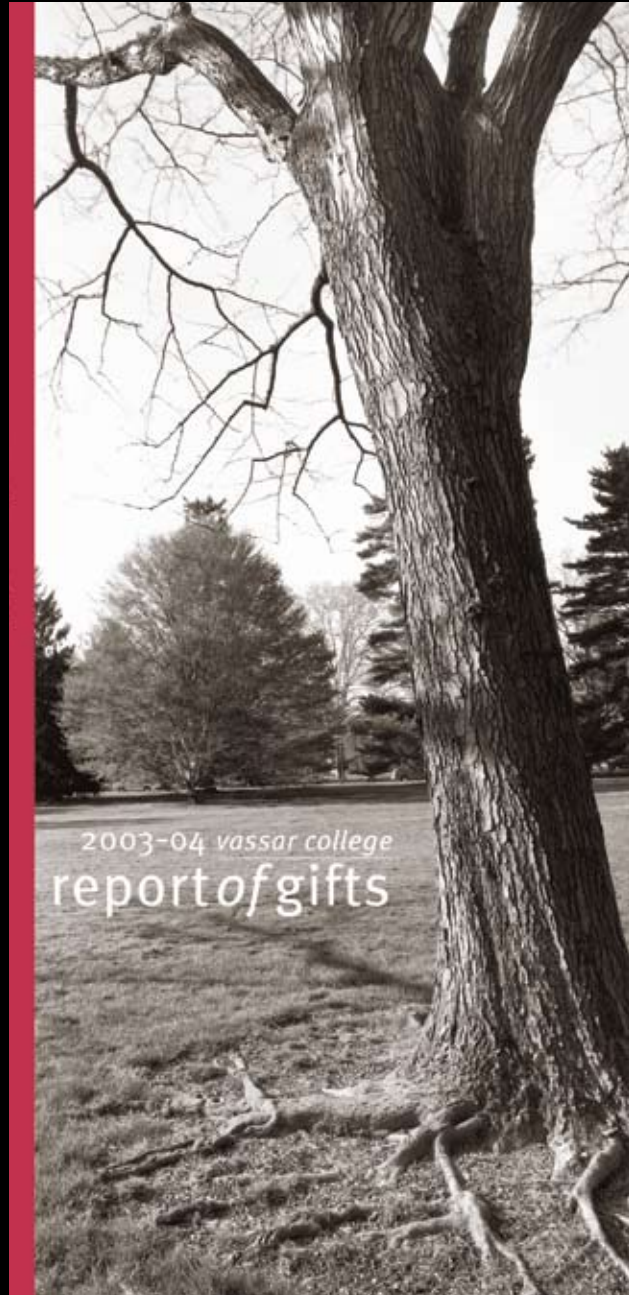


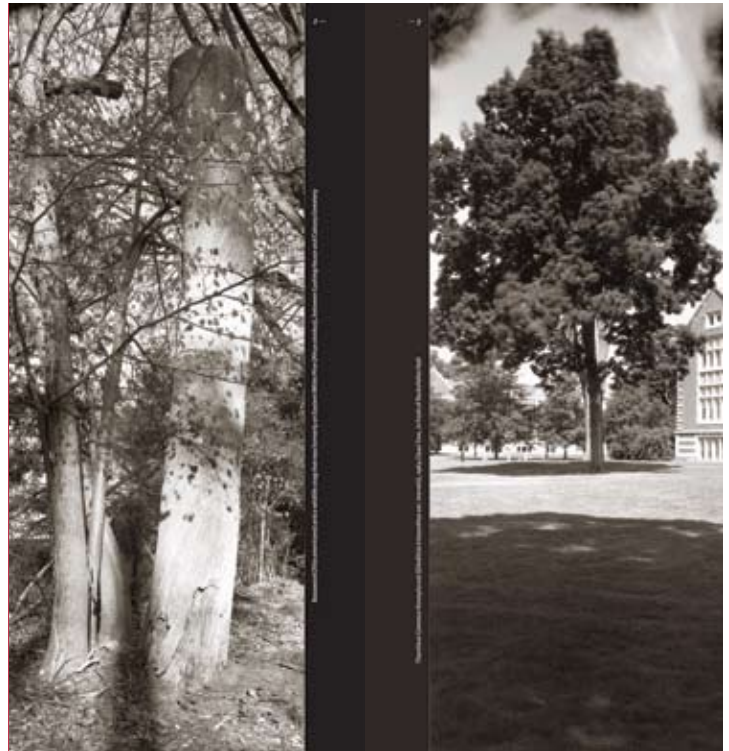
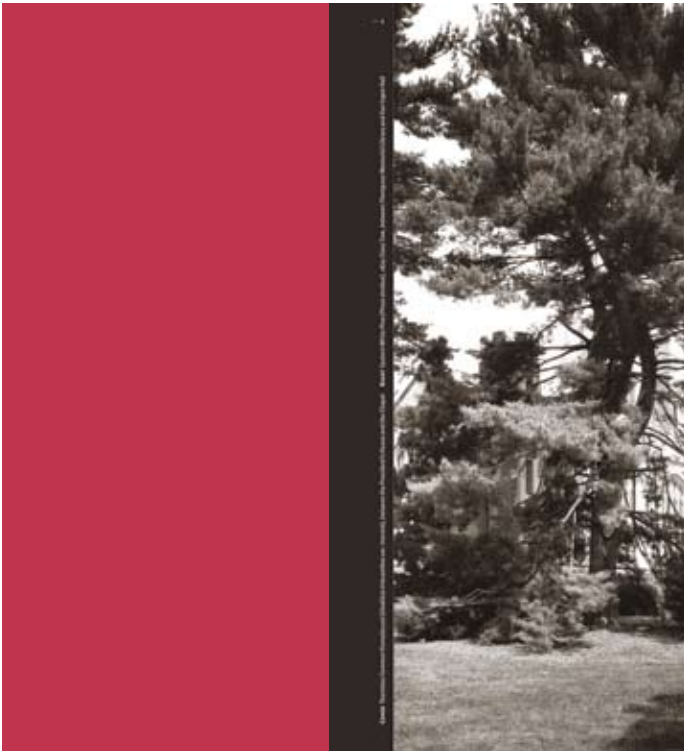


Vassar College

Design Firm: Nesnadny + Schwartz
Creative Director: Mark Schwartz



2003-04 *vassar college*
report of gifts



Q&A with Nesnadny+Schwartz

What was the client's directive?

Vassar College has a very strong alumnae constituency and requires an equally strong forum for communicating the support they receive. The Report of Gifts in the annual publication is there to thank all of the supporters of the college for their financial contributions.

How did you define the problem?

We felt the physical environment of Vassar's campus was the common link that all alumnae/alumni share. Reconnecting them with the campus in a way that appealed to the 25 and 80 year old was our challenge.

What was the approach?

Vassar is a national arboretum with more than 200 species of trees and has a long-standing tradition of each graduating class planting a class tree. The planting and growing of trees also serves as a perfect metaphor for how financial gifts help the college grow and ultimately help young minds grow. These trees, therefore, were the perfect imagery for the Report of Gifts.

Which disciplines or people helped you with the project?

Nesnadny + Schwartz has a long-standing devotion to incorporating fine arts with corporate and institutional communications. With the incredible imagery of a beautiful campus and the vast species of trees that reside there, a black and white fine arts photographer seemed the perfect choice. Lois Conner is an award-winning photographer who often works

in a unique 7x17 format, which served as an expressive way to photograph portraits of trees in their environment.

Were you happy with the result?

What could have been better?

We felt the result served all of the purposes of the book perfectly. The photography and reproductions were truly beautiful, and the book became a keepsake for the people it strove to thank.

What was the client's response?

Vassar was very thrilled with the result and received many requests for extra copies of the book.

How involved was the CEO in your meetings and presentations?

The president of the college was very supportive of the project. However, her function was to give final approval rather than to participate in conceptual development.

Do you feel that designers are becoming more involved in copywriting?

Designers have to be involved in the content development for communications to truly be successful. It is only when the graphic design, imagery and words work together perfectly that a piece has a strong holistic message.

How do you define success in Annual Report design?

When a piece is effective in reaching the target audience and communicating something to them that they did not expect.

How important are awards to your client?

Awards serve as confirmation that a piece is an interesting and engaging communication tool but should never be the goal.

When the design, imagery, and words work together harmoniously, the piece then has a strong holistic message.



contents

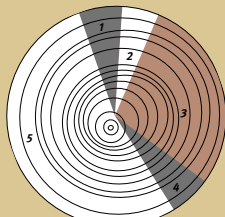
06. A MESSAGE FROM THE PRESIDENT

08. ABOUT THE PHOTOGRAPHER

29. SUMMARY OF GIFTS

- 30. The Impact of Your Gifts
- 32. Landmark Reunion Gifts
- 32. Top Class Participation
- 32. Gifts by Class
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the impact of your gifts

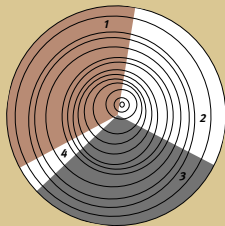


- 1. ANNUAL FUND 7%
- 2. RESTRICTED GIFTS & GRANTS 5%
- 3. ENDOWMENT INCOME 28%
- 4. BUSINESS SERVICES 6%
- 5. TUITION, ROOM & BOARD 54% (NET OF FINANCIAL AID)

WHY YOUR GIFT IS SO IMPORTANT During fiscal year 2003–2004, gifts for current use, including gifts to Vassar through the Annual Fund as well as restricted gifts, accounted for one in every eight dollars available for the College to meet its immediate needs. The importance of giving was further underscored by the fact that income from the College's endowment, which is supported over time by gifts, comprised more than a quarter of the revenue available for Vassar's current use. In any given year tuition, room and board account for only about half of all revenue for Vassar's operating budget.

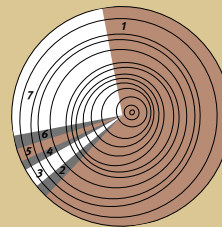
THREE PILLARS OF SUPPORT

The present and future of Vassar depend on strong support in each of three categories of giving. Gifts for current use are the College's lifeblood, providing a fundamental source of revenue that ensures the continuation of the Vassar tradition of excellence each and every day. Gifts for endowment help to guarantee Vassar's future while also helping to sustain current operations. Gifts for capital building projects are essential to the College's ongoing plan to retain its architectural heritage while meeting the needs of education in the 21st century. During fiscal year 2003–2004, donors continued to give generously to Vassar in all three of these categories. More than a third of all gifts were directed by donors for current use to help the College meet its immediate needs, either through gifts to the Annual Fund or through restricted academic student program support. Another 30 percent of gifts were directed to capital building projects (which are separate from the current operating budget), and yet another 30 percent were directed to Vassar's endowment. A significant share of the figure for endowment derives from planned gifts, including documented bequest intentions—true votes of confidence in the College's future.

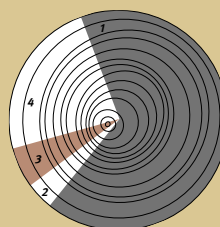


- 1. GIFTS FOR CURRENT USE 36% (INCLUDING ANNUAL FUND & RESTRICTED GIFTS)
- 2. ENDOWMENT 30% (INCLUDING PLANNED GIFTS)
- 3. CAPITAL BUILDING PROJECTS 30%
- 4. OTHER 4% (INCLUDING GIFTS IN KIND)

- 1. ALUMNAE/i 64%
- 2. PARENTS 5%
- 3. FRIENDS 5%
- 4. OTHER ORGANIZATIONS 1%
- 5. GOVERNMENT 2%
- 6. CORPORATIONS 2%
- 7. FOUNDATIONS 25%

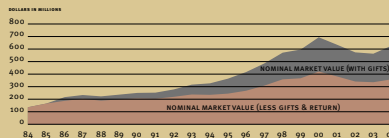


WHO GIVES TO VASSAR From the College's earliest days, gifts from Vassar's own graduates have served as a bulwark of support for its educational mission. During fiscal year 2003–2004, in keeping with recent years, alumnae/i accounted directly for nearly two-thirds of all gifts received by the College. In addition, many of the gifts Vassar received from foundations came from donor-advised funds or family foundations that made a gift to the College at the suggestion of an alumnae/us.



- 1. COMPENSATION 66%
- 2. PLANT RENOVATION 4%
- 3. OTHER 6%
- 4. OPERATING EXPENSES 24%

WHERE YOUR DOLLARS TO VASSAR GO Vassar's operating expenses are very much concentrated on people, with compensation (including wages and benefits) accounting for nearly two-thirds of all expenditures for current use during fiscal year 2003–2004. A relatively small but crucial percent is allocated toward the constant renewal of the College's technological, architectural and landscape resources, including its venerable academic and residential buildings and the uncommonly beautiful landscape that make the Vassar campus such a uniquely hospitable setting for a learning community.



HOW YOUR GIFT CAN HELP THE ENDOWMENT GROW Over the past two decades, gifts to Vassar's endowment, combined with careful management, have increased the endowment's value by 42 percent. All gifts to the College for endowment have a trifold positive effect: they increase the principle of the endowment, in turn allowing the endowment to increase its return on investment—thereby increasing the amount available for current operating expenses. This helps Vassar's endowment to grow, even as the endowment plays a central role in funding current operating expenses. Thus, a gift to Vassar's endowment helps the College today and in the future.

landmark reunion gifts

CLASS	LANDMARK REUNION	ANNUAL FUND	DESIGNATED GIFTS	TOTAL	PARTICIPATION
1954	Fiftieth	\$1,018,183	\$1,394,064	\$2,412,247	95%
1964	Fortieth	\$671,183	\$46,073	\$1,138,256	88%
1979	Twenty-fifth	\$1,005,622	\$46,183	\$1,461,805	51%
1994	Tenth	\$53,233	\$4,305	\$65,538	33%

top class participation does not include landmark reunion classes

CLASS	PARTICIPATION	CLASS	PARTICIPATION
1944	82%	1953	69%
1951	78%	1940	68%
1932	72%	1942	68%
1945-4	71%	1939	67%
1949	69%	1947	66%

gifts by class

CLASS	2003/04 CLASS FUND OR REUNION GIFT CASH(FS)	PARTICIPATION	CLASS TOTAL \$ ANNUAL FUND	CLASS TOTAL \$ DESIGNATED GIFT	2003/04 TOTAL CLASS GIFT
1927	\$8,210	58%	\$3,210	\$4,185	\$2,395
1928	\$4,275	47%	\$1,425	\$1,100	\$2,525
1929	\$5,355	55%	\$3,075	\$862	\$4,837
1930	\$8,750	54%	\$8,750	\$158,252	\$167,002
1931	\$10,522	39%	\$10,522	\$5,120	\$15,642
1932	\$43,388	72%	\$43,388	\$162,239	\$205,627
1933	\$18,284	39%	\$18,284	\$2,340	\$20,624
1934	\$34,673	50%	\$34,673	\$38,050	\$72,723
1935	\$10,555	58%	\$10,555	\$292,041	\$302,596
1936	\$40,991	64%	\$40,991	\$359,598	\$400,589
1937	\$20,735	57%	\$20,735	\$511,793	\$532,528
1938	\$34,154	53%	\$34,154	\$49,576	\$83,730
1939	\$56,663	67%	\$56,663	\$2,205	\$58,868
1940	\$20,101	68%	\$20,101	\$12,730	\$32,831
1941	\$4,335	62%	\$4,335	\$4,335	\$8,670
1942	\$4,510	68%	\$4,510	\$2,270	\$6,780
1943	\$6,385	65%	\$6,385	\$353,513	\$360,898
1944	\$109,041	82%	\$109,041	\$1,478,370	\$1,587,412
1945-4	\$181,690	71%	\$181,690	\$925,793	\$1,107,483
1946	\$63,234	63%	\$63,234	\$30,990	\$94,224
1947	\$35,683	61%	\$35,683	\$2,232,125	\$2,267,808
1948	\$91,454	66%	\$91,454	\$1,812,811	\$1,904,265
1949	\$43,252	53%	\$43,252	\$41,227	\$84,479
1949	\$58,086	69%	\$58,086	\$62,608	\$120,694
1950	\$12,925	56%	\$12,925	\$38,499	\$51,424
1951	\$308,638	78%	\$308,638	\$1,612,919	\$1,921,557
1952	\$18,646	62%	\$18,646	\$12,827	\$31,473
1953	\$195,552	69%	\$195,552	\$448,198	\$643,750
1954	\$1,018,183	95%	\$1,018,183	\$1,394,064	\$2,412,247
1955	\$135,531	57%	\$135,531	\$543,846	\$679,377
1956	\$38,072	46%	\$38,072	\$61,741	\$99,813
1957	\$172,523	57%	\$172,523	\$4,021,529	\$4,194,053
1958	\$120,642	56%	\$120,642	\$646,425	\$767,067
1959	\$85,001	62%	\$85,001	\$892,574	\$977,575
1960	\$72,433	45%	\$72,433	\$225,941	\$298,374
1964	\$102,567	56%	\$102,567	\$43,588	\$146,154

REUNION CLASSES ■ THREE YEARS OF GIVING ■

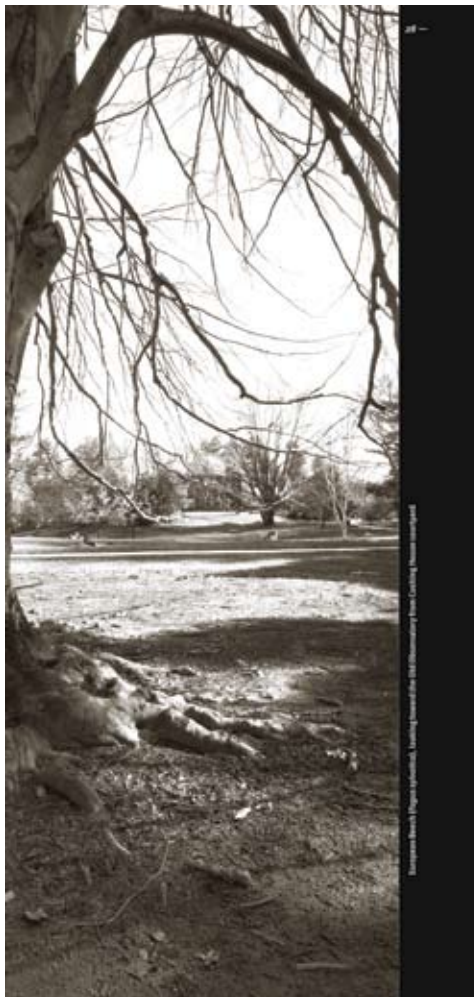
gifts by class continued

CLASS	2003/04 CLASS FUND OR REUNION GIFT CASH(FS)	PARTICIPATION	CLASS TOTAL \$ ANNUAL FUND	CLASS TOTAL \$ DESIGNATED GIFT	2003/04 TOTAL CLASS GIFT
1964	\$122,682	51%	\$122,682	\$892,466	\$1,015,147
1965	\$139,669	44%	\$139,669	\$164,195	\$303,865
1964	\$671,183	88%	\$671,183	\$46,073	\$1,138,256
1965	\$102,110	33%	\$102,110	\$2,777	\$104,887
1966	\$24,032	39%	\$24,032	\$364,920	\$388,952
1967	\$41,228	44%	\$41,228	\$10,150	\$51,378
1968	\$72,621	42%	\$72,621	\$22,885	\$95,506
1969	\$182,268	24%	\$182,268	\$60,288	\$242,556
1970	\$72,000	43%	\$72,000	\$16,111	\$88,111
1971	\$15,740	50%	\$15,740	\$54,933	\$70,673
1972	\$124,387	45%	\$124,387	\$11,250	\$135,637
1973	\$142,221	38%	\$142,221	\$501,015	\$643,236
1974	\$345,968	42%	\$345,968	\$728,437	\$1,074,405
1975	\$92,181	36%	\$92,181	\$152,429	\$244,611
1976	\$110,926	36%	\$110,926	\$220,220	\$331,146
1977	\$253,733	30%	\$253,733	\$124,450	\$378,183
1978	\$75,515	28%	\$75,515	\$55,549	\$131,064
1979	\$1,005,622	51%	\$1,005,622	\$46,183	\$1,461,805
1980	\$92,426	33%	\$92,426	\$31,838	\$124,264
1981	\$98,042	33%	\$98,042	\$38,776	\$136,818
1982	\$59,174	29%	\$59,174	\$8,450	\$67,624
1983	\$36,044	19%	\$36,044	\$10,980	\$47,024
1984	\$150,821	38%	\$150,821	\$15,055	\$165,876
1985	\$70,049	29%	\$70,049	\$12,325	\$82,374
1986	\$41,301	28%	\$41,301	\$4,830	\$46,131
1987	\$27,355	25%	\$27,355	\$4,833	\$32,188
1988	\$33,489	21%	\$33,489	\$1,735	\$35,224
1989	\$30,034	27%	\$30,034	\$1,990	\$32,024
1990	\$22,640	18%	\$22,640	\$3,690	\$26,330
1991	\$19,284	19%	\$19,284	\$3,500	\$22,784
1992	\$14,276	19%	\$14,276	\$1,030	\$15,306
1993	\$9,083	16%	\$9,083	\$200	\$9,283
1994	\$53,233	33%	\$53,233	\$14,305	\$67,538
1995	\$2,246	17%	\$2,246	\$40,402	\$42,648
1996	\$10,400	20%	\$10,400	\$65	\$10,465
1997	\$6,467	18%	\$6,467	\$165	\$6,632
1998	\$5,793	23%	\$5,793	\$1,205	\$6,998
1999	\$12,288	36%	\$12,288	\$65	\$12,353
2000	\$4,367	21%	\$4,367	\$10,300	\$14,667
2001	\$3,088	20%	\$3,088	\$90	\$3,178
2002	\$4,532	23%	\$4,532	\$76	\$4,608
2003	\$4,210	21%	\$4,210	\$291	\$4,501

SENIOR CLASS GIFT	CLASS TOTAL \$ ANNUAL FUND	CLASS TOTAL \$ DESIGNATED GIFT	2003/04 TOTAL CLASS GIFT
2004	\$12,853	\$16,339	\$29,192
ALUMNAE/1 SUBTOTALS	\$216,956	\$24,335,510	\$31,497,466
PARENTS AND FRIENDS	\$63,640		\$63,640
DOLLAR TOTALS	\$273,849		\$31,561,106

Represents cash and pledges

JULY 1, 2003 THROUGH JUNE 30, 2004



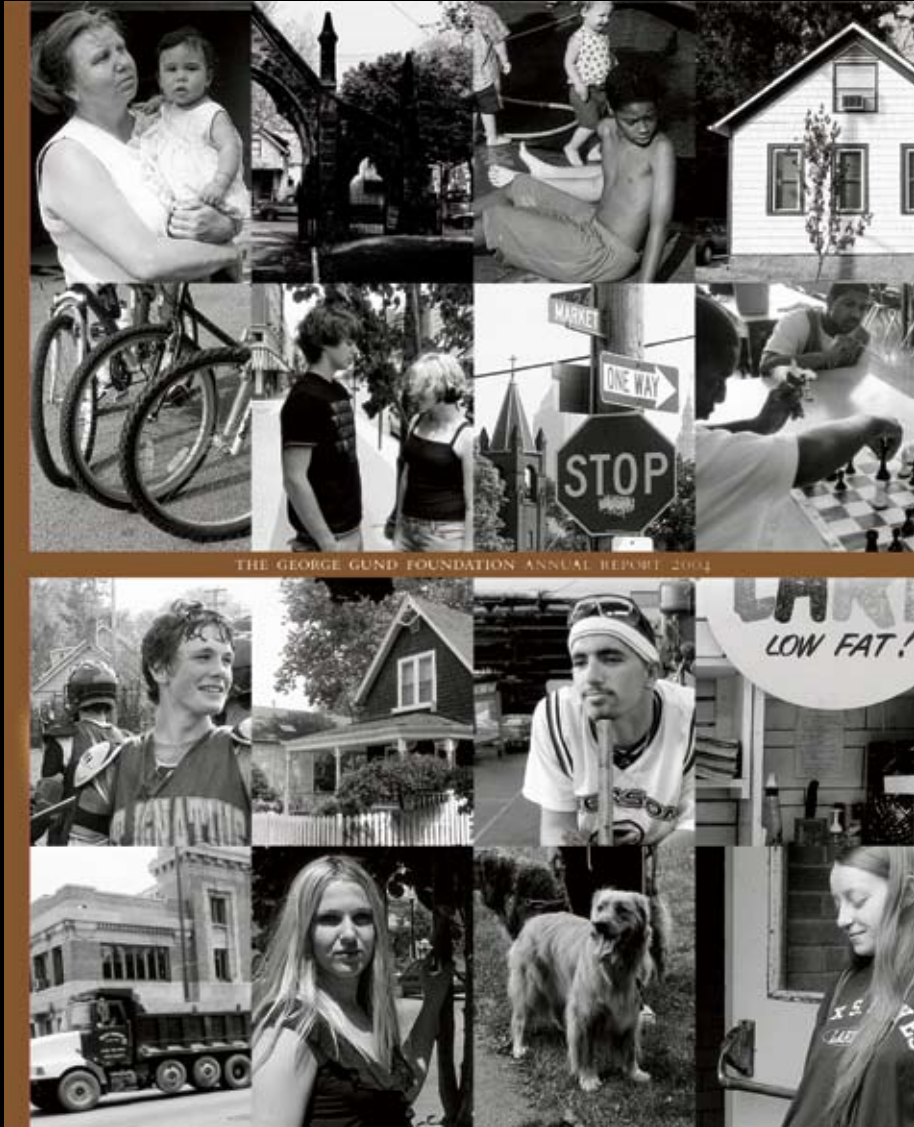
summary of gifts

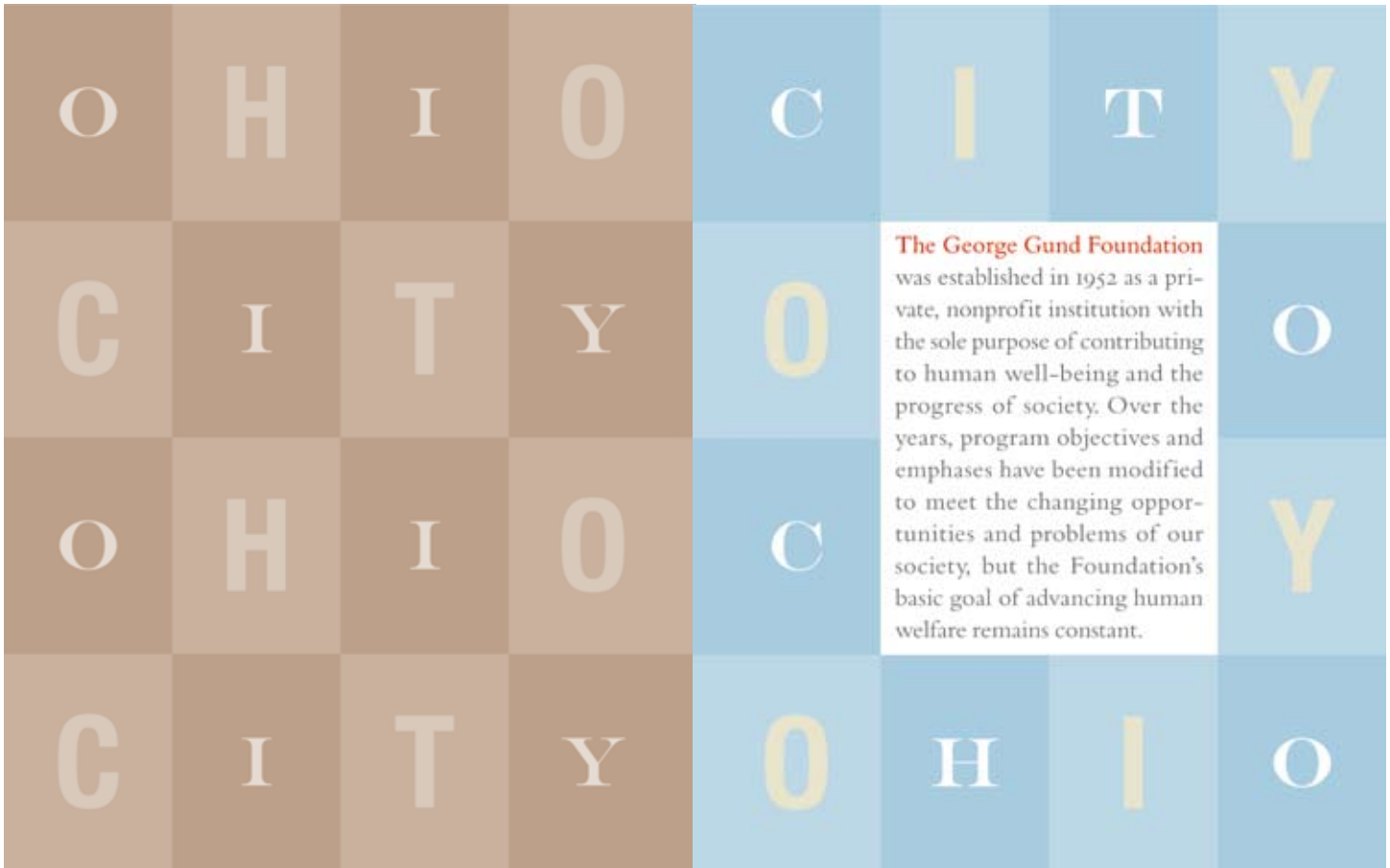
July 1, 2003 through June 30, 2004

- 30. The Impact of Your Gifts
- 32. Landmark Reunion Gifts
- 32. Top Class Participation
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- 34. Class Giving
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The George Gund Foundation

Design Firm: Nesnadny + Schwartz
Creative Director: Mark Schwartz





Q&A with Nesnadny+Schwartz

What was the client's directive?

The George Gund Foundation required an Annual Report that would effectively showcase its commitments for the 2004 year. Additionally, the piece had to describe Gund's grant making initiatives to its various constituents.

How did you define the problem?

We never really viewed this project or their needs as a "problem," but more of an "opportunity." The challenge is finding a way of expressing the Foundation's objectives and initiatives in a unique and provocative way—something more than just a list of names.

That was the approach?

The 2004 report focused on Ohio City, an area of Cleveland that represents many of the Foundation's interests and concerns.

Which disciplines or people helped you with the project?

Nesnadny + Schwartz has a long-standing devotion to incorporating fine arts with corporate and institutional communications. With the incredible imagery of Ohio City, a black and white fine arts photographer seemed the perfect choice. Fine art photographer Thomas Roma was commissioned to create a powerful photo essay,

reflecting the Foundation's devotion to improving the lives of others.

Were you happy with the result? What could have been better?

We were very pleased with the results.

What was the client's response?

The client was very happy.

How involved was the CEO in your meetings, presentations, etc.?

The Executive Director, David Abbott, was directly involved with the initial concept, theme selection and subsequent design and photography presentations.

Do you feel that designers are becoming more involved in copywriting?

Yes.

How do you define success in Annual Report design?

When a piece is effective in reaching the target audience and communicating something to them that they did not expect. The use of nontraditional printing techniques and materials also makes a report more of a keepsake.

How important are awards to your client?

Awards serve as confirmation that a piece is an interesting and engaging communication tool but should never be the goal.

A successful report effectively reaches its target audience and communicates something unexpected.

President's Letter

Those of us who have the privilege to engage in philanthropic work are able to take a fairly uncommon perspective: the long-range view. We are able to cast our gaze into an imagined future and urge ourselves and others to move in that direction by thoughtful use of our grants and our relationships. This certainly has been the case with the Foundation's increasingly important work in economic development. In particular, the Foundation looks back with pride in the role we played during the past year in launching the Fund for Our Economic Future, a promising collaboration of grantmakers that is prodding Northeast Ohio to envision and embrace economic change.

One stream of Fund for Our Economic Future activity is making grants to non-profits that can catalyze economic growth. The initial grantees have been young organizations: BioEnterprise, JumpStart, NorTech and Team NEO. The first two of these promote and support entrepreneurship, a spirit currently in short supply in this region. NorTech advances technology-based growth. Team NEO focuses on business retention and attraction. Reports on their early work are encouraging. But organizations such as these, no matter how successful they may prove to

be, cannot transform the region's economy by themselves. There are still too many fundamental impediments to Greater Cleveland's revival. These include:

- Staggeringly fragmented regional services and governments;
- Public education systems plagued by inequitable funding mechanisms; and
- Suburban sprawl that destroys green fields, pollutes the air and waterways, adds pointless millions to the region's tax bill and isolates the disadvantaged.

It is difficult to envision how to reach across the many barriers separating people and sectors in Northeast Ohio in order to begin to address such complex issues. But, in fact, the Fund for Our Economic Future has done just that. It has launched an unprecedented, wide-ranging process of public engagement called Voices & Choices. This initiative aims to create a shared vision and action agenda for Northeast Ohio by the end of 2006. These are clearly needed to accelerate the promising work of organizations like those noted above and the encouraging growth of the companies they assist. Most vitally, this process will say much about the spirit of Northeast Ohio and its willingness to embrace an economic future that may bear little resemblance to the past.

Changes within the Foundation also are worthy of note this year. Robert Stone, a trustee since 1996, retired at the end of 2004. In our Board deliberations and other gatherings Bob always could be relied upon for deep wisdom, good counsel and warm humor. His long experience as a lawyer and his knowledge of the Cleveland community were valuable to the Foundation. Bob brightened our work in countless ways, and we will miss him greatly. On the staff, Ann K. Mullin joined us in February 2005 as senior program officer for education after several years at the Cleveland Foundation. She assumed the duties of Jeffrey Glebocki, who departed after nearly eight years to pursue a long-held desire to live in the West. We appreciate the fine work that Jeff did, and we welcome Ann to the ongoing examination of the central role that education plays in making Cleveland, its region and our nation more successful.



Geoffrey Gund
President and Treasurer



Nontraditional printing techniques and materials make a report more like a keepsake.

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Thomas Roma has given us a fascinating glimpse into life in Ohio City, one of Cleveland's most diverse, dynamic urban places. The neighborhood, home to some of the area's early settlers and evocative of an age of economic prowess, is significant in Cleveland's past. It also is important to our present as home to many nonprofit organizations funded by the Foundation. Ohio City also represents the future we want for our community—a vibrant urban neighborhood that is attractive to many types of people, including workers in the new knowledge-based economy.

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Roma, a two-time winner of the prestigious John Simon Guggenheim Fellowship, is director of the photography program at the Columbia University School of the Arts and a founding contributing photographer of DoubleTake magazine. His work has appeared in one-person and group exhibitions internationally and is in the collections of numerous museums.

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Executive Director's Letter

The photographic essay in this annual report depicts Cleveland's Ohio City neighborhood through the singular lens of Thomas Roma. Ohio City is one of the city's most diverse places, and it exuberantly bursts with sights and flavors. It challenges any effort to embrace it within one set of photos.

We commissioned Roma's essay because Ohio City represents so many of the Foundation's interests and concerns. Over many years the Foundation has supported scores of organizations, in every one of our program areas, located there. The organizations and their work are themselves worthy of our support, but their presence in a single place suggests the greater importance of Ohio City.

It is a place of history. Once a separate municipality, Ohio City is one of Cleveland's most interesting neighborhoods because its dense Victorian housing and narrow streets evoke an era when Cleveland's economic brawn was virtually unmatched.

It is a place overflowing with social concern. Few neighborhoods are home to so many nonprofit organizations devoted to improving the lives of others. Human services, community development, the environment, arts, education—all of these have their advocates in Ohio City, serving the full diversity of people who live in the neighborhood and beyond.

It is a neighborhood that attracts new urbanists. The devastation of suburban

sprawl has taken as severe a toll on Ohio City as other city districts, but three decades ago Ohio City also saw the first stirrings of reinvestment. That trend continues, with all of the complexity and the hope that accompany it.

Each of these characteristics makes Ohio City important—not merely to its residents, but also to the city as a whole and, indeed, to the larger region. Understanding that importance is especially vital to the expanding appreciation of regionalism. Ohio City's features—its density, diversity, historic character, proximity to downtown—make it an appealing home for people who have the ability to live anywhere. Many of those people are the entrepreneurs, the knowledge economy workers, the innovators who will drive much of our region's standing in the global marketplace. Northeast Ohio must pay special attention to its places that appeal to such people. The best of those places are authentic urban neighborhoods. Bland sprawl does not attract the inventive people we require; indeed, it repels them.

Special urban spaces—and there are many—need to be nurtured for the sake of the region's economic competitiveness. This means that the entire region has a stake in the success of neighborhoods like Ohio City. But our deeply fragmented political and governmental structures in Northeast Ohio nearly bar us from seeing that, let alone committing regional

resources to it. Doing so in a way that does not exclude long-time residents and those with fewer choices than the new economy's workers is one of the real challenges of life in a vibrant urban setting. Yet, this too is as much a regional issue as it is a neighborhood concern. The demands of equity and justice cannot be confined to a single neighborhood. The very reasons why so many disadvantaged people reside in the central city are regional—suburban sprawl across a welter of political jurisdictions, exclusionary zoning, the near total absence of meaningful regional planning and so forth. Ways must be found to discuss and address these issues on a regional basis for the sake of the city, of the region, of us all.

Ohio City is just one of the extraordinary locations in this region's urban centers that merit renewed attention and investment. They embody much of our worthwhile past, and, if we take a closer look, we will realize that they also can be a key to our future.

David T. Abbott

David T. Abbott
Executive Director





OUR COMMUNITIES

2004

EDUCATION \$2,074,000 (20 program-related investments)	EQUIPMENT \$2,276,873 (21 program-related investments)
ECONOMIC DEVELOPMENT & COMMUNITY REDEVELOPMENT \$4,701,000 (44 program-related investments)	SPECIAL PROJECTS \$6,643,027 (14 program-related investments)
ARTS \$2,095,943 (21 program-related investments)	GRANT TOTAL \$28,086,147 (186 grants and 1 program-related investment)
HUMAN SERVICES \$5,804,792 (36 program-related investments)	TOTAL INCOME RECEIPTION OF THE FOUNDATION IN 2004 \$43,533,099

Condensed Financial Statements

Furniture, equipment and leasehold improvements Furniture, equipment and leasehold improvements are stated at cost. Amortization and depreciation is recorded using both straight-line and accelerated methods over the estimated useful lives of the assets. Depreciation expense amounted to \$70,157 and \$65,973 for the years ended December 31, 2004 and 2003, respectively.

NOTE 2: LEASES

The Foundation occupies office space in the Landmark Office Towers under a lease that extends to January 31, 2010. Base annual rentals are \$123,833 through February 1, 2005 and \$129,461 for the remaining term of the lease, with escalation charges from these base rentals. There are renewal options for two additional periods of five years each. Rental expense for the years ended December 31, 2004 and 2003 amounted to \$132,559 and \$130,752, respectively.

The future minimum lease commitments under leases with terms in excess of one year are as follows:

2005	\$ 128,992
2006	129,461
2007	129,461
2008	129,461
2009	129,461
Thereafter	10,789
	<u>\$ 657,625</u>

NOTE 3: EMPLOYEE BENEFIT PLAN

The Foundation has an employee's tax-sheltered annuity plan for substantially all employees. Employer contributions are required at 5% of participants' compensation up to the Social Security wage base and 14.7% of the participant's compensation in excess of this wage base, with a limit of \$205,000 of compensation. Contributions to the plan for the years ended December 31, 2004 and 2003 amounted to \$94,301 and \$91,916, respectively.

NOTE 4: CREDIT CONCENTRATION

Aside from their holdings in the Kellogg Co., the Foundation's portfolio of investments is highly diversified; however, at December 31, 2004 and 2003, 28% and 30%, respectively, of the total market value of securities and 50% and 56%, respectively, of dividend income in each year are attributable to ownership of Kellogg Co. stock. The Foundation has a concentration of risk in its cash position as of December 31, 2004 in that the Foundation has approximately \$6,800,000 in one checking account that is insured by the FDIC, up to a limit of \$100,000.

NOTE 5: EXCISE TAXES

The Foundation is exempt from federal income taxes and is classified as a private foundation under Section 501 of the Internal Revenue code (IRC). It is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined by the IRC.

Deferred federal excise taxes are provided on the unrealized appreciation or depreciation of investments and interest and dividend income and certain expenses being reported for financial statement purposes in different periods than for tax purposes.

Accordingly, federal excise taxes of \$489,046 and \$92,982 have been provided for the years ended December 31, 2004 and 2003, respectively, in the income fund. Included in the above amounts are \$2,889 and \$3,314 reflecting the net change in deferred taxes for the years ending December 31, 2004 and 2003, respectively. The principal fund excise tax is the result of the deferred tax at a rate of 2% and 1% on the unrealized gains on securities for the years 2004 and 2003, respectively.

NOTE 6: NET ASSETS

Net assets include the accounts of two board-designated funds (principal and income) both of which consist entirely of unrestricted net assets. The principal fund consists of investments in securities and receives the realized and unrealized gains or losses on those assets. The income fund receives interest and dividends on the principal fund investments which are used for grants and administrative expenses. At December 31, the statements of financial position included the following income fund accounts:

	2004	2003
Cash	\$ 478,111	\$ 1,591,722
Receivables	1,026,727	1,692,294
Other assets	18,622	16,309
Due from (to) principal fund	58,057	(17,335)
Accounts payable	(374,684)	(446,267)
Grants payable	(12,581,710)	(5,585,800)
Deferred federal excise tax	(4,215)	(7,104)
	<u>\$ (11,379,092)</u>	<u>\$ (2,736,181)</u>

The following is a summary of the changes in total net assets:

	2004	2003
Income fund	\$ (8,622,911)	\$ 259,483
Principal fund	36,202,027	51,544,091
Increase in net assets	27,579,116	51,804,474
Net assets - beginning	442,463,090	390,648,616
Net assets - ending	<u>\$ 470,042,206</u>	<u>\$ 442,463,090</u>

The change in individual funds includes transfers by the Foundation of \$13,439,421 in 2004 and \$11,813,670 in 2003 from the principal fund to the income fund.

Independent Auditors' Report

TO THE BOARD OF TRUSTEES, THE GEORGE GUND FOUNDATION

We have audited the accompanying statements of financial position of The George Gund Foundation as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of The George Gund Foundation at December 31, 2004 and 2003, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Walsh, Drake & Wallace LLP

Certified Public Accountants

Cleveland, Ohio
March 2, 2005