions only if those positions are more likely than not to be sustained in the future.

#### (c) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Foundation uses three levels of inputs to measure fair value:

Level 1: Quoted prices in active markets for identical assets. Level 1 assets include debt and equity securities that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. Level 2 assets include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments and investment funds redeemable at or near December 31 (within 90 days).

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### Notes to Financial Statements

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Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets also include investment funds, which are not redeemable at or near December 31.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Foundation's interest therein, its classification in Level 2 or Level 3 is based on the Foundation's ability to redeem its interest at or near December 31. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

**(d) Investments**

Investments in equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments in debt securities are measured using quoted market prices where available. If quoted market prices for debt securities are not available, the fair value is determined using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded markets for debt of similar terms to companies with comparable credit risk, the issuer's credit spread, and illiquidity by sector and maturity.

The Foundation follows the accounting standards of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10-35-59, *Fair Value Measurement and Disclosures – Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.



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(e) **Fixed Assets**

Fixed assets consist of furniture, fixtures, equipment, and leasehold improvements. All assets are depreciated on a straight-line basis over the estimated useful lives of the assets. Computers are depreciated over 3 years, office equipment is depreciated over 5 years, and furniture and fixtures are depreciated over 15 years. Leasehold improvements are depreciated over the life of the lease or the estimated life of the leasehold improvement, whichever is shorter.

(f) **Grants**

Grants are reported as an expense and liability of the Foundation when approved by the Foundation's board of directors or the president, under authority delegated by the board of directors, and communicated to the grantee. Payments due in more than one year are discounted to present value.

(g) **Cash Equivalents**

Cash equivalents represent short-term investments with original maturities of three months or less at the time of purchase, except for those short-term investments managed by the Foundation's investment managers as part of their long-term investment strategies.

(h) **Use of Estimates**

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) **Investments**

(a) **Fair Value Hierarchy**

The following tables present the Foundation's fair value hierarchy for investments, the only financial instruments measured at fair value on an annual basis, as of December 31, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	Total fair value
Growth – market stocks:				
Direct ownership:				
United States	\$ 25,616,720	250,096	729,279	26,596,095
International	58,519,037	—	—	58,519,037
Subtotal	84,135,757	250,096	729,279	85,115,132

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	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
Commingled funds:				
United States	\$ —	95,646,754	49,982,850	145,629,604
International	—	163,471,362	—	163,471,362
Subtotal	—	259,118,116	49,982,850	309,100,966
Total	84,135,757	259,368,212	50,712,129	394,216,098
Growth – hedge funds:				
Multistrategy	—	63,767,849	24,342,440	88,110,289
Long/short equity	—	99,577,191	—	99,577,191
Credit – redeemable	—	103,509,144	—	103,509,144
Credit – nonredeemable	—	—	35,818,188	35,818,188
Total	—	266,854,184	60,160,628	327,014,812
Growth – private equity funds	—	—	236,429,841	236,429,841
Growth total	84,135,757	526,222,396	347,302,598	957,660,751
Diversifying – hedge funds:				
Global macro discretionary	—	102,210,169	—	102,210,169
Total	—	102,210,169	—	102,210,169
Diversifying – bond funds:				
Direct ownership:				
United States government/ agency	12,175,952	23,541,204	—	35,717,156
United States corporate and other	—	23,943,550	—	23,943,550
Subtotal	12,175,952	47,484,754	—	59,660,706
Mutual funds:				
United States corporate and other	23,856,625	—	—	23,856,625
International	6,009,958	—	—	6,009,958
Subtotal	29,866,583	—	—	29,866,583
Commingled fund:				
United States corporate and other	—	—	1,564,324	1,564,324
Subtotal	—	—	1,564,324	1,564,324

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	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
Diversifying – other:				
Mutual funds	\$ 36,215,900	—	—	36,215,900
Total	<u>36,215,900</u>	<u>—</u>	<u>—</u>	<u>36,215,900</u>
Diversifying total	<u>78,258,435</u>	<u>149,694,923</u>	<u>1,564,324</u>	<u>229,517,682</u>
Inflation hedges – market:				
Direct ownership:				
Natural resources stock	29,543,923	—	—	29,543,923
Mutual funds:				
United States government/ agency	11,335,653	—	—	11,335,653
Commodity fund	—	26,054,794	—	26,054,794
Public energy fund	—	31,598,247	—	31,598,247
Public real estate fund	—	26,282,431	—	26,282,431
Total	<u>40,879,576</u>	<u>83,935,472</u>	<u>—</u>	<u>124,815,048</u>
Inflation hedges – private:				
Private energy funds	—	—	45,093,739	45,093,739
Private real estate funds	—	—	30,950,483	30,950,483
Total	<u>—</u>	<u>—</u>	<u>76,044,222</u>	<u>76,044,222</u>
Inflation hedges total	<u>40,879,576</u>	<u>83,935,472</u>	<u>76,044,222</u>	<u>200,859,270</u>
Deflation hedges – fixed income:				
Direct ownership:				
United States government/ agency	—	73,157,174	—	73,157,174
Mutual funds:				
United States corporate and other	5,659,880	—	—	5,659,880
Deflation hedges – fixed income total	<u>5,659,880</u>	<u>73,157,174</u>	<u>—</u>	<u>78,817,054</u>
Other:				
Short-term investments	12,678,892	—	—	12,678,892
Accrued investment income	252,471	—	—	252,471
Receivables for investments sold, net	2,665,783	—	—	2,665,783
Total	\$ <u>224,530,794</u>	<u>833,009,965</u>	<u>424,911,144</u>	<u>1,482,451,903</u>

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Notes to Financial Statements

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	<b>2012</b>			<b>Total fair value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Growth – market stocks:				
Direct ownership:				
United States	\$ 176,212,604	379,102	756,218	177,347,924
International	40,674,105	—	—	40,674,105
Subtotal	<u>216,886,709</u>	<u>379,102</u>	<u>756,218</u>	<u>218,022,029</u>
Commingled funds:				
United States	—	—	17,342,051	17,342,051
International	—	133,897,623	—	133,897,623
Subtotal	<u>—</u>	<u>133,897,623</u>	<u>17,342,051</u>	<u>151,239,674</u>
Total	<u>216,886,709</u>	<u>134,276,725</u>	<u>18,098,269</u>	<u>369,261,703</u>
Growth – hedge funds:				
Multistrategy	—	57,476,544	26,346,138	83,822,682
Long/short equity	—	83,429,663	—	83,429,663
Credit – redeemable	—	82,681,242	—	82,681,242
Credit – nonredeemable	—	—	33,005,706	33,005,706
Total	<u>—</u>	<u>223,587,449</u>	<u>59,351,844</u>	<u>282,939,293</u>
Growth – private equity funds	<u>—</u>	<u>—</u>	<u>210,362,974</u>	<u>210,362,974</u>
Growth total	<u>216,886,709</u>	<u>357,864,174</u>	<u>287,813,087</u>	<u>862,563,970</u>
Diversifying – bond funds:				
Direct ownership:				
United States government/ agency	—	54,028,006	—	54,028,006
United States corporate and other	—	43,388,257	—	43,388,257
Subtotal	<u>—</u>	<u>97,416,263</u>	<u>—</u>	<u>97,416,263</u>
Mutual funds:				
United States corporate and other	55,745,091	—	—	55,745,091
International	9,646,129	—	—	9,646,129
Subtotal	<u>65,391,220</u>	<u>—</u>	<u>—</u>	<u>65,391,220</u>

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### Notes to Financial Statements

December 31, 2013 and 2012

	2012			
	Level 1	Level 2	Level 3	Total fair value
Commingled fund:				
United States corporate and other	\$ —	—	3,052,712	3,052,712
Subtotal	—	—	3,052,712	3,052,712
Diversifying total	65,391,220	97,416,263	3,052,712	165,860,195
Inflation hedges – market:				
Direct ownership:				
Natural resources stock	25,762,362	—	—	25,762,362
Commodity fund	—	26,041,750	—	26,041,750
Public energy fund	—	25,524,685	—	25,524,685
Public real estate fund	—	32,257,010	—	32,257,010
Total	25,762,362	83,823,445	—	109,585,807
Inflation hedges – private:				
Private energy funds	—	—	34,582,203	34,582,203
Private real estate funds	—	—	31,495,862	31,495,862
Total	—	—	66,078,065	66,078,065
Inflation hedges total	25,762,362	83,823,445	66,078,065	175,663,872
Deflation hedges – fixed income:				
Direct ownership:				
United States government/agency	—	86,661,120	—	86,661,120
Mutual funds:				
United States corporate and other	41,973,532	—	—	41,973,532
Deflation hedges – fixed income total	41,973,532	86,661,120	—	128,634,652
Other:				
Short-term investments	11,691,129	—	—	11,691,129
Accrued investment income	230,952	—	—	230,952
Receivables for investments sold, net	40,278,570	—	—	40,278,570
Total	\$ 402,214,474	625,765,002	356,943,864	1,384,923,340

Short-term investments include money market funds, U.S. government securities, and cash managed by the Foundation's investment managers as part of their long-term investment strategies.

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### Notes to Financial Statements

December 31, 2013 and 2012

The following tables present reconciliations for all Level 3 assets measured at fair value at December 31, 2013 and 2012:

	2013						Ending balance
	Beginning balance	Transfers	Realized gains (losses)	Unrealized gains (losses)	Purchases	Settlements	
Growth-market stocks- direct ownership	\$ 756,218	—	—	(26,939)	—	—	729,279
Growth-market stocks- commingled U.S.	17,342,051	—	—	14,517,033	18,123,766	—	49,982,850
Growth-hedge funds- multistrategy	26,346,138	—	—	(2,003,698)	—	—	24,342,440
Growth-hedge funds- credit-nonredeemable	33,005,706	—	8,944,300	(2,203,588)	15,000,000	(18,928,230)	35,818,188
Growth-private equity funds	210,362,974	—	10,252,307	31,129,674	29,549,625	(44,864,739)	236,429,841
Diversifying-bond funds- commingled fund	3,052,712	—	522,851	(465,194)	—	(1,546,045)	1,564,324
Inflation hedges-private energy funds	34,582,203	—	1,388,014	(1,204,421)	15,738,760	(5,410,817)	45,093,739
Inflation hedges-private real estate funds	31,495,862	—	(941,435)	3,135,639	600,000	(3,339,583)	30,950,483
Total	<u>\$ 356,943,864</u>	<u>—</u>	<u>20,166,037</u>	<u>42,878,506</u>	<u>79,012,151</u>	<u>(74,089,414)</u>	<u>424,911,144</u>

	2012						Ending balance
	Beginning balance	Transfers	Realized gains (losses)	Unrealized gains (losses)	Purchases	Settlements	
Growth-market stocks- direct ownership	\$ 773,583	—	—	(17,365)	—	—	756,218
Growth-market stocks- commingled U.S.	—	—	—	465,817	16,876,234	—	17,342,051
Growth-hedge funds- multistrategy	27,934,635	(6,958,391)	—	5,369,894	—	—	26,346,138
Growth-hedge funds- credit-nonredeemable	42,656,158	—	6,200,718	616,789	—	(16,467,959)	33,005,706
Growth-private equity funds	177,379,752	—	7,608,501	13,724,601	45,215,182	(33,565,062)	210,362,974
Diversifying-bond funds- commingled fund	3,489,340	—	178,189	(32,410)	—	(582,407)	3,052,712
Inflation hedges-private energy funds	29,185,882	—	844,905	(267,504)	8,853,369	(4,034,449)	34,582,203
Inflation hedges-private real estate funds	28,802,578	—	(559,506)	2,965,012	3,750,000	(3,462,222)	31,495,862
Total	<u>\$ 310,221,928</u>	<u>(6,958,391)</u>	<u>14,272,807</u>	<u>22,824,834</u>	<u>74,694,785</u>	<u>(58,112,099)</u>	<u>356,943,864</u>

The Foundation recognizes transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the years ended December 31, 2013 and 2012.

**(b) Portfolio Liquidity**

The Foundation reviews the liquidity of its investments to ensure that it is able to meet its cash needs for grants, operating expenses, and capital calls. As of December 31, 2013, the Foundation had investments of \$560.2 million that could be sold on a daily basis under normal market conditions. This included \$12.7 million in short-term investments, \$247.5 million in direct ownership investments held in separate accounts with the Foundation's custodial trustee, \$83.1 million in

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mutual fund investments, \$31.6 million in a public energy fund, which is part of the Foundation's inflation hedges – market portfolio, \$95.6 million in a United States commingled stock fund, and \$89.7 million in an international commingled stock fund.

The Foundation's investments in commingled bond and stock funds, hedge funds, inflation hedge funds (except direct ownership investments), and private equity funds, including the \$31.6 million public energy fund, the \$95.6 million United States commingled stock fund, and the \$89.7 million international commingled stock fund noted above, totaled \$1.1 billion as of December 31, 2013. The liquidity of these investments is determined by the redemption period for each fund, which differs among investments and is detailed in note 3(c).

**(c) Strategies of Commingled, Hedge, Inflation Hedge, and Private Equity Funds**

The following tables list the investment strategies, redemption terms, and assets for commingled, hedge, inflation hedge, and private equity funds measured at fair value as of December 31, 2013 and 2012:

	2013			
	Total fair value	Unfunded commitments	Redemption dates per year	Redemption notice period
Growth – market stocks:				
Commingled funds:				
United States	\$ 145,629,604	—	Daily/Biennial	2/90 days
International	163,471,362	—	Daily/Monthly	3–6 days
Total	<u>309,100,966</u>	<u>—</u>		
Growth – hedge funds:				
Multistrategy	88,110,289	—	Annually/None	45–180 days
Long/short equity	99,577,191	—	Monthly/Quarterly	45/60 days
Credit – redeemable	103,509,144	—	Annually/Quarterly	60/90 days
Credit – nonredeemable	35,818,188	5,000,000	None	N/A
Total	<u>327,014,812</u>	<u>5,000,000</u>		
Growth – private equity funds	236,429,841	79,448,740	None	N/A
Diversifying – hedge funds:				
Global macro discretionary	102,210,169	—	Monthly	31/60/65 days
Diversifying – bond funds:				
Commingled fund				
U.S. corporate and other	1,564,324	—	None	N/A
Inflation hedges – market:				
Commodity fund	26,054,794	—	Monthly	65 days
Public energy fund	31,598,247	—	Daily	1 day
Public real estate fund	26,282,431	—	Quarterly	30 days
Total	<u>83,935,472</u>	<u>—</u>		

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	<b>2013</b>			
	<u>Total fair value</u>	<u>Unfunded commitments</u>	<u>Redemption dates per year</u>	<u>Redemption notice period</u>
Inflation hedges – private:				
Private energy funds	\$ 45,093,739	44,860,154	None	N/A
Private real estate funds	<u>30,950,483</u>	<u>3,929,530</u>	None	N/A
Total	<u>76,044,222</u>	<u>48,789,684</u>		
Total	<u>\$ 1,136,299,806</u>	<u>133,238,424</u>		
	<b>2012</b>			
	<u>Total fair value</u>	<u>Unfunded commitments</u>	<u>Redemption dates per year</u>	<u>Redemption notice period</u>
Growth – market stocks:				
Commingled funds:				
United States	\$ 17,342,051	8,123,766	Biennial	90 days
International	<u>133,897,623</u>	—	Daily/Monthly	3–6 days
Total	<u>151,239,674</u>	<u>8,123,766</u>		
Growth – hedge funds:				
Multistrategy	83,822,682	—	Annually/None	45–180 days
Long/short equity	83,429,663	—	Annually/Quarterly	45/60 days
Credit – redeemable	82,681,242	—	Annually	60/90 days
Credit – nonredeemable	<u>33,005,706</u>	—	None	N/A
Total	<u>282,939,293</u>	—		
Growth – private equity funds	210,362,974	89,424,647	None	N/A
Diversifying – bond funds:				
Commingled fund				
U.S. corporate and other	3,052,712	—	None	N/A
Inflation hedges – market:				
Commodity fund	26,041,750	—	Monthly	65 days
Public energy fund	25,524,685	—	Daily	1 day
Public real estate fund	<u>32,257,010</u>	—	Quarterly	30 days
Total	<u>83,823,445</u>	—		
Inflation hedges – private:				
Private energy funds	34,582,203	39,419,919	None	N/A
Private real estate funds	<u>31,495,862</u>	<u>5,015,367</u>	None	N/A
Total	<u>66,078,065</u>	<u>44,435,286</u>		
Total	<u>\$ 797,496,163</u>	<u>141,983,699</u>		



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The following provides details for the investment strategies as of December 31, 2013 listed above:

### **Growth – Market Stocks**

#### ***Commingled Funds***

This includes \$309.1 million invested in four funds that invest in publicly traded common stock.

### **Growth – Hedge Funds**

#### ***Multistrategy***

This consists of \$88.1 million invested in two hedge funds, of which \$63.8 million is redeemable by the Foundation and \$24.3 million is invested in private investments that will not be distributed to the Foundation until they are sold by the funds' managers at their discretion as market opportunities arise. These hedge funds invest in equity, fixed income, and derivative investments and vary their investment strategies in response to changing market opportunities. As of December 31, 2013, the Foundation's combined investments in these funds included 42% equity strategies, 22% credit strategies, 12% private investments, and 24% cash.

#### ***Long/Short Equity***

This includes \$99.6 million invested in three hedge funds that invest in publicly traded equity securities using a combination of long and short positions.

#### ***Credit – Redeemable***

This includes \$103.5 million invested in two hedge funds that can be redeemed by the Foundation that invest primarily in publicly traded debt securities purchased at discounts to par value, including publicly traded bonds, bank debt, residential and commercial mortgage-backed securities, and other asset-backed securities.

#### ***Credit – Nonredeemable***

This consists of \$35.8 million invested in two hedge funds with structures similar to private equity that make distributions to investors at the manager's discretion and are expected to fully distribute its assets over the next four to eight years approximately. The fund invests in publicly traded and private debt securities purchased at discounts to par value.

### **Growth – Private Equity Funds**

This includes \$236.4 million invested in 23 funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years approximately. As of December 31, 2013, the Foundation's combined investments in these funds includes 26% in seven primary funds of funds that invest in a diversified portfolio of buyout and venture capital funds, 34% in seven secondary funds of funds that purchase interests in buyout and venture capital funds on a secondary basis at discounts to net asset value, 23% in five venture capital funds that invest directly in technology and media companies, and 17% in four buyout funds that invest in specific sectors.

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### **Diversifying – Hedge Funds**

#### ***Global Macro Discretionary***

This includes \$102.2 million invested in four hedge funds. These funds invest in a range of strategies that analyze movements in underlying economic variables and predict the impact these have on equity, fixed income, hard currency, and commodity markets.

### **Diversifying – Bond Funds**

#### ***Commingled Fund***

This consists of \$1.6 million invested in a fund that invests in co-op mortgage loans that are not traded on public markets. This fund is not redeemable by the Foundation but makes distributions to investors at the manager's discretion. While the fund has been making distributions that suggest it may fully distribute its assets over the next several years, the Foundation is not able to determine when it will be fully paid out.

### **Inflation Hedges – Market**

#### ***Commodity Fund***

This includes \$26.1 million in a fund that invests on a global basis in publicly traded common stock and futures related to investments in energy, metals, grains, cotton, cocoa, sugar, and other commodities.

#### ***Public Energy Fund***

This includes \$31.6 million invested in a fund that invests on a global basis in the publicly traded common stock of energy companies.

#### ***Public Real Estate Fund***

This consists of \$26.3 million invested in a fund that invests primarily in publicly traded equity and debt securities issued by Real Estate Investment Trusts (REITs) and other companies with significant real estate holdings.

### **Inflation Hedges – Private**

#### ***Private Energy Funds***

This consists of \$45.1 million in eight funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years approximately. As of December 31, 2013, the Foundation's combined investments in these funds included 48% in three private energy funds of funds that invest in diversified portfolios of direct private energy funds and 52% in five direct private energy funds that invest in companies that acquire or develop natural resource reserves, power generation facilities, and energy infrastructure assets.

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***Private Real Estate Funds***

This includes \$31.0 million invested in three funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years approximately. These funds invest directly in real estate properties that are not traded on public markets. As of December 31, 2013, the Foundation's combined investments in these funds include 27% value add and 73% opportunistic investments.

**(4) Grants Payable**

At December 31, 2013 and 2012, grants scheduled to be paid in future years are as follows:

	<b>2013</b>	<b>2012</b>
Year:		
2013	\$ —	12,333,384
2014	11,979,595	4,278,100
2015	5,551,302	901,302
2016	950,000	250,000
2017	289,999	—
2018	101,329	—
	18,872,225	17,762,786
Discount to present value (based on interest rates from 0.02% to 1.07% for 2013 and 0.10% to 1.47% for 2012)	(52,552)	(31,766)
	\$ 18,819,673	17,731,020

**(5) Deferred Liabilities**

At December 31, 2013 and 2012, deferred liabilities consisted of the following:

	<b>2013</b>	<b>2012</b>
Federal excise tax (note 6)	\$ 5,812,153	4,502,821
5 Penn Plaza landlord incentives	1,659,944	1,798,208
	\$ 7,472,097	6,301,029

**(6) Federal Excise Tax**

As a private foundation, the Foundation is normally subject to a federal excise tax equal to 2% of its net investment income for tax purposes. However, under Section 4940(e) of the Code, this tax is reduced to 1% if certain conditions are met. The Foundation's current taxes are estimated at 1% of net investment income for December 31, 2013 and 2012.

The Foundation records a liability for deferred federal excise tax at the 2% rate on the total unrealized appreciation in the fair value of investments. The federal excise tax will be paid as realized gains are

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reported for tax purposes. The unrealized gains on investments are reported net of the deferred federal excise tax expense of \$1,309,332 and \$2,195,561 for the years ended December 31, 2013 and 2012, respectively, on the statements of activities.

### (7) Fair Value Disclosures

The carrying amount of cash equivalents and cash, other assets and receivables, accrued expenses and other payables, and grants payable approximates fair value because of the short-term maturities of these financial instruments. The inputs to the fair value estimates are considered Level 3 in the fair value hierarchy.

The Foundation permits several of its investment managers to invest, within prescribed limits, in financial futures (primarily U.S. Treasury futures) and options, and to sell securities not yet purchased for hedging purposes and for managing the asset allocation in addition to the duration of the fixed income portfolios. At December 31, 2013 and 2012, the Foundation held no futures contracts.

### (8) Lease Commitments

The Foundation occupies office space under a lease agreement expiring in 2021.

The Foundation's total contractual lease commitments are as follows:

	<u>5 Penn Plaza</u>
Year:	
2014	\$ 948,000
2015	948,000
2016	1,018,000
2017	1,031,000
2018	1,101,000
2019 and thereafter	<u>2,416,000</u>
	<u>\$ 7,462,000</u>

During the years ended December 31, 2013 and 2012, rent expense, including escalations, was \$914,088 and \$881,171, respectively.

### (9) Pension Plans

The Foundation provides a defined-contribution retirement plan for all eligible employees, whereby the Foundation contributes 15% of a participant's eligible earnings on an annual basis. In addition, the Foundation provides a supplemental executive retirement plan for the benefit of certain eligible employees. Total pension expense for the years ended December 31, 2013 and 2012 was \$886,970 and \$650,219, respectively.

**THE WALLACE FOUNDATION**

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**(10) Subsequent Events**

The Foundation evaluated events subsequent to the balance sheet date of December 31, 2013 through June 10, 2014, which was the date the financial statements were available to be issued, and determined there were no additional matters that are required to be disclosed.