GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

GREATER MILWAUKEE FOUNDATION

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KPMG LLP
Suite 1050
833 East Michigan Street
Milwaukee, WI 53202-5337

Independent Auditors' Report

Greater Milwaukee Foundation Board:

We have audited the accompanying combined financial statements of the Greater Milwaukee Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly in all material respects, the financial position of the Greater Milwaukee Foundation as of December 31, 2015 and 2014, and the changes in its combined net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Milwaukee, Wisconsin
November 28, 2016

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2015 and 2014

Assets		**2015**	**2014**
Cash and cash equivalents	$	33,439,542	142,990,238
Accounts receivable, prepaid expenses, and accrued investment income		440,476	588,527
Investments, at fair value		680,073,150	686,964,599
Loans receivable		262,469	275,266
Interest in net assets of unconsolidated foundation		95,409,964	—
Beneficial interest in charitable trusts		4,276,177	4,308,196
Property, furniture, and equipment, net		345,296	392,641
Total assets	$	814,247,074	835,519,467
Liabilities and Net Assets			
Liabilities:			
Accrued expenses	$	868,834	1,028,181
Grants payable		16,437,091	16,467,151
Liability for pooled income funds		85,390	95,176
Agency endowment funds		35,050,427	31,172,940
Total liabilities		52,441,742	48,763,448
Net assets:			
Undesignated funds		79,427,522	81,561,911
Field of interest funds		167,573,794	179,107,659
Donor-designated funds		171,001,218	273,063,080
Donor-advised funds		241,059,901	245,813,458
Total unrestricted net assets		659,062,435	779,546,108
Temporarily restricted net assets		102,742,897	7,209,911
Total net assets		761,805,332	786,756,019
Total liabilities and net assets	$	814,247,074	835,519,467

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2015 and 2014

	2015			2014		
	Unrestricted	**Temporarily restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Total**
Revenue, gains, and losses:						
Contributions	$ 29,136,787	418,832	29,555,619	137,901,013	220,762	138,121,775
Transfers from other charitable organizations	5,000,000	—	5,000,000	—	—	—
Interest and dividend income	10,370,585	149,554	10,520,139	10,668,586	110,115	10,778,701
Realized net gains on investments	22,654,604	5,364	22,659,968	56,899,362	5,233	56,904,595
Unrealized net (losses) gains on investments	(38,759,660)	(12,375)	(38,772,035)	(34,038,351)	212	(34,038,139)
Administrative fee on agency endowment funds	300,745	—	300,745	273,217	—	273,217
Change in interest in net assets of unconsolidated foundation	—	(1,668,352)	(1,668,352)	—	—	—
Change in actuarial valuation of split-interest agreements	—	(332,434)	(332,434)	—	(181,477)	(181,477)
Total revenue, gains, and losses	28,703,061	(1,439,411)	27,263,650	171,703,827	154,845	171,858,672
Grants and expenses:						
Grants approved for charitable purposes	43,113,523	—	43,113,523	32,497,642	—	32,497,642
Transfers to other charitable organizations	—	—	—	14,042,872	—	14,042,872
Program-related expenses	1,749,794	—	1,749,794	1,387,255	—	1,387,255
Supporting services:						
Custodial and investment management fees	1,360,216	—	1,360,216	1,275,382	—	1,275,382
Administrative expenses, net	5,990,804	—	5,990,804	5,249,677	—	5,249,677
Total grants and expenses	52,214,337	—	52,214,337	54,452,828	—	54,452,828
Reclassification of net assets for transfer of assets to unconsolidated foundation	(97,078,316)	97,078,316	—	—	—	—
Release of temporary restrictions	105,919	(105,919)	—	6,203	(6,203)	—
(Decrease) increase in net assets	(120,483,673)	95,532,986	(24,950,687)	117,257,202	148,642	117,405,844
Net assets, beginning of year	779,546,108	7,209,911	786,756,019	662,288,906	7,061,269	669,350,175
Net assets, end of year	$ 659,062,435	102,742,897	761,805,332	779,546,108	7,209,911	786,756,019

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (24,950,687)	117,405,844
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	90,441	88,075
Realized net gains on investments	(22,659,968)	(56,904,595)
Unrealized net losses on investments	38,772,035	34,038,139
Change in actuarial valuation of split-interest agreements	332,434	181,477
Changes in assets and liabilities:		
Decrease in accrued investment and loan interest receivable	137,040	15,649
Increase in interest in net assets of unconsolidated foundation	(95,409,964)	—
Decrease in beneficial interest in charitable trusts	(309,912)	—
(Decrease) increase in accrued expenses	(159,347)	14,785
(Decrease) increase in grants payable	(30,060)	1,742,412
Increase in agency endowment funds	3,877,487	502,923
Net change in other assets and liabilities	2,372	1,774
Net cash (used in) provided by operating activities	(100,308,129)	97,086,483
Cash flows from investing activities:		
Proceeds from sale of investments	162,067,026	339,636,494
Purchase of investments	(171,287,645)	(356,174,477)
Purchase of property, furniture, and equipment	(43,096)	(137,208)
Proceeds from repayment of notes receivable	23,808	23,958
Net cash used in investing activities	(9,239,907)	(16,651,233)
Cash flows from financing activity:		
Payments to pooled income participants	(2,660)	(2,835)
Net cash used in financing activity	(2,660)	(2,835)
Net (decrease) increase in cash and cash equivalents	(109,550,696)	80,432,415
Cash and cash equivalents at beginning of year	142,990,238	62,557,823
Cash and cash equivalents at end of year	$ 33,439,542	142,990,238

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The combined financial statements include the accounts of the Greater Milwaukee Foundation Trust (a community trust), the Greater Milwaukee Foundation, Inc. (a charitable corporation), and the following supporting organizations, collectively described hereafter as “the Foundation:”

- Greater Cedarburg Foundation, Inc.
- Greater Milwaukee Foundation Holdings, Inc.
- Hepburn “Bootstrap” Foundation, Inc.
- Honkamp Family Foundation
- Jay Kay Foundation, Inc.
- Oconomowoc Area Foundation, Inc.
- Strattec Foundation, Inc.
- West Bend Community Foundation, Inc.

In 2014, the Foundation transferred $14,042,872, which comprised the assets of the Ceres Foundation, Inc., formerly included in the combined financial statements as a supporting organization of the Foundation, to an unrelated private foundation. This distribution is included in the combined statement of activities as transfers to other charitable organizations in 2014. The fund transfer agreement effectively dissolved the Ceres Foundation, Inc.

Common management by the Greater Milwaukee Foundation Board is the basis for combination of the above-listed organizations. The combined financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The statements reflect the combined assets and financial activity of various trusts and funds administered by the Foundation. Interfund transactions and balances have been eliminated.

Net assets and revenue, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Although most contributions to the Foundation include donor-imposed restrictions, the variance power established in the amended Declaration of Trust and the Corporate By-Laws for Greater Milwaukee Foundation Trust and Greater Milwaukee Foundation, Inc., respectively, gives the Foundation unilateral variance power to alter the restriction on any donation without the donor’s approval. The provisions regarding variance power have been included in the Foundation’s governing instruments since it was established in 1915. This variance power applies to all of the funds created within the Foundation. In addition, the total return spending policy adopted by the Foundation allows the Foundation to supplement income with distributions from the original corpus of gifts, if necessary, to maintain distribution levels authorized by the Foundation board. Accordingly, net assets of the Foundation and changes therein are classified as unrestricted net assets for financial reporting purposes except for those assets that have time restrictions, which will delay receipt of funds into the Foundation. Assets with time restrictions are recorded as temporarily restricted net assets.

Notwithstanding the unrestricted classification, the Foundation consistently follows the practice of respecting donors' grant-making preferences, as stated in their wills or gift agreements, when they establish a fund with the Foundation.

The Foundation's component funds, which have been combined for presentation purposes, are of various types reflecting the purposes of the donors who have contributed to them and are described as follows:

(i) Undesignated Funds

Undesignated funds are those over which the board has full discretion in making distributions for charitable purposes to meet community needs.

(ii) Field of Interest Funds

Field of interest funds are unrestricted funds used at the board's discretion to meet a general field of charitable need specified by the donor.

(iii) Donor-Designated Funds

Donor-designated funds are unrestricted funds where the donor has designated an agency or institution for which support will be provided.

(iv) Donor-Advised Funds

Donor-advised funds are unrestricted funds for which the donor has reserved the right to make nonbinding distribution recommendations to the board.

(v) Temporarily Restricted Net Assets

Foundation assets which will not be available for Foundation use until a specific time restriction expires or an event occurs such as the maturation of a remainder trust interest or life insurance policy.

(b) Use of Estimates

The preparation of combined 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 combined financial statements and the reported amounts of revenue and gains and expenses and losses during the reporting period. Actual results could differ from those estimates. Significant estimates include the estimated fair value of certain investment securities that are not traded on national security exchanges, the estimated beneficial interests in charitable trusts, and the estimated liability for pooled income funds.

(c) Cash Equivalents

Cash equivalents are valued at cost, which approximates market. For purposes of the combined statements of cash flows, the Foundation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(Continued)

(d) Investment Securities

The investment portfolio is held and managed by various financial institutions. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investments are valued at quoted market value, except for life insurance policies, closely held stock, and certain alternative investments. Life insurance policies are valued at the cash surrender value of the underlying policies. Closely held stocks, stocks not traded on national security exchanges, are valued at independently appraised values in the absence of readily ascertainable market values. Certain alternative investments are valued at the Foundation's interest in the equity of the investee based on the audited financial statements of the underlying funds. Because of the inherent uncertainty of certain valuations, estimated fair values might differ significantly from the fair values that would have been used had a ready market for the investments existed.

The Foundation's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the combined statements of financial position and the combined statements of activities.

(e) Loans Receivable

Loans receivable are valued at the outstanding principal amount, which is the original cost less payments received. Should a loan receivable be determined to be doubtful of collection, it would be written down, by way of a charge to expense, to the amount expected to be collected.

(f) Interest in Net Assets of Unconsolidated Foundation

The Foundation recognizes its ongoing economic interest in the net assets of the KPG Charitable Foundation, Inc. (KPG) as the relationship between the Foundation and KPG has been determined to be that of financially interrelated entities. Because the Foundation does not influence the timing and amount of distributions, amounts held by KPG on behalf of the Foundation are classified as temporarily restricted net assets.

The Foundation recognizes subsequent changes in its interest in KPG in the combined statements of activities as change in interest in net assets of unconsolidated foundation. Distributions from KPG are recorded as net assets released from restrictions in the combined statements of activities.

(g) Beneficial Interest in Charitable Trusts

The Foundation's split-interest agreements with donors consist of charitable lead trusts, charitable remainder trusts, pooled life income funds, and a retained life estate for which the Foundation is either the remainder beneficiary or both the fiscal agent and remainder beneficiary. These agreements are recognized for financial reporting purposes if the Foundation receives documentation of the terms of its beneficial interest and the designation of the Foundation as beneficiary is irrevocable. Agreements known to the Foundation that do not meet both conditions are not recorded in the Foundation's combined financial statements. Assets related to split-interest agreements are recorded at fair value. There were no new contributions recorded under split-interest agreements in 2015 and 2014.

(Continued)

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2015, the Foundation was aware of numerous deferred gifts that are either revocable or include provisions allowing the principal to be invaded by income beneficiaries. The amount of future contribution revenue related to these gifts will not be recorded in the Foundation's combined financial statements until the gift becomes irrevocable and the probable amount is known.

The contributions receivable and investments related to the agreements recorded by the Foundation are temporarily restricted in nature and the net assets are classified as temporarily restricted for financial reporting purposes. When mature, these balances will become unrestricted by virtue of the donors' designation or by the variance power of the Foundation board.

(h) Property, Furniture, and Equipment

Cost of leasehold improvements, office furniture, and equipment are capitalized and depreciated using the straight-line method over the assets estimated useful life, ranging from 4 to 10 years.

(i) Contributions

Contributions are recorded at fair value when received or when the Foundation is notified of an irrevocable gift. Gifts of real estate and personal property are recorded at fair value at the date of the gift.

During 2014, the Foundation received a $100 million cash contribution for the construction of a new, NBA-quality arena to be built in the City of Milwaukee. The Foundation retained variance power over this contribution; therefore, it was recorded as an unrestricted contribution in the 2014 combined statement of activities. The operating agreement that governs the use of the contribution specifies certain transfers of funds during 2015, which will ultimately be paid in the form of a grant as the construction of the arena progresses.

(j) Transfers from Other Charitable Organizations

As part of a fund transfer agreement dissolving the Ceres Foundation, Inc., in 2015, the Foundation received $5,000,000 from the Ceres Foundation, a private foundation, to establish a donor-advised fund, which will be terminated over the next four years through the use of the assets as grants approved for charitable purposes. This receipt is included in the combined statements of activities as transfers from other charitable organizations.

(k) Grants Payable

The Foundation makes awards and grants based on the board of directors' approval. The minimum amount for which the Foundation is obligated is recorded as grants payable in the combined statements of financial position. Grants payable are reported at the present value of estimated future cash outflows using a discount rate that approximates the federal funds rate.

(l) Charitable Distributions

Charitable distributions are made primarily from income accounts in accordance with the stipulations of the various individual trust or fund instruments and as approved by the board of the Foundation.

The Foundation utilizes a total return spending policy that allows for a long-term investment approach in order to achieve an expected return greater than the total of the spending rate and inflation rate and which will maintain the purchasing power of the corpus. The Foundation utilized a 4.75% spending rate in 2015 and 2014 based on a 20-quarter trailing average investment balance determined on a market value basis in order to allocate investment income from component funds for grant purposes. If the traditional yield (interest and dividend income) is not sufficient to support the spending rate, income derived from the accumulated realized gains of the component funds is used. If the traditional yield exceeds the spending rate, the excess income remains invested in the component funds.

(m) Reclassification of Net Assets for Transfer of Assets to Unconsolidated Foundation

During 2015, the Foundation transferred $97,078,316 to KPG, a financially interrelated charitable organization under section 501(c)3 of the Internal Revenue Code (IRC). This entity was established as part of an operating agreement that governs the use of a 2014 contribution for the construction of a new, NBA-quality arena to be built in the City of Milwaukee. Upon transfer, the Foundation recognized the net assets of KPG as interest in net assets of unconsolidated foundation. As the contribution was originally recorded as an unrestricted contribution as discussed in note 1(i) the transfer of assets placed a time restriction on the contribution and, therefore, is included as a temporarily restricted net asset as of the date of the transfer. This reclassification is included as reclassification of net assets for transfer of assets to unconsolidated foundation in the 2015 combined statement of activities. KPG's net assets will be returned to the Foundation and ultimately be paid in the form of a grant as the construction of the arena progresses. The project is currently estimated to be completed and funds drawn by the end of 2018.

(n) Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service recognizing it as exempt from federal income taxes under IRC Section 501(a) and classifying it as a public charity.

The Foundation follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC Topic 740 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC Topic 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. The Foundation does not have a liability recorded for unrecognized tax benefits.

(o) Agency Endowment Funds

In accordance with FASB ASC Topic 958, *Not-for-Profit Organizations*, the Foundation recognizes a liability when it receives a transfer of assets and the resource provider (i.e., a not-for-profit organization) specifies itself or an affiliate as the beneficiary.

(Continued)

The statement also requires the Foundation, when accepting cash or other financial assets from a not-for-profit organization, to recognize the fair value of those assets as a liability to the specified beneficiary (generally the same not-for-profit organization) concurrent with recognition of the assets received from the not-for-profit organization if the Foundation agrees to any of the following: (1) use of those assets on behalf of the not-for-profit organization, (2) transfer of those assets to the not-for-profit organization, (3) use of the return on those assets to benefit the not-for-profit organization, or (4) apply any of the above to an unaffiliated specified beneficiary determined by the not-for-profit organization.

When a third-party donor explicitly grants the Foundation variance power, the Foundation will continue to recognize the fair value of any assets it receives as a contribution received when the designated beneficiary is a not-for-profit organization. As more fully discussed in note 1(a), the Foundation has unilateral variance power to alter the restriction of any donation without the donor's approval. Therefore, assets received from third-party donors, even those with donor-imposed restrictions, are recognized as contributions received and unrestricted net assets.

(2) Investments

The cost and fair value of investments as of December 31, 2015 and 2014 are summarized as follows:

	2015		2014	
Investment	**Cost**	**Fair value**	**Cost**	**Fair value**
Traditional investments:				
U.S. government obligations	$ 5,933,290	5,962,479	6,019,745	6,122,258
U.S. Treasury	2,457,120	2,458,077	2,986,257	2,995,608
Government obligation mutual funds	194,793	193,451	195,212	195,695
Corporate bonds	12,436,179	11,590,549	12,261,711	12,534,565
Other asset-backed securities	1,014,278	979,414	983,740	976,075
Bond mutual funds	147,202,997	147,010,953	136,788,767	140,439,489
Equity mutual funds	239,461,509	274,560,478	234,671,828	287,184,588
Commingled securities	64,912,585	75,660,969	55,466,345	70,244,403
Common and preferred stock	65,587,333	76,449,616	63,579,026	82,651,540
Foreign government bonds	—	—	149,180	155,850
Cash surrender value of life	—	—		
insurance	3,030,777	3,030,779	2,867,150	2,867,150
Total traditional investments	542,230,861	597,896,765	515,968,961	606,367,221

Investment		2015 Cost	2015 Fair value	2014 Cost	2014 Fair value
Alternative investments:					
Absolute return hedge funds	$	4,029,859	10,799,097	4,029,859	10,601,074
Equity hedge funds		31,573,378	35,811,190	28,623,517	36,984,283
Private equities		8,703,602	8,838,864	6,178,359	6,901,536
Corporate high-yield bonds		301,172	160,738	535,296	502,843
Other high-yield bonds		24,878,212	23,451,930	22,222,129	21,661,929
Real estate investment trust		5,224,197	3,114,566	4,918,720	3,945,713
Total alternative investments		74,710,420	82,176,385	66,507,880	80,597,378
Total investments	$	616,941,281	680,073,150	582,476,841	686,964,599

Unrealized net losses reported in the Foundation's combined statements of activities in 2015 and 2014 were $38,772,035 and $34,038,139, respectively. Realized and unrealized net (losses) gains on agency endowment funds were $(772,121) and $1,143,569 in 2015 and 2014, respectively (note 5).

(3) Grants

Grants approved for charitable purposes and, therefore, recognized in the combined statements of activities during 2015 and 2014 are as follows:

		2015	2014
Total approved grants	$	48,001,965	40,445,245
Interfund grants		(4,315,934)	(7,223,188)
Returned or canceled grants		(526,079)	(728,193)
Adjustment to present value		(46,429)	3,778
	$	43,113,523	32,497,642

Grants payable at December 31, 2015 are scheduled for payment as follows:

Year of payment		Amount
2016	$	9,664,481
2017		2,488,922
2018		1,305,661
2019		946,482
2020		802,578
Thereafter		1,228,967
	$	16,437,091

(4) Functional Classification of Expenses

Total expenses of the Foundation during 2015 and 2014 are classified by function as follows:

	2015			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 43,113,523	—	—	43,113,523
Program-related expenses	1,416,151	14,395	319,248	1,749,794
Custodial and investment management fees	—	1,359,860	356	1,360,216
Administrative expenses	1,644,105	2,840,958	1,505,741	5,990,804
Total approved distributions and expenses	$ 46,173,779	4,215,213	1,825,345	52,214,337

	2014			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 32,497,642	—	—	32,497,642
Transfers to other organizations	14,042,872	—	—	14,042,872
Program-related expenses	1,306,495	3,410	77,350	1,387,255
Custodial and investment management fees	—	1,275,320	62	1,275,382
Administrative expenses	1,371,232	2,554,427	1,324,018	5,249,677
Total approved distributions and expenses	$ 49,218,241	3,833,157	1,401,430	54,452,828

(Continued)

The administrative expenses of the Foundation are funded through a proportionate assessment on the market value of the individual funds, contributions, fees for services, and internal grants specifically designated for administrative purposes. Administrative expenses are charged to the different functions based on allocations or direct charges to the function. Administrative expenses in 2015 and 2014 are summarized as follows:

		2015	2014
Administrative expenses:			
Personnel	$	3,768,631	3,438,059
Occupancy		438,982	446,685
Office furniture and equipment		89,704	88,075
Other expenses		1,716,033	1,316,580
		6,013,350	5,289,399
Less reimbursement for services and fees provided to other organizations		(22,546)	(39,722)
Administrative expenses, net	$	5,990,804	5,249,677

(5) Agency Endowment Funds

Agency endowment funds are unrestricted funds received from nonprofit organizations that designate themselves as beneficiaries. Accordingly, agency endowment funds are reported as liabilities rather than as unrestricted net assets of the Foundation. The liability balances and activities related to agency endowment funds are summarized as follows:

		2015	2014
Liability for agency endowment funds, beginning of year	$	31,172,940	30,670,017
Receipts		6,431,846	1,792,337
Investment income		359,963	350,439
Realized and unrealized net (losses) gains on investments		(772,121)	1,143,569
Distributions		(1,751,941)	(2,432,469)
Custodial and investment management fees		(89,515)	(77,736)
Administrative expense allocations		(300,745)	(273,217)
Liability for agency endowment funds, end of year	$	35,050,427	31,172,940

(6) Related-Party Transactions

It is the policy of the Foundation that all board members and staff personnel avoid any conflict between their own individual interests and the interests of the Foundation. The Foundation has a conflict-of-interest policy whereby board members must advise the board of any direct or indirect interest in any transaction or relationship with the Foundation and abstain from voting for the approval or denial of any grants or expenditures that affect their individual, professional, or business interests. During the years ended

December 31, 2015 and 2014, the Foundation awarded discretionary grants over $50,000 totaling $2,134,000 and $805,000, respectively, to related-party organizations.

(7) Employee Benefit Plan

The Foundation sponsors a defined-contribution plan covering substantially all Foundation employees who have completed one year and 1,000 hours of service. The Foundation contributed 5% of eligible employee compensation in the years 2015 and 2014. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2015. Participants are 100% vested in the employer and employee contributions after five years of service. The Foundation's expense related to this plan was $214,163 and $205,342 in 2015 and 2014, respectively.

(8) Commitment and Contingency

The Foundation leases office space under an operating lease that expires on August 31, 2019. Future minimum lease payments due under this, not including utility adjustments, are as follows:

Year:		
2016	$	427,486
2017		378,393
2018		385,142
2019		259,816
	$	1,450,837

Total rent expense, including utility adjustments, was $394,223 and $398,783 in 2015 and 2014, respectively.

(9) Fair Value of Financial Instruments

FASB ASC Topic 820, *Fair Value Measurement* (ASC Topic 820) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) that are observable in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, where there is little or no market data, requiring the Foundation to develop its own assumptions of fair value for the asset or liability.

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

During 2015, the Foundation adopted FASB Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* This standard removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used.

Cash and cash equivalents, accounts receivable, prepaid expenses, accrued income, accounts payable, and accrued liabilities: The carrying amount reported in the combined statements of financial position for these assets and liabilities approximates the fair value and are short term in duration.

Investments: The fair values of investments are based on valuations provided by external investment managers and the custodian financial institutions. Valuations of investments in Level 1, which include U.S. government obligations, U.S. Treasury, government obligation mutual funds, corporate bonds, other asset-backed securities, certain bond and equity mutual funds, corporate high-yield bonds, other high-yield bonds, common and preferred stock and cash surrender value of life insurance are provided by the custodian financial institutions based on observable market quotation prices. Valuations of investments in certain bond and equity mutual funds and commingled bond funds are provided by the custodian financial institutions based on observable inputs other than quoted prices, such as pricing services or indices.

The Foundation applies the measurement provisions of FASB ASU No. 2009-12*, Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), to certain investments in funds that do not have readily determinable fair values including commingled U.S. equities, private equity, hedge funds, certain other high-yield bonds, and private real assets. ASU 2009-12 allows the Foundation to estimate the fair value of an investment using the NAV per share of the investment as a practical expedient, if that NAV per share is determined in accordance with the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Investment Companies*. Investments in marketable bond and equity securities had a fair value of $467,925,605 and $478,321,529 as of December 31, 2015 and 2014, respectively. Investments measured at NAV with a fair value of $209,116,765 and $205,775,920 as of December 31, 2015 and 2014, respectively, were estimated using the NAV per share provided by external investment managers. Changes in market conditions and the economic environment may impact the NAV of the funds and consequently the fair value of the Foundation's interest in the funds.

The investment strategy of the commingled bond funds is to achieve favorable income-oriented returns from diversified portfolios of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities. The investment strategy of the commingled equity funds is to seek investment results that achieve or exceed major market indices. Derivative instruments may be used in these funds in an attempt to hedge existing long and short positions in order to maximize returns and minimize risk.

The primary investment objectives for the other equity securities are to achieve a higher than average rate of return relative to the level of risk assumed, by pursuing trading strategies that are based primarily upon

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convertible hedging (based on equities, bonds, and related derivative instruments); directional, relative value, and event-driven hedging; long/short debt and equity trading; and among others, risk arbitrage.

The following tables present the balance of assets measured at fair value on a recurring basis as of December 31, 2015 and 2014 (in thousands):

		December 31, 2015				Redemption	Days
		Level 1	Level 2	Level 3	Total	frequency	notice
Cash and cash equivalents	$	33,439,542	—	—	33,439,542	n/a	n/a
Investments:							
U.S. government obligations		5,962,479	—	—	5,962,479	Daily	3 days
U.S. Treasury		2,458,077	—	—	2,458,077	Daily	3 days
Government obligation mutual funds		193,451	—	—	193,451	Daily	3 days
Corporate bonds		11,590,549	—	—	11,590,549	Daily	3 days
Other asset-backed securities		979,414	—	—	979,414	Daily	3 days
Bond mutual funds		133,055,165	—	—	133,055,165	Daily, Monthly	1–10 days
Corporate high-yield bonds	(f)	160,738	—	—	160,738	Daily	3 days
Other high-yield bonds	(f)	8,275,795	—	—	8,275,795	Daily	3 days
Equity mutual funds		228,800,322	—	—	228,800,322	Daily, Monthly	1–30 days
Common and preferred Stock		76,449,616	—	—	76,449,616	Daily	3 days
Cash surrender value of life insurance		3,030,779	—	—	3,030,779	n/a	n/a
Investments measured at NAV:							
Bond mutual funds					13,955,788	Daily, Monthly	1–10 days
Equity mutual funds					45,760,157	Daily, Monthly	1–30 days
Commingled funds:							
Commingled bond funds	(a)				38,585,590	Monthly	1–10 days
Commingled U.S. equities	(b)				37,075,378	Next redemption date: 12/31/19	60 days-6 months
Alternative investments:							
Multistrategy hedge funds	(c)				10,799,097	Next redemption date: 12/31/16	100 days
Long/short equity hedge funds	(d)				35,811,190	Redeemable: 78% as of 12/31/15	45–95 days
Private equity	(e)				8,838,864	No liquidity	n/a
Other high-yield bonds	(f)				15,176,135	Monthly	1–45 days
Private real assets	(g)				3,114,566	No liquidity	n/a
Subtotal					209,116,765		
Total investments		470,956,385	—	—	680,073,150		
Interest in unconsolidated foundation		—	—	95,409,964	95,409,964		
Beneficial interest in charitable trust		—	—	4,276,177	4,276,177		
Total assets	$	504,395,927	—	99,686,141	813,198,833		

		December 31, 2014				Redemption	Days
		Level 1	Level 2	Level 3	Total	frequency	notice
Cash and cash equivalents		$ 142,990,238	—	—	142,990,238		
Investments:							
U.S. government obligations		6,122,258	—	—	6,122,258	Daily	3 days
U.S. Treasury		2,995,608	—	—	2,995,608	Daily	3 days
Government obligation mutual funds		195,695	—	—	195,695	Daily	3 days
Corporate bonds		12,534,565	—	—	12,534,565	Daily	3 days
Other asset-backed securities		976,075	—	—	976,075	Daily	3 days
Bond mutual funds		126,735,449	—	—	126,735,449	Daily, Monthly	1–10 days
Corporate high-yield bonds	(f)	502,843	—	—	502,843	Daily	3 days
Other high-yield bonds	(f)	7,993,618			7,993,618	Daily	3 days
Equity mutual funds		237,613,878	—	—	237,613,878	Daily, Monthly	1–30 days
Common and preferred Stock		82,651,540	—	—	82,651,540	Daily	3 days
Cash surrender value of life insurance		2,867,150	—	—	2,867,150	n/a	n/a
Investments measured at NAV:							
Bond mutual funds					13,859,890	Daily, Monthly	1–10 days
Equity mutual funds					49,570,710	Daily, Monthly	1–30 days
Commingled funds:							
Commingled bond funds	(a)				39,071,389	Daily	1–10 days
Commingled U.S. equities	(b)				31,173,014	Next redemption date: 12/31/19	60 days-6 months
Alternative investments:							
Multistrategy hedge funds	(c)				10,601,074	Next redemption date: 12/31/16	100 days
Long/short equity hedge funds	(d)				36,984,283	Redeemable: 60% as of 09/30/15	45–95 days
Private equity	(e)				6,901,536	No liquidity	n/a
Other high-yield bonds	(f)				13,668,311	Monthly	1–45 days
Private real assets	(g)				3,945,713	No liquidity	n/a
Subtotal					205,775,920		
Total investments		481,188,679	—	—	686,964,599		
Beneficial interest in charitable trust		—	—	4,308,196	4,308,196		
Total assets		$ 624,178,917	—	4,308,196	834,263,033		

(a) This class primarily invests in a diversified portfolio of intermediate and long-term debt instruments, such as notes and bonds issued by the U.S. Treasury; mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae; corporate debt issued by both U.S. and foreign issuers; and commercial mortgage-backed securities.

(b) This class includes investments in collective investment trusts, limited liability companies, and limited partnerships that invest primarily in U.S. equity securities.

(c) This class includes investments in hedge funds that utilize a multistrategy, multimanager approach. There is one class of shares – Class A. There is a redemption lockup period, which expires on December 31. If not redeemed, shares are automatically reinvested at December 31 for the lockup period. The following is the lockup summary as of December 31, 2015: $10,799,097 cannot be redeemed until December 31, 2016.

(d) This class includes investments in hedge funds that invest in U.S. and non-U.S. equity securities, debt securities, options, other derivatives, or financial instruments, in both long and short positions. Approximately 6% of total investment cannot be redeemed until March 31, 2016 and 16% of total investment cannot be redeemed until December 31, 2016.

(e) This class includes investments in limited partnerships with variety of private investment strategies, including venture capital, buyouts, foreign private equity, real estate, and resource-related investments. These investments can never be redeemed, but instead, are distributed as the underlying assets are sold. These investments had unfunded commitments of $9,823,915 and $4,735,500 as of December 31, 2015 and 2014, respectively.

(f) This class includes an investment in a bond fund that invests in public and private issue debt securities that are generally rated below investment grade or deemed to be below investment grade by the fund. This diversified portfolio may include domestic and foreign corporate bonds, bank debt, convertible bonds, preferred stocks, and other financial instruments.

(g) This class includes private equity funds that invest in the following: 1) Energy and natural resource investments in the United States and throughout the world, 2) Real estate investments in the United States, Europe, and Asia, and 3) Technology, Media, Financial Services, Consumer, and Industrial sectors in the United States and throughout the world. These investments can never be redeemed, but instead, are distributed as the underlying assets are sold. These investments had unfunded commitments of $2,261,718 and $2,584,681 as of December 31, 2015 and 2014, respectively.

(10) Subsequent Events

Subsequent events have been evaluated through November 28, 2016, which is the date the combined financial statements were available to be issued, noting no subsequent events requiring recording or disclosure in the combined financial statements or related notes.