

**The German Marshall Fund of the
United States – A Memorial to the
Marshall Plan and Subsidiaries**

Consolidated Financial Report
May 31, 2014

Contents

Independent Auditor's Report	1-2
<hr/>	
Financial Statements	
Consolidated balance sheet	3
Consolidated statement of activities	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6-16



Independent Auditor's Report

To the Board of Trustees
The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The German Marshall Fund of the United States – A Memorial to the Marshall Plan and Subsidiaries (GMF) which comprise the consolidated balance sheet as of May 31, 2014, and the related consolidated statements of activities and cash flows for the year 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to GMF's preparation and fair presentation of the consolidated 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 GMF'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of GMF as of May 31, 2014, and the change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited GMF's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 9, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2013, is consistent, in all material aspects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of GMF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GMF's internal control over financial reporting and compliance.



Gaithersburg, Maryland
October 27, 2014

The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries

Consolidated Balance Sheet
May 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Assets		
Cash and Cash Equivalents		
Unrestricted	\$ 7,526,576	\$ 7,324,281
Restricted	3,522,924	3,603,166
Grants Receivable	12,840,871	15,204,950
Investments	161,696,321	149,857,449
Property and Equipment, Net	21,706,738	22,476,964
Other Assets	496,640	564,455
Bond Issuance Cost, Net	212,831	228,538
	<u>\$ 208,002,901</u>	<u>\$ 199,259,803</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,254,599	\$ 2,005,759
Deferred revenue	9,577,589	8,668,643
Grants payable	1,005,848	757,791
Bonds payable	12,000,000	12,000,000
	<u>24,838,036</u>	<u>23,432,193</u>
Contingency (Note 9)		
Net Assets		
Unrestricted		
Undesignated	156,553,418	148,240,534
Board designated	11,457,881	11,935,788
	<u>168,011,299</u>	<u>160,176,322</u>
Temporarily restricted	15,153,566	15,651,288
	<u>183,164,865</u>	<u>175,827,610</u>
	<u>\$ 208,002,901</u>	<u>\$ 199,259,803</u>

See Notes to Consolidated Financial Statements.

The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries

Consolidated Statement of Activities
Year Ended May 31, 2014
(With Comparative Totals for 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue				
Investment income, net	\$ 19,063,932	\$ -	\$ 19,063,932	\$ 12,116,515
Non-federal grants and contributions	167,339	20,427,093	20,594,432	25,203,547
Federal grants	5,099,810	-	5,099,810	4,152,682
Other	101,919	-	101,919	167,020
Net assets released from restrictions	20,924,815	(20,924,815)	-	-
Total support and revenue	45,357,815	(497,722)	44,860,093	41,639,764
Expenses				
Program services:				
Internal projects expense	22,405,090	-	22,405,090	20,983,728
Grant expense	6,572,917	-	6,572,917	6,330,550
Support services:				
Management and general	7,752,199	-	7,752,199	9,331,124
Fundraising	792,632	-	792,632	636,315
Total expenses	37,522,838	-	37,522,838	37,281,717
Change in net assets	7,834,977	(497,722)	7,337,255	4,358,047
Net Assets				
Beginning	160,176,322	15,651,288	175,827,610	171,469,563
Ending	\$ 168,011,299	\$ 15,153,566	\$ 183,164,865	\$ 175,827,610

See Notes to Consolidated Financial Statements.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

**Consolidated Statement of Cash Flows
Year Ended May 31, 2014
(With Comparative Totals for 2013)**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 7,337,255	\$ 4,358,047
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	898,738	957,442
Amortization on bond issuance cost	15,707	16,231
Net realized and unrealized gains on investments	(15,403,544)	(8,823,813)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	2,364,079	(6,380,314)
Other assets	67,815	(56,541)
Increase (decrease) in:		
Accounts payable and accrued expenses	248,840	(1,388,708)
Deferred revenue	908,946	(3,391,978)
Grants payable	248,057	(1,010,773)
Net cash used in operating activities	(3,314,107)	(15,720,407)
Cash Flows From Investing Activities		
Purchases of investments	(29,153,648)	(73,315,590)
Proceeds from sale of investments	32,718,320	88,886,638
Purchases of property and equipment	(128,512)	(775,529)
Decrease in restricted cash	80,242	2,353,454
Net cash provided by investing activities	3,516,402	17,148,973
Net increase in cash and cash equivalents	202,295	1,428,566
Cash and Cash Equivalents		
Beginning	7,324,281	5,895,715
Ending	<u>\$ 7,526,576</u>	<u>\$ 7,324,281</u>
Supplemental Disclosure of Cash Flow Information		
Cash payment for interest	<u>\$ 8,407</u>	<u>\$ 20,164</u>

See Notes to Consolidated Financial Statements.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The German Marshall Fund of the United States – A Memorial to the Marshall Plan (GMF) was incorporated on March 15, 1972, under the laws of the District of Columbia. GMF is an American institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe in the spirit of the postwar Marshall Plan.

GMF makes grants in the following areas:

- Economics
- Environment
- Foreign policy
- Immigration and integration
- Special opportunities

In May 2004, GMF formed a limited liability corporation named 1700 18th Street LLC (LLC), which was incorporated as a wholly-owned subsidiary of GMF. The purpose of LLC was to purchase a building in Washington, D.C. In June 2004, LLC purchased a building for approximately \$5.9 million.

In March 2011, GMF formed a private foundation named The Transatlantic Foundation (TTF), which was incorporated in Brussels. The purpose of the Foundation is to receive European funding and to become a member of the European consortia for transatlantic research.

A summary of GMF's significant accounting policies follows:

Basis of accounting: The consolidated financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned, and expenses are recognized when incurred.

Principles of consolidation: The accompanying consolidated financial statements, which include the accounts of GMF, LLC and TTF (collectively, GMF), have been consolidated in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB Accounting Standard Codification, *Financial Statements of Not-for-Profit Organizations*, GMF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. GMF has no permanently restricted net assets at May 31, 2014.

Cash and cash equivalents: Cash and cash equivalents consist of cash on deposit, repurchase agreements, and short-term investments in money market funds. As of May 31, 2014, GMF maintained \$1,427,511 in foreign bank accounts. For purposes of reporting cash flows, restricted cash and cash equivalents are excluded as they are not available for operating purposes.

Restricted cash: Under the terms of the Bond agreement, GMF placed bond proceeds in an account with the Bond Trustee. The use of this account is restricted to construction projects, as required under the Bond agreement. At May 31, 2014, cash restricted for the projects amounted to \$3,522,924. This cash is included in restricted cash in the accompanying consolidated balance sheet.

Translation of foreign currencies: Financial statements for foreign activities reflect assets and liabilities converted to U.S. dollar values at prevailing rates of exchange. Gains or losses from fluctuations of foreign exchange rates are not material to the financial statements.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Financial risk: GMF maintains its cash in bank deposit accounts which, at times, may exceed United States federally insured limits. In addition, GMF maintains several accounts in European financial institutions. GMF has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash. GMF invests in professionally managed portfolios that contain common shares of publicly traded companies, hedge funds, bond funds, and private equity funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to change in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Grants receivable: GMF receives grants from a number of organizations for various purposes. For grants that are recognized as unconditional promises to give, the receivable is recorded as support in the period during which the promise is made. For grants determined to be conditional awards or exchange transactions, recognition is made as conditions are met or revenues earned, as applicable.

Investments: Investments are carried at fair market value. Fair market value of publicly traded securities is determined using quoted market prices. Investment income or loss is included in the change in unrestricted net assets, unless the income is restricted by donor or law.

Investments in investment partnerships are valued at fair value, based on the applicable percentage ownership of the underlying partnerships' net assets as of the measurement date, as determined by GMF. In determining fair value, GMF utilizes valuations provided by the fund manager of the underlying investment partnerships. The underlying investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by GMF of the respective other investment partnership and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of GMF's investments in other investment partnerships generally represents the amount GMF would expect to receive if it were to liquidate its investment in the investment partnerships excluding any liquidation costs that may apply. GMF may adjust the respective manager's valuation when circumstances support such an adjustment.

Derivative financial instruments and hedging activities: GMF invests in hedge funds, alternative funds and private equity funds that invest in various derivative instruments (e.g., options, warrants, futures, swap contracts, etc.). Derivative instruments are typically held to advance fund investment strategies, to hedge investment risk, and to economically meet the objectives of the fund. Derivatives are recorded at fair value and the resulting gains, and losses are reflected as a component of investment income in the consolidated statement of activities.

Property and equipment: Property and equipment are reported at cost net of accumulated depreciation. GMF follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000. GMF currently depreciates its assets using the straight-line depreciation method over three to five years, with no salvage value. Buildings are currently depreciated over a 40-year term using the straight-line method.

Bond issuance costs: The GMF paid certain customary fees as required to secure the bonds payable used to finance construction projects. These fees have been capitalized and are being amortized over the term of the bonds using the effective interest method. Amortization expense was \$15,707 for the year ended May 31, 2014.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: GMF accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB Accounting Standards Codification Topic *Property, Plant and Equipment* that address *Impairment or Disposal of Long-Lived Assets*. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Grants payable: GMF records grant expenses to recipients and corresponding grant payable at the time an award is made/approved.

Designated net assets: The Board of Trustees has established board designated net assets to fund the Balkan Trust for Democracy and Black Sea Trust activities.

Revenue recognition: Contribution revenue is recognized at the time an unconditional promise to give is received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions. Conditional contribution revenue is not recognized until conditions have been satisfied.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Grant funds received in advance for agreements determined to be exchange transactions are reported as deferred revenue until the revenue recognition criteria has been met.

Fair value of financial instruments: The carrying amount of cash and cash equivalents, grants receivable and payable, and accounts payable approximates fair value because of the short maturity of these financial instruments. The carrying amount of long-term debt approximates fair value, because the interest rates on these instruments fluctuate with market interest rates offered to GMF for debt with similar terms and maturities. Investments are carried at fair value.

Income taxes: GMF is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is currently classified as an organization that is not a private foundation within the meaning of Section 509(a) of the Code. However, the GMF is subject to income taxes on unrelated business income as defined by the Internal Revenue Service.

During the year ended May 31, 2014, GMF incurred no tax expense related to unrelated business income activities.

LLC is a single member limited liability company for federal income tax purposes. All tax attributes flow through to GMF under this entity form. Accordingly, no provision for income taxes has been made.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

TTF is a foreign nonprofit entity incorporated under the laws of Brussels, Belgium. There was immaterial activity under TTF during the year ended May 31, 2014.

According to the accounting standard for uncertainty in income taxes, for the period from the GMF's inception to May 31, 2014, no unrecognized tax provision or benefit existed. Deferred income taxes are provided using the liability method, whereby, deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences.

Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes there are no positions that would result in additional tax liability.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statement of activities.

GMF files income tax returns in the U.S. federal jurisdiction. As of May 31, 2014, and for the year then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, GMF is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2011.

Use of estimates: The preparation of the consolidated financial statements 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with GMF's consolidated financial statements for the year ended May 31, 2013, from which the summarized information was derived.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Subsequent events: GMF evaluated subsequent events through October 27, 2014, which is the date the consolidated financial statements were issued.

Note 2. Investments

Investments at May 31, 2014, consist of the following:

Publicly traded securities – Equities	\$ 58,667,484
Alternative investments – Equity funds	16,196,157
Alternative investments – Hedge funds	47,877,375
Alternative investments – Private equity	35,928,877
Fixed income – Government and agency obligations	3,026,428
	<u>\$ 161,696,321</u>

Investment income for the year ended May 31, 2014, consists of the following:

Realized and unrealized gains on investments	\$ 15,403,544
Interest and dividends	4,187,097
Investment management fees	(526,709)
	<u>\$ 19,063,932</u>

Note 3. Property and Equipment

At May 31, 2014, property and equipment consist of the following:

Building	\$ 24,756,366
Furniture and fixtures	2,965,497
Land	1,237,440
Leasehold improvements	4,415
	<u>28,963,718</u>
Less accumulated depreciation	7,256,980
	<u>\$ 21,706,738</u>

Depreciation expense was \$898,738 for the year ended May 31, 2014.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 4. Board Designated Net Assets

The GMF Board of Directors has designated a portion of the unrestricted net assets to be utilized for the Balkan Trust for Democracy and the Black Sea Trust funding. The following represents activity of this amount for the year ended May 31, 2014:

Balance, May 31, 2013	\$ 11,935,788
Board approved expenditures	<u>477,907</u>
Balance, May 31, 2014	<u><u>\$ 11,457,881</u></u>

Note 5. Temporarily Restricted Net Assets

At May 31, 2014, temporarily restricted net assets are available for the following purposes:

Transatlantic Policy Dialogue	\$ 13,395,124
Democracy and Civil Society	<u>1,758,442</u>
	<u><u>\$ 15,153,566</u></u>

A total of \$20,924,815 was released from restrictions during the year ended May 31, 2014, as a result of satisfying the above restrictions.

Note 6. Bonds Payable

On April 1, 2011, the District of Columbia (D.C.) agreed to issue its \$12,000,000 aggregate principal amount Variable Rate Demand Revenue Bonds (The German Marshall Fund of the United States Issue) Series 2011 (the Bonds) and loaned the proceeds to GMF in order for GMF to finance certain costs of the renovation, improving, remodeling and equipping of its office buildings located at 1700 18th Street NW, and 1744 R. Street NW, Washington D.C. Interest rate for the Bonds are at variable rate through a remarketing process, as stipulated in the Indenture of Trust between D.C. and the Bond Trustee, unless converted to a fixed rate. The interest rate in effect at May 31, 2014, was 0.06%. Interest expense for the year ended May 31, 2014, was \$8,407.

To secure the payment of principal and interest on the Bonds, GMF has obtained an irrevocable, unsecured, direct pay, \$12,134,137 letter of credit from Northern Trust Bank that expires on April 21, 2016. Under the letter of credit agreement, GMF is subject to a number of covenants including a requirement to maintain a specified liquidity ratio. The variable interest rate is established each week by the remarketing agent, and the rate in effect at May 31, 2014, was 0.55%. The letter of credit is secured by a Pledge and Security Agreement, whereby GMF has granted a first lien on, and security interests in the Pledged Bonds (as defined), and interest thereupon.

Principal payment of \$12,000,000 is due on June 1, 2041, subject to the possibility of earlier redemption. Optional demand redemptions are possible at each weekly interest rate reset date at the option of the holder. Mandatory tendering of bonds is required under certain specified conditions to include but not to be limited to an event of default and the expiration or termination of the letter of credit. Lastly, GMF has the option to redeem all or part of the loan prior to maturity.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 7. Pension Plan

Eligible employees may contribute their own savings to GMF's defined contribution retirement program (the plan) immediately upon hire. In FY14, GMF contributed an amount equal to 3% of a participant's annual salary up to the Social Security wage limit, and matched participant savings up to 7% of their annual compensation. Retirement expense was approximately \$410,500 for the year ended May 31, 2014. Employer contributions for employees hired after January 1, 2014, vest over a five-year schedule.

Note 8. Fair Value Measurements

GMF has adopted the Fair Value Measurement Topic issued by the FASB. This Topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. 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). Inputs are broadly defined under this Topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under this Topic are described below:

- Level 1 Adjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 includes listed equities and listed derivatives. As required by this Topic, GMF does not adjust the quoted price for these investments, even in situations where GMF holds a large position and a sale could reasonably impact the quoted price.
- Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
- Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and general and limited GMF interests in private investment funds, real estate funds, debt funds and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, 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. GMF'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 investment.

In determining the appropriate levels, GMF performs analysis of these assets and liabilities that are subject to this Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The following table presents the investments carried at fair value in the consolidated balance sheet by level within the valuation hierarchy as of May 31, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alternative Investments				
Private equity:				
Diversified	\$ 10,869,404	\$ -	\$ -	\$ 10,869,404
Energy	8,811,572	-	-	8,811,572
Distressed	5,932,058	-	-	5,932,058
Venture Capital	5,750,775	-	-	5,750,775
Core	2,449,972	-	-	2,449,972
Mezzanine	2,115,096	-	-	2,115,096
Alternative Investments				
Hedge funds:				
Special Situation	14,433,993	-	-	14,433,993
Absolute Return	12,301,413	-	-	12,301,413
CTA	5,143,681	-	5,143,681	-
Managed Future	4,794,761	-	4,794,761	-
Directional	4,397,724	-	4,397,724	-
Multi-Strategy	3,936,314	-	3,936,314	-
Diversified	2,869,489	-	2,869,489	-
U.S. Government and agency fixed income obligations				
	3,026,428	-	3,026,428	-
International Equities				
International Trade Fund	12,946,732	-	12,946,732	-
Financial	4,702,757	4,702,757	-	-
Services	1,142,514	1,142,514	-	-
Healthcare	475,505	475,505	-	-
Technology	129,605	129,605	-	-
Domestic Equities				
Healthcare	15,384,546	15,384,546	-	-
Services	14,614,430	14,614,430	-	-
Technology	13,364,048	13,364,048	-	-
Basic Materials	3,741,410	3,741,410	-	-
MLP	3,249,425	-	3,249,425	-
Funds – Commodity ETF	2,703,684	2,703,684	-	-
Consumer Goods	1,125,568	1,125,568	-	-
Financial	793,566	793,566	-	-
Industrial Goods	489,851	489,851	-	-
	\$ 161,696,321	\$ 58,667,484	\$ 40,364,554	\$ 62,664,283

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

GMF's equities are generally classified as Level 1 items because they are actively traded on public exchanges.

Government and agency obligations are classified as Level 2 instruments as there are no quoted market prices in active markets for identical assets. Their value is determined using models and other valuation methodologies, which are corroborated by market data.

Alternative investments – most hedge funds and some equity funds are classified as Level 2 instruments based on the ability of GMF to redeem amounts at a net asset value (NAV) per share in the near term.

Alternative investments – most private equity and some hedge funds are classified as Level 3 instruments based on the ability of GMF to redeem amounts at an NAV per share not in the near term or based upon unobservable inputs that are not corroborated by market data.

GMF assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with GMF's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2, and 3 during the year.

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the Codification requires reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The table below represents the reconciliation of the GMF's assets measured at fair value on a recurring basis using significant unobservable inputs.

	Balance May 31, 2013	Purchases	Sales	Net Gains (Losses)	Balance May 31, 2014
Private Equity					
Venture capital	\$ 5,057,212	\$ 146,400	\$ 1,909,100	\$ 2,455,263	\$ 5,749,775
Diversified	9,783,170	883,461	316,538	519,311	10,869,404
Distressed	9,850,771	-	3,969,620	50,907	5,932,058
Mezzanine	3,224,691	414,909	1,074,851	(449,653)	2,115,096
Energy	4,011,501	2,594,650	50,770	2,257,191	8,812,572
Core	1,450,943	1,088,484	231,163	141,708	2,449,972
Hedge Funds					
Special situation	13,325,360	-	-	1,108,634	14,433,994
Absolute return	11,150,322	-	-	1,151,090	12,301,412
	<u>\$ 57,853,970</u>	<u>\$ 5,127,904</u>	<u>\$ 7,552,042</u>	<u>\$ 7,234,451</u>	<u>\$ 62,664,283</u>

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The following presents further information regarding the composition of the GMF's Level 2 and 3 alternative investments at May 31, 2014, valued using net asset value (NAV) as a practical expedient:

Strategy Category	Fair Value	Redemption Frequency	Redemption Notice Period
Global Macro (a)	\$ 58,969,642	See note (a) below	See below
Multi-Strategy (b)	15,694,225	See note (b) below	See below
International Equities (c)	12,946,732	See note (c) below	See below
Distressed (d)	12,391,810	See note (d) below	See below
	\$ 100,002,409		

- (a) Global macros: This category includes investments in futures, equities, and debt. Managers try to predict global trends and will take more country or commodity specific views. Managers have the ability to go both long or short, and use leverage. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments representing 100% of the value of the investments in this category can redeem their interest upon termination, dissolution, or liquidation of the partnership.
- (b) Multi-strategy: This category includes a combination of some or all of the other strategies. Managers have the flexibility to invest across all asset classes, and to change their allocations to various strategies and instruments as they see fit. Instruments include equities, options, futures, bonds, loans, derivatives, and others. Multi-Strategy funds may go long or short and typically use leverage to help diversify their allocations. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments representing approximately 31% of the value of the investments in this category allow monthly redemptions with 2 to 5 days notice. Investments representing approximately 69% of the value of the investments in this category have allows quarterly redemptions with 30 to 65 days notice.
- (c) International equities: This category includes investments in common and preferred stock of international companies. The objective of the category is to provide long-term capital appreciation primarily through investment in equity securities of non-US companies seeing to outperform the Morgan Stanley Capital International EAFE Index. The fair values of investments in this category have been estimated using the net asset value per share of the investments. Investments representing 100% of the value of the investments in this category can redeem shares at net asset value within 30 days notice.
- (d) Distressed: This category includes investments made into distressed or stressed companies. The manager can invest in any instrument across a company's capital structure, including equity, debt, bank loans, dips (debtor in possession), convertible bonds, and more. The companies can be in various stages of stress or distress, including bankruptcy and post bankruptcy reorganization. Managers can go long or short on the various instruments, and may also use leverage. Investments representing 100% in this category are currently in the process of liquidation.

**The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries**

Notes to Consolidated Financial Statements

Note 9. Contingency

GMF participates in a number of federally-assisted grant programs, which are subject to financial and compliance audits by federal agencies or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.