



**GREATER MILWAUKEE FOUNDATION**

Combined Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

# GREATER MILWAUKEE FOUNDATION

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## 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, 2021 and 2020, 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, 2021 and 2020, 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, 2022

**GREATER MILWAUKEE FOUNDATION**

Combined Statements of Financial Position

December 31, 2021 and 2020

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 48,422,124	41,557,298
Accounts receivable, prepaid expenses, and accrued investment income	1,240,688	857,624
Investments, at fair value	1,155,261,038	1,047,837,085
Loans receivable	12,286,692	191,437
Program-related investments	1,415,143	807,171
Beneficial interest in charitable trusts	7,656,723	6,987,652
Property, furniture, and equipment, net	212,190	247,114
Total assets	<u>\$ 1,226,494,598</u>	<u>1,098,485,381</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accrued expenses	\$ 5,110,858	1,236,079
Grants payable	20,581,738	23,115,605
Liability for pooled income funds	87,833	84,372
Agency endowment funds	95,424,730	76,662,351
Total liabilities	<u>121,205,159</u>	<u>101,098,407</u>
Net assets without donor restrictions:		
Undesignated funds	106,771,017	96,410,322
Field of interest funds	276,556,405	250,618,607
Donor-designated funds	285,895,338	258,782,483
Donor-advised funds	425,909,318	382,314,641
Total net assets without donor restrictions	1,095,132,078	988,126,053
Net assets with donor restrictions	<u>10,157,361</u>	<u>9,260,921</u>
Total net assets	<u>1,105,289,439</u>	<u>997,386,974</u>
Total liabilities and net assets	<u>\$ 1,226,494,598</u>	<u>1,098,485,381</u>

See accompanying notes to combined financial statements.

**GREATER MILWAUKEE FOUNDATION**

Combined Statements of Activities

Years ended December 31, 2021 and 2020

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and losses:						
Contributions	\$ 44,610,913	174,040	44,784,953	47,385,690	19,536	47,405,226
Investment income, net	18,040,542	59,698	18,100,240	13,446,460	188,873	13,635,333
Realized net gains on investments	80,071,435	7,230	80,078,665	38,334,380	1,792	38,336,172
Unrealized net gains on investments	33,646,555	8,841	33,655,396	81,393,658	6,532	81,400,190
Administrative fee on agency endowment funds	616,115	—	616,115	560,784	—	560,784
Change in actuarial valuation of split-interest agreements	—	704,460	704,460	—	238,997	238,997
Total revenue, gains, and losses	176,985,560	954,269	177,939,829	181,120,972	455,730	181,576,702
Grants and expenses:						
Grants approved for charitable purposes	59,365,896	—	59,365,896	61,218,607	—	61,218,607
Program-related expenses	4,796,590	—	4,796,590	4,219,459	—	4,219,459
Management general	3,534,242	—	3,534,242	3,416,391	—	3,416,391
Development and donor services	2,340,636	—	2,340,636	2,498,868	—	2,498,868
Total grants and expenses	70,037,364	—	70,037,364	71,353,325	—	71,353,325
Net assets released from restrictions	57,829	(57,829)	—	1,104,100	(1,104,100)	—
Increase (decrease) in net assets	107,006,025	896,440	107,902,465	110,871,747	(648,370)	110,223,377
Net assets, beginning of year	988,126,053	9,260,921	997,386,974	877,254,306	9,909,291	887,163,597
Net assets, end of year	\$ 1,095,132,078	10,157,361	1,105,289,439	988,126,053	9,260,921	997,386,974

See accompanying notes to combined financial statements.

**GREATER MILWAUKEE FOUNDATION**

Combined Statements of Cash Flows

Years ended December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Change in net assets	\$ 107,902,465	110,223,377
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	55,640	158,255
Realized net gains on investments	(80,078,665)	(38,336,172)
Unrealized net gains on investments	(33,655,396)	(81,400,190)
Change in actuarial valuation of split-interest agreements	(704,460)	(238,997)
Changes in assets and liabilities:		
Increase in accounts receivable, prepaid expenses, and accrued investment income	(383,064)	(245,019)
Increase in accrued expenses	3,874,779	179,439
Decrease in grants payable	(2,533,867)	(1,197,592)
Increase in agency endowment funds	7,891,683	1,307,288
Increase in loan loss reserve	156,000	—
Net change in other assets and liabilities	261	3,569
Net cash provided by (used in) operating activities	2,525,376	(9,546,042)
Cash flows from investing activities:		
Proceeds from sale of investments	395,347,457	342,746,137
Purchase of investments	(386,166,653)	(339,876,389)
Purchase of property, furniture, and equipment	(20,717)	(127,746)
Issuance of loans receivable and program-related investments	(4,890,116)	—
Proceeds from repayment of loans receivable and return of capital on program related investments	30,889	20,459
Net cash provided by investing activities	4,300,860	2,762,461
Cash flows from financing activities:		
Payments from charitable trusts	39,712	35,624
Payments to pooled income participants	(1,122)	(4,886)
Net cash provided by financing activities	38,590	30,738
Net increase (decrease) in cash and cash equivalents	6,864,826	(6,752,843)
Cash and cash equivalents at beginning of year	41,557,298	48,310,141
Cash and cash equivalents at end of year	\$ 48,422,124	41,557,298

See accompanying notes to combined financial statements.

## GREATER MILWAUKEE FOUNDATION

Notes to Combined Financial Statements

December 31, 2021 and 2020

### (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, 2021 and 2020

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, 2021 and 2020

#### **(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, 2021 and 2020.

#### **(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, 2021 and 2020. The loan principal balances will be repaid to the Foundation at a later date. The loan loss reserve was \$156,000 and zero as of December 31, 2021 and 2020.

#### **(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.

## GREATER MILWAUKEE FOUNDATION

### Notes to Combined Financial Statements

December 31, 2021 and 2020

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2021, 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.

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 2021 and 2020 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, 2021 and 2020

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 2021 and 2020.

### **(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 May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from contracts with Customers* (Topic 606), which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the not-for-profit industry. ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU provides entities the option of applying a full or modified retrospective approach upon adoption. The Foundation adopted this new standard for the year ending December 31, 2020. Adoption of this standard had no impact on the combined financial statements overall.

## GREATER MILWAUKEE FOUNDATION

### Notes to Combined Financial Statements

December 31, 2021 and 2020

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and requires lessees to recognize most leases on-balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. Leases will be classified as either finance or operating leases, which will impact the expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. In June 2020, the FASB issued *ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which deferred the effective date of this standard for the Foundation to annual periods in fiscal years beginning after December 15, 2021. The adoption of this ASU will be effective for the Foundation for the year ending December 31, 2022 and it mandates a modified transition method. The Foundation is currently evaluating the impact of this standard on the combined financial statements.

#### (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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 48,422,124	41,557,298
Liquid investments	753,969,287	717,279,020
Accounts and interest receivable	<u>801,349</u>	<u>409,569</u>
Total	<u>\$ 803,192,760</u>	<u>759,245,887</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 \$11,544,021 and \$9,992,538 as of December 31, 2021 and 2020, 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 2021 and 2020. The spendable amount of \$23,879,824 and \$22,726,216 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020

**(3) Investments**

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

<u>Investment</u>	<u>2021</u>	<u>2020</u>
U.S. government obligations	\$ 15,223,988	16,116,929
U.S. Treasury	15,635,206	13,493,149
Government obligation mutual funds	92,128	86,969
Corporate bonds	23,150,835	25,203,166
Bond mutual funds	126,633,082	136,206,239
Equity mutual funds	512,284,219	447,660,546
Commingled securities	239,170,685	195,585,861
Common and preferred stock	74,976,034	80,589,866
Cash surrender value of life insurance	2,491,988	2,894,086
Equity hedge funds	42,772,831	45,827,271
Private equities	74,378,574	43,781,152
Other high-yield bonds	8,338,579	17,949,660
Private real assets	18,112,889	12,442,191
Other investments (mission related)	2,000,000	10,000,000
	<u>\$ 1,155,261,038</u>	<u>1,047,837,085</u>

Unrealized net gains reported in the Foundation's combined statements of activities in 2021 and 2020 were \$33,655,396 and \$81,400,190, respectively. Realized and unrealized net gains on agency endowment funds were \$10,870,696 and \$9,688,996 in 2021 and 2020, respectively (note 6).

Investment income for the years ended December 31, 2021 and 2020 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>2021</u>	<u>2020</u>
Total approved grants	\$ 65,352,558	76,088,442
Interfund grants	(5,159,514)	(14,535,168)
Returned or canceled grants	(816,835)	(592,341)
Adjustment to present value	(10,313)	257,674
	<u>\$ 59,365,896</u>	<u>61,218,607</u>

**GREATER MILWAUKEE FOUNDATION**

Notes to Combined Financial Statements

December 31, 2021 and 2020

Grants payable at December 31, 2021 are scheduled for payment as follows:

<u>Year of payment</u>	<u>Amount</u>
2022	\$ 15,089,106
2023	2,641,053
2024	1,253,829
2025	493,500
Thereafter	<u>1,104,250</u>
	<u>\$ 20,581,738</u>

**(5) Functional Classification of Expenses**

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

	<u>2021</u>				<u>Total</u>
	<u>Program services</u>		<u>Management and general</u>	<u>Development and donor services</u>	
	<u>Grants</u>	<u>Other</u>			
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>\$ 59,365,896</u>	<u>4,796,590</u>	<u>3,534,242</u>	<u>2,340,636</u>	<u>70,037,364</u>

**GREATER MILWAUKEE FOUNDATION**

Notes to Combined Financial Statements

December 31, 2021 and 2020

	<b>2020</b>				<b>Total</b>
	<b>Program services</b>		<b>Management and general</b>	<b>Development and donor services</b>	
	<b>Grants</b>	<b>Other</b>			
Grants	\$ 61,218,607	—	—	—	61,218,607
Compensation and benefits	—	2,529,717	2,248,578	1,852,445	6,630,740
Professional services	—	1,160,945	294,343	103,789	1,559,077
Advertising and promotion	—	43,211	26,957	43,848	114,016
Office and insurance expense	—	36,277	139,013	74,289	249,579
Information technology	—	39,947	229,629	27,899	297,475
Occupancy	—	188,991	165,651	134,586	489,228
Conferences, meetings and travel	—	46,755	83,751	96,141	226,647
Depreciation	—	61,151	53,599	43,505	158,255
Community events sponsored by the Foundation	—	4,139	17,753	82,118	104,010
Dues and memberships	—	10,308	110,502	8,885	129,695
Miscellaneous	—	98,018	46,615	31,363	175,996
<b>Total grants and expenses</b>	<b>\$ 61,218,607</b>	<b>4,219,459</b>	<b>3,416,391</b>	<b>2,498,868</b>	<b>71,353,325</b>

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:

	<b>2021</b>	<b>2020</b>
Liability for agency endowment funds, beginning of year	\$ 76,662,351	65,666,067
Receipts	13,294,906	5,848,425
Investment income, net	957,360	669,560
Realized and unrealized net gains on investments	10,870,696	9,688,996
Distributions	(5,744,468)	(4,649,913)
Administrative expense allocations	(616,115)	(560,784)
Liability for agency endowment funds, end of year	<b>\$ 95,424,730</b>	<b>76,662,351</b>



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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, 2021 and 2020, the Foundation awarded discretionary grants over \$50,000 totaling \$427,101 and \$978,000, 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 an \$8,000,000 loan and \$2,000,000 equity investment. 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.

#### (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 2021 and 2020. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2021 and 2020. Participants are 100% vested in the employer and employee contributions after three years of service. The Foundation's expense related to this plan was \$461,306 and \$404,580 in 2021 and 2020, 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 \$408,175 in 2022.

Total rent expense, including utility adjustments, was \$486,119 and \$466,884 in 2021 and 2020, respectively.

During 2020, the Foundation entered into two 17-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 October 1, 2023, 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 \$396,799,763 and \$317,663,979 as of December 31, 2021 and 2020, 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, 2021 and 2020:

	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	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	\$ 758,461,275	—	—	758,461,275		
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: 12/31/2022; 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)				18,112,889	No liquidity	n/a
Subtotal investments measured at NAV				396,799,763		
Total investments				1,155,261,038		
Beneficial interest in charitable trusts	—	—	7,656,723	7,656,723		
				\$ 1,211,339,885		

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	December 31, 2020			Total	Redemption frequency	Days notice
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$ 41,557,298	—	—	41,557,298	n/a	n/a
Traditional investments:						
U.S. government obligations	16,116,929	—	—	16,116,929	Daily	3 Days
U.S. Treasury	13,493,149	—	—	13,493,149	Daily	3 Days
Government obligation mutual funds	86,969	—	—	86,969	Daily	3 Days
Corporate bonds	25,203,166	—	—	25,203,166	Daily	3 Days
Bond mutual funds	114,470,860	—	—	114,470,860	Daily	3 Days
Commingled bond funds	41,229,367	—	—	41,229,367	Daily	3 Days
Other high-yield bonds (e)	17,949,660	—	—	17,949,660	Daily	3 Days
Equity mutual funds	408,139,054	—	—	408,139,054	Daily	3 Days
Common and preferred stock	80,589,866	—	—	80,589,866	Daily	3 Days
Other Investments (mission related)	10,000,000	—	—	10,000,000	n/a	n/a
Cash surrender value of life insurance	2,894,086	—	—	2,894,086	n/a	n/a
Subtotal traditional investments	<u>\$ 730,173,106</u>	<u>—</u>	<u>—</u>	<u>730,173,106</u>		
Investments measured at NAV:						
Bond mutual funds				21,735,379	Monthly	5 Days
Equity mutual funds				39,521,492	Monthly	5–10 Days
Commingled funds:						
Commingled bond funds (a)				13,870,466	Monthly Quarterly, Redemption dates:	1–10 Days 45 Days
Commingled U.S. equities (b)				140,486,028	12/31/2022; 06/30/23	6 Months
Alternative investments:						
Long/short equity hedge funds (c)				45,827,271	Semiannually	45-90 Days
Private equity (d)				43,781,152	No liquidity	n/a
Private real assets (f)				12,442,191	No liquidity	n/a
Subtotal investments measured at NAV				<u>317,663,979</u>		
Total investments				1,047,837,085		
Beneficial interest in charitable trusts	—	—	6,987,652	<u>6,987,652</u>		
				<u>\$ 1,096,382,035</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 invest in U.S. and non-U.S. equity securities, debt securities, options, other derivatives, or financial instruments, in both long and short positions.

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- (d) 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 \$19,197,926 and \$18,535,980 as of December 31, 2021 and 2020, 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 \$13,249,595 and \$13,476,468 as of December 31, 2021 and 2020, respectively.

#### **(11) Subsequent Events**

Subsequent events have been evaluated through August 25, 2022, 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.