



GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2022 and 2021

(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

Board of Directors
Greater Milwaukee Foundation:

Opinion

We have audited the combined financial statements of Greater Milwaukee Foundation (the Foundation), which comprise the combined statements of financial position as of December 31, 2022 and 2021, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Milwaukee, Wisconsin
August 25, 2023

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents	\$ 56,711,930	48,422,124
Accounts receivable, prepaid expenses, and accrued investment income	1,433,774	1,240,688
Investments, at fair value	910,713,004	1,155,261,038
Loans receivable	11,319,885	12,286,692
Program-related investments	2,387,605	1,415,143
Beneficial interest in charitable trusts	5,678,634	7,656,723
Property, furniture, and equipment, net	172,878	212,190
Operating lease right-of-use assets	626,475	—
Total assets	\$ 989,044,185	1,226,494,598
Liabilities and Net Assets		
Liabilities:		
Accrued expenses	\$ 2,388,077	5,110,858
Grants payable	11,306,622	20,581,738
Liability for pooled income funds	65,406	87,833
Agency endowment funds	85,041,984	95,424,730
Operating lease liabilities	626,475	—
Total liabilities	99,428,564	121,205,159
Net assets without donor restrictions:		
Undesignated funds	87,718,216	106,771,017
Field of interest funds	226,807,957	276,556,405
Donor-designated funds	237,863,872	285,895,338
Donor-advised funds	329,093,890	425,909,318
Total net assets without donor restrictions	881,483,935	1,095,132,078
Net assets with donor restrictions	8,131,686	10,157,361
Total net assets	889,615,621	1,105,289,439
Total liabilities and net assets	\$ 989,044,185	1,226,494,598

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2022 and 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and losses:						
Contributions	\$ 56,035,439	20,380	56,055,819	44,610,913	174,040	44,784,953
Investment income, net	15,932,536	(76,479)	15,856,057	18,040,542	59,698	18,100,240
Realized net gains on investments	9,011,741	691,221	9,702,962	80,071,435	7,230	80,078,665
Unrealized net gains on investments	(206,530,594)	(19,324)	(206,549,918)	33,646,555	8,841	33,655,396
Administrative fee on agency endowment funds	664,153	—	664,153	616,115	—	616,115
Change in actuarial valuation of split-interest agreements	—	(897,113)	(897,113)	—	704,460	704,460
Total revenue, gains, and losses	<u>(124,886,725)</u>	<u>(281,315)</u>	<u>(125,168,040)</u>	<u>176,985,560</u>	<u>954,269</u>	<u>177,939,829</u>
Grants and expenses:						
Grants approved for charitable purposes	77,475,066	—	77,475,066	59,365,896	—	59,365,896
Program-related expenses	5,152,711	—	5,152,711	4,796,590	—	4,796,590
Management general	4,919,066	—	4,919,066	3,534,242	—	3,534,242
Development and donor services	2,958,934	—	2,958,934	2,340,636	—	2,340,636
Total grants and expenses	<u>90,505,777</u>	<u>—</u>	<u>90,505,777</u>	<u>70,037,364</u>	<u>—</u>	<u>70,037,364</u>
Net assets released from restrictions	<u>1,744,360</u>	<u>(1,744,360)</u>	<u>—</u>	<u>57,829</u>	<u>(57,829)</u>	<u>—</u>
Increase (decrease) in net assets	<u>(213,648,142)</u>	<u>(2,025,675)</u>	<u>(215,673,817)</u>	<u>107,006,025</u>	<u>896,440</u>	<u>107,902,465</u>
Net assets, beginning of year	<u>1,095,132,077</u>	<u>10,157,361</u>	<u>1,105,289,438</u>	<u>988,126,053</u>	<u>9,260,921</u>	<u>997,386,974</u>
Net assets, end of year	<u>\$ 881,483,935</u>	<u>8,131,686</u>	<u>889,615,621</u>	<u>1,095,132,078</u>	<u>10,157,361</u>	<u>1,105,289,439</u>

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Cash Flows

Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (215,673,816)	107,902,465
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	55,855	55,640
Realized net gains on investments	(10,387,449)	(80,078,665)
Unrealized net losses on investments	206,549,918	(33,655,396)
Change in actuarial valuation of split-interest agreements	897,113	(704,460)
Changes in assets and liabilities:		
Increase in operating lease right-of-use assets	(626,475)	—
Increase in operating lease liabilities	626,475	—
Increase in accounts receivable, prepaid expenses, and accrued investment income	(193,087)	(383,064)
Decrease in accrued expenses	(2,722,782)	3,874,779
Decrease in grants payable	(9,275,116)	(2,533,867)
Increase in agency endowment funds	7,073,645	7,891,683
Increase in loan loss reserve	—	156,000
Net change in other assets and liabilities	546	261
Net cash provided by (used in) operating activities	<u>(23,675,173)</u>	<u>2,525,376</u>
Cash flows from investing activities:		
Proceeds from sale of investments	308,106,043	395,347,457
Purchase of investments	(279,861,356)	(386,166,653)
Purchase of property, furniture, and equipment	(16,543)	(20,717)
Issuance of loans receivable and program-related investments	1,723,642	(4,890,116)
Proceeds from repayment of loans receivable and return of capital on program related investments	270,703	30,889
Net cash provided by investing activities	<u>30,222,489</u>	<u>4,300,860</u>
Cash flows from financing activities:		
Payments from charitable trusts	1,744,360	39,712
Payments to pooled income participants	(1,870)	(1,122)
Net cash provided by financing activities	<u>1,742,490</u>	<u>38,590</u>
Net increase (decrease) in cash and cash equivalents	8,289,806	6,864,826
Cash and cash equivalents at beginning of year	<u>48,422,124</u>	<u>41,557,298</u>
Cash and cash equivalents at end of year	<u>\$ 56,711,930</u>	<u>48,422,124</u>

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

(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
- 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’s board. Accordingly, net assets of the Foundation and changes therein are classified as net assets without donor restrictions 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 reported as net assets with donor restrictions. Expirations of donor-imposed restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Net assets are released from donor restrictions by the occurrence of the passage of time or other events specified by the donors.

Notwithstanding the net assets without donor restrictions 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.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

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 without donor restrictions 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 funds without donor restrictions 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 funds where the donor has designated an agency or institution for which support will be provided and are classified as without donor restrictions by virtue of the variance power of the Foundation board.

(iv) *Donor-Advised Funds*

Donor-advised funds are funds without donor restrictions for which the donor has reserved the right to make nonbinding distribution recommendations to the board.

(v) *Net Assets with Donor Restrictions*

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 fair value. For purposes of the combined statements of financial position, the Foundation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

(d) Investments

The investment portfolio is held and managed by various financial institutions. Investment transactions are reported 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, except for life insurance policies, closely held stock, and certain alternative investments are reported at fair value. Fair value is based on quoted market prices when available or quoted market prices of comparable instruments when prices are not available. Closely held stocks and stocks not traded on national security exchanges are valued at independently appraised values in the absence of readily ascertainable fair values. For certain alternative investments, net asset value is used as a practical expedient in estimating fair value, based on information provided by fund managers or general partners 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 net present value of the receivables based on the duration of the loan and cash flows upon issuance of the receivable. 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. The allowance for doubtful accounts was zero as of December 31, 2022 and 2021.

(f) Program Related Investments

The Foundation has program related investments in local entities. These investments consist of loans that bore 2% interest at December 31, 2022 and 2021. The loan principal balances will be repaid to the Foundation at a later date. The loan loss reserve was \$156,000 as of December 31, 2022 and 2021.

(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 reported in the Foundation's combined financial statements. Assets related to split-interest agreements are reported at fair value.

The Foundation is a beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2022, 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 reported in the Foundation's combined financial statements until the gift becomes irrevocable and the probable amount is known.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

The contributions receivable and investments related to the agreements reported by the Foundation are restricted in nature and the net assets are classified as net assets with donor restrictions for financial reporting purposes. When mature, these balances will become net assets without donor restrictions 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 reported at fair value when received or when the Foundation is notified of an irrevocable gift. Gifts of real estate and personal property are reported at fair value at the date of the gift.

(j) 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 reported 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.

(k) 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, which will maintain the purchasing power of the corpus. The Foundation utilized a 4.75% spending rate in 2022 and 2021 based on a 20-quarter trailing average investment balance determined on a fair 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.

(l) Income Taxes

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

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

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 reported for unrecognized tax benefits in 2022 and 2021.

(m) Agency Endowment Funds

In accordance with FASB ASC Topic 958, *Not-for-Profit Entities* (Topic 958), 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.

Topic 958 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 net assets without donor restrictions.

(n) New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*, (Topic 842), which requires lessees to recognize leases on balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a Right of Use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months.

The Foundation is a lessee in a non-cancellable building lease in the space it currently occupies. The Foundation adopted the ASU effective January 1, 2022, using a modified retrospective transition approach. As a result, the Foundation was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption. The adoption of this standard had no material effect on the Foundation's financial statements.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

(2) Liquidity and Availability

Financial assets available for grants and general expenditures within one year of the financial statements comprised the following as of December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 56,711,930	48,422,124
Liquid investments	578,844,135	753,969,287
Accounts and interest receivable	<u>946,203</u>	<u>801,349</u>
Total	<u>\$ 636,502,268</u>	<u>803,192,760</u>

The Foundation's core operations are funded primarily through asset-based administrative fees on the charitable funds under management, calculated as a percentage of fair value. The board of directors has established reserves designed to support operations during periods of market volatility, when administrative fees collected may fall short of budgeted expectations. Reserves were \$10,044,267 and \$11,544,021 as of December 31, 2022 and 2021, respectively, and are included in the amounts above and are invested in money market accounts, short-term investments and the Foundation's diversified investment pools.

Assets above include component funds subject to donor recommendations, which are available for grants and general expenditure by virtue of the variance power of the Foundation Board. As described in note 1, certain component funds, including undesignated, field of interest, and donor-designated funds are subject to a board-approved spending policy of 4.75% for 2022 and 2021. The spendable amount of \$26,074,868 and \$23,879,824 for the years ended December 31, 2022 and 2021, respectively, was made available for grantmaking from these component funds during the year.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to become available as needed for grants, general expenditures, liabilities, and other obligations. The Foundation invests cash in excess of daily requirements in money markets and other short-term investments.

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

(3) Investments

The fair value of investments as of December 31 is summarized as follows:

<u>Investment</u>	<u>2022</u>	<u>2021</u>
U.S. government obligations	\$ 17,696,183	15,223,988
U.S. Treasury	9,501,191	15,635,206
Government obligation mutual funds	88,925	92,128
Corporate bonds	19,831,634	23,150,835
Bond mutual funds	105,130,477	126,633,082
Equity mutual funds	400,756,046	512,284,219
Commingled securities	181,027,318	239,170,685
Common and preferred stock	39,231,439	74,976,034
Cash surrender value of life insurance	2,437,474	2,491,988
Equity hedge funds	40,296,840	42,772,831
Private equities	69,375,311	74,378,574
Other high-yield bonds	4,722,257	8,338,579
Private real assets	20,617,909	18,112,889
Other investments (mission related)	—	2,000,000
Total investments	<u>\$ 910,713,004</u>	<u>1,155,261,038</u>

Unrealized net (losses)/gains reported in the Foundation's combined statements of activities in 2022 and 2021 were (\$206,549,918) and \$33,655,396, respectively. Realized and unrealized net (losses)/gains on agency endowment funds were (\$17,456,391) and \$10,870,696 in 2022 and 2021, respectively (note 6).

Investment income for the years ended December 31, 2022 and 2021 consists of interest and dividends and is presented net of related expenses.

(4) Grants

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

	<u>2022</u>	<u>2021</u>
Total approved grants	\$ 89,839,565	65,352,558
Interfund grants	(11,790,797)	(5,159,514)
Returned or canceled grants	(337,408)	(816,835)
Adjustment to present value	(236,294)	(10,313)
	<u>\$ 77,475,066</u>	<u>59,365,896</u>

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

Grants payable at December 31, 2022 are scheduled for payment as follows:

<u>Year of payment</u>	<u>Amount</u>
2023	\$ 7,748,845
2024	1,817,077
2025	957,465
2026	527,180
Thereafter	<u>256,055</u>
	<u>\$ 11,306,622</u>

(5) Functional Classification of Expenses

Total expenses of the Foundation are classified by function as follows:

	<u>2022</u>			<u>Total</u>
	<u>Program services</u>	<u>Management and general</u>	<u>Development and donor services</u>	
Grants	\$ 77,475,066	—	—	77,475,066
Compensation and benefits	2,704,062	3,001,860	2,115,977	7,821,899
Professional services	1,810,085	750,603	190,661	2,751,349
Advertising and promotion	34,937	45,767	67,225	147,929
Office and insurance expense	30,890	142,228	102,375	275,493
Information technology	50,212	365,232	29,131	444,575
Occupancy	185,451	199,037	140,299	524,787
Conferences, meetings and travel	121,946	194,546	102,319	418,811
Depreciation	19,309	21,436	15,110	55,855
Community events				
sponsored by the Foundation	14,946	6,394	160,702	182,042
Dues and memberships	19,930	79,823	8,400	108,153
Miscellaneous	<u>160,943</u>	<u>112,140</u>	<u>26,735</u>	<u>299,818</u>
Total grants and expenses	<u>\$ 82,627,777</u>	<u>4,919,066</u>	<u>2,958,934</u>	<u>90,505,777</u>

GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2022 and 2021

2021				
	Program services	Management and general	Development and donor services	Total
Grants	\$ 59,365,896	—	—	59,365,896
Compensation and benefits	2,254,638	2,007,533	1,674,712	5,936,883
Professional services	1,814,780	576,279	104,382	2,495,441
Advertising and promotion	29,407	19,129	44,068	92,604
Office and insurance expense	39,329	122,353	67,191	228,873
Information technology	47,932	279,835	30,484	358,251
Occupancy	179,362	197,933	127,312	504,607
Conferences, meetings and travel	28,944	115,450	73,456	217,850
Depreciation	19,777	21,825	14,038	55,640
Community events sponsored by the Foundation	10,722	42	175,445	186,209
Dues and memberships	17,126	87,539	7,871	112,536
Miscellaneous	354,573	106,324	21,677	482,574
Total grants and expenses	\$ <u>64,162,486</u>	<u>3,534,242</u>	<u>2,340,636</u>	<u>70,037,364</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 on the basis of estimates of time and effort or direct charges to the function.

(6) Agency Endowment Funds

Agency endowment funds are assets received from nonprofit organizations that designate themselves as beneficiaries. Accordingly, agency endowment funds are reported as liabilities rather than as net assets without donor restrictions of the Foundation. The liability balances and activities related to agency endowment funds are summarized as follows:

	2022	2021
Liability for agency endowment funds, beginning of year	\$ 95,424,730	76,662,351
Receipts	11,237,290	13,294,906
Investment income, net	941,410	957,360
Realized and unrealized net gains on investments	(17,456,391)	10,870,696
Distributions	(4,440,903)	(5,744,468)
Administrative expense allocations	<u>(664,152)</u>	<u>(616,115)</u>
Liability for agency endowment funds, end of year	\$ <u>85,041,984</u>	<u>95,424,730</u>

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(7) 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, 2022 and 2021, the Foundation awarded discretionary grants over \$50,000 totaling \$1,285,850 and \$427,101, respectively, to related-party organizations. During the year ended December 31, 2020, the Foundation made a mission related investment of \$10,000,000 in a local project, which consisted of a \$10 million loan. The investment has been approved by the Foundation Investment Committee and the Board. A member of the Foundation's board who abstained from voting for the approval of this investment is also a private investor and board member of the project developer. The \$10 million loan is listed at its net present value as loan receivable in the Combined Statements of Financial Position.

(8) 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 2022 and 2021. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2022 and 2021. Participants are 100% vested in the employer and employee contributions after three years of service. The Foundation's expense related to this plan was \$497,878 and \$461,306 in 2022 and 2021, respectively.

(9) Commitments and Contingencies

The Foundation leases office space under an operating lease that expires on June 30, 2024. Future minimum lease payments due under this, not including utility adjustments, will be \$416,287 in 2023.

Total rent expense, including utility adjustments, was \$456,125 and \$486,119 in 2022 and 2021, respectively.

During 2020, the Foundation entered into two 20-year lease agreements with VPMLK P1 LLC to lease office and programmatic space. The lease will commence on the substantial completion date of the premises projected to occur on June 1, 2024, at which time the annual lease payments of \$924,253 will become due.

(10) Fair Value of Financial Instruments

FASB ASC Topic 820, *Fair Value Measurement* (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.

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- 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, 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, which have been determined to have a readily determinable fair value based on observable market quotation prices have been included in Level 1. 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 measured at NAV with a fair value of \$329,431,394 and \$396,799,763 as of December 31, 2022 and 2021, 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.

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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, 2022 and 2021:

	December 31, 2022				Redemption frequency	Days notice
	Level 1	Level 2	Level 3	Total		
Cash and cash equivalents	\$ 56,711,930	—	—	56,711,930	n/a	n/a
Traditional investments:						
U.S. government obligations	17,696,183	—	—	17,696,183	Daily	3 Days
U.S. Treasury	9,501,191	—	—	9,501,191	Daily	3 Days
Government obligation mutual funds	88,925	—	—	88,925	Daily	3 Days
Corporate bonds	19,831,634	—	—	19,831,634	Daily	3 Days
Bond mutual funds	92,142,891	—	—	92,142,891	Daily	3 Days
Commingled bond funds (a)	36,180,284	—	—	36,180,284	Daily	3 Days
Other high-yield bonds (e)	4,722,257	—	—	4,722,257	Daily	3 Days
Equity mutual funds	359,449,332	—	—	359,449,332	Daily	3 Days
Common and preferred stock	39,231,439	—	—	39,231,439	Daily	3 Days
Cash surrender value of life insurance	2,437,474	—	—	2,437,474	n/a	n/a
Subtotal traditional investments	\$ 581,281,610	—	—	581,281,610		
Investments measured at NAV:						
Bond mutual funds				12,987,586	Monthly	5 Days
Equity mutual funds				41,306,714	Monthly	5–10 Days
Commingled funds:					Quarterly, Annually	
					Redemption dates:	30 Days 6 Months
					03/31/2023; 06/30/23; 09/30/23; 12/31/23	
Commingled U.S. equities (b)				144,847,034		
Alternative investments:						
Long/short equity hedge funds (c)				40,296,840	Semiannually	45-90 Days
Private equity (d)				69,375,311	No liquidity	n/a
Private real assets (f)				20,617,909	No liquidity	n/a
Subtotal investments measured at NAV				329,431,394		
Total investments				910,713,004		
Beneficial interest in charitable trusts	—	—	5,678,634	5,678,634		
				\$ 973,103,568		

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	December 31, 2021			Total	Redemption frequency	Days notice
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$ 48,422,124	—	—	48,422,124	n/a	n/a
Traditional investments:						
U.S. government obligations	15,223,988	—	—	15,223,988	Daily	3 Days
U.S. Treasury	15,635,206	—	—	15,635,206	Daily	3 Days
Government obligation mutual funds	92,128	—	—	92,128	Daily	3 Days
Corporate bonds	23,150,835	—	—	23,150,835	Daily	3 Days
Bond mutual funds	106,675,692	—	—	106,675,692	Daily	3 Days
Commingled bond funds (a)	41,667,877	—	—	41,667,877	Daily	3 Days
Other high-yield bonds (e)	8,338,579	—	—	8,338,579	Daily	3 Days
Equity mutual funds	468,208,948	—	—	468,208,948	Daily	3 Days
Common and preferred stock	74,976,034	—	—	74,976,034	Daily	3 Days
Other Investments (mission related)	2,000,000	—	—	2,000,000	n/a	n/a
Cash surrender value of life insurance	2,491,988	—	—	2,491,988	n/a	n/a
Subtotal traditional investments	<u>\$ 758,461,275</u>	<u>—</u>	<u>—</u>	<u>758,461,275</u>		
Investments measured at NAV:						
Bond mutual funds				19,957,390	Monthly	5 Days
Equity mutual funds				44,075,271	Monthly	5–10 Days
Commingled funds:					Quarterly, Redemption dates: 12/31/22; 03/31/23; 06/30/23	45 Days 6 Months
Commingled U.S. equities (b)				197,502,808		
Alternative investments:						
Long/short equity hedge funds (c)				42,772,831	Semiannually	45-90 Days
Private equity (d)				74,378,574	No liquidity	n/a
Private real assets (f)				<u>18,112,889</u>	No liquidity	n/a
Subtotal investments measured at NAV				396,799,763		
Total investments				<u>1,155,261,038</u>		
Beneficial interest in charitable trusts	—	—	7,656,723	<u>7,656,723</u>		
				<u>\$ 1,211,339,885</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.

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- (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 invest in U.S. and non-U.S. equity securities, debt securities, options, other derivatives, or financial instruments, in both long and short positions.
- (d) This class includes investments in limited partnerships with a 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 \$23,277,326 and \$19,197,926 as of December 31, 2022 and 2021, respectively.
- (e) 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.
- (f) 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 \$8,608,026 and \$13,249,595 as of December 31, 2022 and 2021, respectively.

(11) Subsequent Events

Subsequent events have been evaluated through August 25, 2023, which is the date the combined financial statements were available to be issued. No other subsequent events were identified requiring recording or disclosure in the combined financial statements or related notes to the combined financial statements.