



GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2016 and 2015

(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, which comprise the combined statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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
August 8, 2017

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 56,475,953	33,439,542
Accounts receivable, prepaid expenses, and accrued investment income	465,939	440,476
Investments, at fair value	696,959,923	680,073,150
Loans receivable	248,978	262,469
Interest in net assets of unconsolidated foundation	84,422,747	95,409,964
Beneficial interest in charitable trusts	4,311,122	4,276,177
Property, furniture, and equipment, net	284,621	345,296
Total assets	<u>\$ 843,169,283</u>	<u>814,247,074</u>
Liabilities and Net Assets		
Liabilities:		
Accrued expenses	\$ 1,052,565	868,834
Grants payable	20,330,415	16,437,091
Liability for pooled income funds	74,830	85,390
Agency endowment funds	40,782,872	35,050,427
Total liabilities	<u>62,240,682</u>	<u>52,441,742</u>
Net assets:		
Undesignated funds	82,220,869	79,427,522
Field of interest funds	175,101,393	167,573,794
Donor-designated funds	175,483,860	171,001,218
Donor-advised funds	256,157,612	241,059,901
Total unrestricted net assets	688,963,734	659,062,435
Temporarily restricted net assets	91,964,867	102,742,897
Total net assets	<u>780,928,601</u>	<u>761,805,332</u>
Total liabilities and net assets	<u>\$ 843,169,283</u>	<u>814,247,074</u>

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue, gains, and losses:						
Contributions	\$ 38,603,352	68,835	38,672,187	29,136,787	418,832	29,555,619
Transfers from other charitable organizations	—	—	—	5,000,000	—	5,000,000
Interest and dividend income	10,992,619	79,423	11,072,042	10,370,585	149,554	10,520,139
Realized net gains on investments	22,797,645	11,270	22,808,915	22,654,604	5,364	22,659,968
Unrealized net gains (losses) on investments	15,583,109	553	15,583,662	(38,759,660)	(12,375)	(38,772,035)
Administrative fee on agency endowment funds	342,477	—	342,477	300,745	—	300,745
Change in interest in net assets of unconsolidated foundation	—	(1,303,775)	(1,303,775)	—	(1,668,352)	(1,668,352)
Change in actuarial valuation of split-interest agreements	—	88,825	88,825	—	(332,434)	(332,434)
Total revenue, gains, and losses	88,319,202	(1,054,869)	87,264,333	28,703,061	(1,439,411)	27,263,650
Grants and expenses:						
Grants approved for charitable purposes	58,347,501	—	58,347,501	43,113,523	—	43,113,523
Program-related expenses	2,257,078	—	2,257,078	1,749,794	—	1,749,794
Supporting services:						
Custodial and investment management fees	1,340,922	—	1,340,922	1,360,216	—	1,360,216
Administrative expenses, net	6,195,563	—	6,195,563	5,990,804	—	5,990,804
Total grants and expenses	68,141,064	—	68,141,064	52,214,337	—	52,214,337
Reclassification of net assets for transfer of assets to unconsolidated foundation	—	—	—	(97,078,316)	97,078,316	—
Release of temporary restrictions	9,723,161	(9,723,161)	—	105,919	(105,919)	—
Increase (decrease) in net assets	29,901,299	(10,778,030)	19,123,269	(120,483,673)	95,532,986	(24,950,687)
Net assets, beginning of year	659,062,435	102,742,897	761,805,332	779,546,108	7,209,911	786,756,019
Net assets, end of year	\$ <u>688,963,734</u>	<u>91,964,867</u>	<u>780,928,601</u>	<u>659,062,435</u>	<u>102,742,897</u>	<u>761,805,332</u>

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION
 Combined Statements of Cash Flows
 Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 19,123,269	(24,950,687)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	95,382	90,441
Realized net gains on investments	(22,808,915)	(22,659,968)
Unrealized net (gains) losses on investments	(15,583,662)	38,772,035
Change in actuarial valuation of split-interest agreements	(88,825)	332,434
Changes in assets and liabilities:		
Increase (decrease) in accrued investment and loan interest receivable	(35,961)	137,040
(Increase) decrease in interest in net assets of unconsolidated foundation	10,987,217	(95,409,964)
Increase in beneficial interest in charitable trusts	(46,714)	(309,912)
(Decrease) increase in accrued expenses	183,731	(159,347)
(Decrease) increase in grants payable	3,893,324	(30,060)
Increase in agency endowment funds	5,732,445	3,877,487
Net change in other assets and liabilities	2,653	2,372
Net cash provided by (used in) operating activities	1,453,944	(100,308,129)
Cash flows from investing activities:		
Proceeds from sale of investments	149,630,538	162,067,026
Purchase of investments	(128,124,735)	(171,287,645)
Purchase of property, furniture, and equipment	(34,707)	(43,096)
Proceeds from repayment of notes receivable	23,990	23,808
Net cash provided by (used in) investing activities	21,495,086	(9,239,907)
Cash flows from financing activities:		
Payments from charitable trusts	89,867	—
Payments to pooled income participants	(2,486)	(2,660)
Net cash provided by (used in) financing activities	87,381	(2,660)
Net increase (decrease) in cash and cash equivalents	23,036,411	(109,550,696)
Cash and cash equivalents at beginning of year	33,439,542	142,990,238
Cash and cash equivalents at end of year	\$ 56,475,953	33,439,542

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2016 and 2015

(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.

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.

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Notes to Combined Financial Statements

December 31, 2016 and 2015

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.

(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,

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Notes to Combined Financial Statements

December 31, 2016 and 2015

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 combined 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. The Foundation recorded contributions under split-interest agreements of \$46,714 and \$226,161 in 2016 and 2015, respectively.

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2016, 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

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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

Costs 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.

(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 2016 and 2015 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.

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Notes to Combined Financial Statements

December 31, 2016 and 2015

(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, 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 withdrawn 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 Entities*, 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.

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.

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Notes to Combined Financial Statements

December 31, 2016 and 2015

(2) Investments

The cost and fair value of investments as of December 31, 2016 and 2015 are summarized as follows:

Investment	2016		2015	
	Historical cost	Fair value	Historical cost	Fair value
Traditional investments:				
U.S. government obligations	\$ 11,087,791	11,021,697	5,933,290	5,962,479
U.S. Treasury	8,311,413	7,901,700	2,457,120	2,458,077
Government obligation mutual funds	75,613	72,920	194,793	193,451
Corporate bonds	11,368,072	11,288,853	12,436,179	11,590,549
Other asset-backed securities	2,793,861	2,753,093	1,014,278	979,414
Bond mutual funds	127,502,124	129,413,976	147,202,997	147,010,953
Equity mutual funds	247,187,917	294,029,550	239,461,509	274,560,478
Commingled securities	79,636,303	96,684,697	64,912,585	75,660,969
Common and preferred stock	59,167,093	71,871,281	65,587,333	76,449,616
Cash surrender value of life insurance	3,150,401	3,150,403	—	—
Total traditional investments	550,280,588	628,188,170	542,230,861	597,896,765
Alternative investments:				
Absolute return hedge funds	—	—	4,029,859	10,799,097
Equity hedge funds	23,876,143	25,901,557	31,573,378	35,811,190
Private equities	12,817,980	13,856,784	8,703,602	8,838,864
Corporate high-yield bonds	—	—	301,172	160,738
Other high-yield bonds	24,673,182	25,991,480	24,878,212	23,451,930
Real estate investment trust	5,280,116	3,021,932	5,224,197	3,114,566
Total alternative investments	66,647,421	68,771,753	74,710,420	82,176,385
Total investments	\$ 616,928,009	696,959,923	616,941,281	680,073,150

Unrealized net gains (losses) reported in the Foundation's combined statements of activities in 2016 and 2015 were \$15,583,662 and \$(38,772,035), respectively. Realized and unrealized net gains (losses) on agency endowment funds were \$2,760,133 and \$(772,121) in 2016 and 2015, respectively (note 5).

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Notes to Combined Financial Statements

December 31, 2016 and 2015

(3) Grants

Grants approved for charitable purposes and, therefore, recognized in the combined statements of activities during 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Total approved grants	\$ 65,605,658	48,001,965
Interfund grants	(6,763,636)	(4,315,934)
Returned or canceled grants	(475,522)	(526,079)
Adjustment to present value	<u>(18,999)</u>	<u>(46,429)</u>
	<u>\$ 58,347,501</u>	<u>43,113,523</u>

Grants payable at December 31, 2016 are scheduled for payment as follows:

<u>Year of payment</u>	<u>Amount</u>
2017	\$ 14,443,949
2018	2,270,692
2019	1,238,109
2020	1,001,546
2021	615,089
Thereafter	<u>761,030</u>
	<u>\$ 20,330,415</u>

(4) Functional Classification of Expenses

Total expenses of the Foundation during 2016 and 2015 are classified by function as follows:

	<u>2016</u>			
	<u>Grants and program services</u>	<u>Management and general</u>	<u>Development and donor services</u>	<u>Total</u>
Grants	\$ 58,347,501	—	—	58,347,501
Program-related expenses	2,120,493	37,454	99,131	2,257,078
Custodial and investment management fees	—	1,340,209	713	1,340,922
Administrative expenses	<u>1,756,852</u>	<u>2,950,611</u>	<u>1,488,100</u>	<u>6,195,563</u>
Total approved distributions and expenses	<u>\$ 62,224,846</u>	<u>4,328,274</u>	<u>1,587,944</u>	<u>68,141,064</u>

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Notes to Combined Financial Statements

December 31, 2016 and 2015

	2015			
	Grants and program services	Management and general	Development and donor services	Total
Grants	\$ 43,113,523	—	—	43,113,523
Program-related expenses	1,617,080	15,415	117,299	1,749,794
Custodial and investment management fees	—	1,359,860	356	1,360,216
Administrative expenses	<u>1,536,457</u>	<u>2,910,601</u>	<u>1,543,746</u>	<u>5,990,804</u>
Total approved distributions and expenses	<u>\$ 46,267,060</u>	<u>4,285,876</u>	<u>1,661,401</u>	<u>52,214,337</u>

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 2016 and 2015 are summarized as follows:

	2016	2015
Administrative expenses:		
Personnel	\$ 4,202,725	3,768,631
Occupancy	437,945	438,982
Office furniture and equipment	96,119	89,704
Other expenses	<u>1,474,534</u>	<u>1,716,033</u>
	6,211,323	6,013,350
Less reimbursement for services and fees provided to other organizations	<u>(15,760)</u>	<u>(22,546)</u>
Administrative expenses, net	<u>\$ 6,195,563</u>	<u>5,990,804</u>

(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

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Notes to Combined Financial Statements

December 31, 2016 and 2015

as unrestricted net assets of the Foundation. The liability balances and activities related to agency endowment funds are summarized as follows:

	2016	2015
Liability for agency endowment funds, beginning of year	\$ 35,050,427	31,172,940
Change in commitments outstanding for distribution	209,550	—
Receipts	4,524,251	6,431,846
Investment income	431,722	359,963
Realized and unrealized net gains (losses) on investments	2,760,133	(772,121)
Distributions	(1,747,765)	(1,751,941)
Custodial and investment management fees	(102,969)	(89,515)
Administrative expense allocations	(342,477)	(300,745)
Liability for agency endowment funds, end of year	\$ 40,782,872	35,050,427

(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, 2016 and 2015, the Foundation awarded discretionary grants over \$50,000 totaling \$1,020,000 and \$2,134,000, 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 2016 and 2015. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2016. Participants are 100% vested in the employer and employee contributions after five years of service. The Foundation's expense related to this plan was \$232,081 and \$214,163 in 2016 and 2015, 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:		
2017	\$	424,406
2018		385,142
2019		259,816
	\$	1,069,364

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Total rent expense, including utility adjustments, was \$389,192 and \$394,223 in 2016 and 2015, 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.

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 ASC Topic 820 related 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. ASC Topic 820 allows the Foundation to estimate the fair value of an investment using the net asset value (NAV) per share of the investment as a practical expedient, if that NAV per share is determined in accordance with ASC Topic 946, *Financial Services – Investment Companies*. Investments in marketable bond and equity securities had a fair value of \$546,171,727 and \$467,925,605 as of December 31, 2016 and 2015, respectively. Investments measured at NAV with a fair value of \$207,264,149 and \$209,116,965 as of December 31, 2016 and 2015,

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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 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, 2016 and 2015 (in thousands):

	December 31, 2016				Redemption frequency	Days notice
	Level 1	Level 2	Level 3	Total		
Cash and cash equivalents	\$ 56,475,953	—	—	56,475,953	n/a	n/a
Traditional investments:						
U.S. government obligations	11,021,697	—	—	11,021,697	Daily	3 Days
U.S. Treasury	7,901,700	—	—	7,901,700	Daily	3 Days
Government obligation mutual funds	72,920	—	—	72,920	Daily	3 Days
Corporate bonds	11,288,853	—	—	11,288,853	Daily	3 Days
Other asset-backed securities	2,753,093	—	—	2,753,093	Daily	3 Days
Bond mutual funds	114,940,985	—	—	114,940,985	Daily	1–10 Days
Corporate high-yield bonds				—	Daily	3 Days
Other high-yield bonds	(f) 8,756,232	—	—	8,756,232	Daily	3 Days
Equity mutual funds	257,938,610	—	—	257,938,610	Daily, Monthly	1–30 Days
Common and preferred stock	71,871,281	—	—	71,871,281	Daily	3 Days
Cash surrender value of life insurance	3,150,404	—	—	3,150,404	n/a	n/a

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	December 31, 2016				Redemption frequency	Days notice
	Level 1	Level 2	Level 3	Total		
Investments measured at NAV:						
Bond mutual funds				14,472,991	Daily, Monthly	1–10 Days
Equity mutual funds				36,090,940	Daily, Monthly	1–30 Days
Commingled funds:						
Commingled bond funds	(a)			41,827,387	Monthly	1–10 Days
Commingled U.S. equities	(b)			54,857,310	Next redemption date: 12/31/19	60 Days–6 Months
Alternative investments:						
Multistrategy hedge funds	(c)			—		
Long/short equity hedge funds	(d)			25,901,557	Quarterly as of 12/31/15	45–95 Days
Private equity	(e)			13,856,784	No liquidity	n/a
Other high-yield bonds	(f)			17,235,248	Monthly	45 Days
Private real assets	(g)			3,021,931	No liquidity	n/a
Subtotal investments measured at NAV				<u>207,264,148</u>		
Total investments	489,695,775	—	—	696,959,923		
Interest in unconsolidated foundation	—	—	84,422,747	84,422,747		
Beneficial interest in charitable trust	—	—	4,311,122	4,311,122		
Total assets	<u>\$ 546,171,728</u>	<u>—</u>	<u>88,733,869</u>	<u>842,169,745</u>		

	December 31, 2015				Redemption frequency	Days notice
	Level 1	Level 2	Level 3	Total		
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

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	December 31, 2015			Total	Redemption frequency	Days notice
	Level 1	Level 2	Level 3			
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 Next redemption date: 12/31/19	1–10 Days 60 Days–6 Months
Commingled U.S. equities	(b)			37,075,378		
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 investments measured at NAV				<u>209,116,765</u>		
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	<u>\$ 504,395,927</u>	<u>—</u>	<u>99,686,141</u>	<u>813,198,833</u>		

- (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 was a redemption lockup period, which expired on 12/31/16. The investment was redeemed by 12/31/16.
- (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.
- (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 \$16,071,402 and \$9,823,915 as of December 31, 2016 and 2015, respectively.

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- (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 \$4,502,443 and \$2,261,718 as of December 31, 2016 and 2015, respectively.

(10) Subsequent Events

Subsequent events have been evaluated through August 8, 2017, 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 to combined financial statements.