GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

GREATER MILWAUKEE FOUNDATION

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

Independent Auditors' Report

Greater Milwaukee Foundation Board of Directors:

We have audited the accompanying combined financial statements of Greater Milwaukee Foundation, which comprise the combined statements of financial position as of December 31, 2018 and 2017, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Greater Milwaukee Foundation as of December 31, 2018 and 2017, and the changes in its combined net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(o) to the combined financial statements, in 2018, Greater Milwaukee Foundation adopted new accounting guidance in Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). Our opinion is not modified with respect to this matter.

KPMG LLP

Milwaukee, Wisconsin
August 27, 2019

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2018 and 2017

Assets		2018	2017
Cash and cash equivalents	$	31,708,886	40,994,929
Accounts receivable, prepaid expenses, and accrued investment income		513,760	458,471
Investments, at fair value		782,308,308	829,691,805
Loans receivable		220,974	447,646
Program-related investments		870,712	—
Interest in net assets of unconsolidated foundation		4,021,762	40,891,050
Beneficial interest in charitable trusts		3,758,931	4,304,825
Property, furniture, and equipment, net		287,682	230,621
Total assets	$	823,691,015	917,019,347
Liabilities and Net Assets			
Liabilities:			
Accrued expenses	$	838,496	859,491
Grants payable		19,504,966	26,590,832
Liability for pooled income funds		61,826	66,588
Agency endowment funds		47,536,950	50,689,890
Total liabilities		67,942,238	78,206,801
Net assets without donor restrictions:			
Undesignated funds		81,806,086	91,464,059
Field of interest funds		179,421,916	199,238,933
Donor-designated funds		189,623,582	199,031,590
Donor-advised funds		294,087,719	300,896,825
Total net assets without donor restrictions		744,939,303	790,631,407
Net assets with donor restrictions		10,809,474	48,181,139
Total net assets		755,748,777	838,812,546
Total liabilities and net assets	$	823,691,015	917,019,347

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2018 and 2017

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and losses:						
Contributions	$ 44,862,320	19,691	44,882,011	40,566,729	30,135	40,596,864
Interest and dividend income	13,184,653	37,353	13,222,006	10,963,200	80,098	11,043,298
Realized net gains on investments	38,548,273	16,898	38,565,171	22,754,718	14,806	22,769,524
Unrealized net (losses) gains on investments	(91,307,448)	(21,505)	(91,328,953)	84,575,256	(3,046)	84,572,210
Administrative fee on agency endowment funds	449,529	—	449,529	371,325	—	371,325
Change in interest in net assets of unconsolidated foundation	—	363,777	363,777	—	1,627,790	1,627,790
Change in actuarial valuation of split-interest agreements	—	(408,317)	(408,317)	—	684,444	684,444
Total revenue, gains, and losses	5,737,327	7,897	5,745,224	159,231,228	2,434,227	161,665,455
Grants and expenses:						
Grants approved for charitable purposes	77,814,605	—	77,814,605	93,151,899	—	93,151,899
Program-related expenses	2,433,059	—	2,433,059	2,445,978	—	2,445,978
Supporting services:						
Custodial and investment management fees	1,639,181	—	1,639,181	1,555,282	—	1,555,282
Administrative expenses, net	6,922,148	—	6,922,148	6,628,351	—	6,628,351
Total grants and expenses	88,808,993	—	88,808,993	103,781,510	—	103,781,510
Net assets released from restrictions	37,379,562	(37,379,562)	—	46,217,955	(46,217,955)	—
(Decrease) increase in net assets	(45,692,104)	(37,371,665)	(83,063,769)	101,667,673	(43,783,728)	57,883,945
Net assets, beginning of year	790,631,407	48,181,139	838,812,546	688,963,734	91,964,867	780,928,601
Net assets, end of year	$ 744,939,303	10,809,474	755,748,777	790,631,407	48,181,139	838,812,546

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (83,063,769)	57,883,945
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	109,497	100,959
Realized net gains on investments	(38,565,171)	(22,769,524)
Unrealized net losses (gains) on investments	91,328,953	(84,572,210)
Change in actuarial valuation of split-interest agreements	408,317	(684,444)
Changes in assets and liabilities:		
Increase in accounts receivable, prepaid expenses, and accrued investment income	(55,289)	(3,347)
Decrease in net assets of unconsolidated foundation	36,869,288	43,531,697
Decrease in accrued expenses	(20,995)	(193,074)
(Decrease) increase in grants payable	(7,085,866)	6,260,417
(Decrease) increase in agency endowment funds	(3,152,940)	9,907,018
Net change in other assets and liabilities	(480)	28,391
Net cash (used in) provided by operating activities	(3,228,455)	9,489,828
Cash flows from investing activities:		
Proceeds from sale of investments	200,449,756	171,612,430
Purchase of investments	(205,830,041)	(197,002,578)
Purchase of property, furniture, and equipment	(166,558)	(46,959)
Issuance of loans receivable and program-related investments	(658,212)	(212,500)
Proceeds from repayment of loans receivable	14,172	24,645
Net cash used in investing activities	(6,190,883)	(25,624,962)
Cash flows from financing activities:		
Payments from charitable trusts	134,934	683,532
Payments from pooled income funds	—	(26,492)
Payments to pooled income participants	(1,639)	(2,930)
Net cash provided by financing activities	133,295	654,110
Net decrease in cash and cash equivalents	(9,286,043)	(15,481,024)
Cash and cash equivalents at beginning of year	40,994,929	56,475,953
Cash and cash equivalents at end of year	$ 31,708,886	40,994,929

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

- Greater Cedarburg Foundation, Inc.
- Greater Milwaukee Foundation Holdings, Inc.
- Hepburn “Bootstrap” Foundation, Inc.
- Honkamp Family Foundation
- 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 recorded 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.

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

(d) Investment Securities

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

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

(e) Loans Receivable

Loans receivable are valued at the outstanding principal amount, which is the original cost less payments received. Should a loan receivable be determined to be doubtful of collection, it would be written down, by way of a charge to expense, to the amount expected to be collected. The allowance for doubtful accounts was zero as of December 31, 2018 and 2017.

(f) Program Related Investments

The Foundation has program related investments in local entities. These investments consist of loans that bear 2% interest at December 31, 2018. The loan principal balances will be repaid to the Foundation at a later date.

(g) Interest in Net Assets of Unconsolidated Foundation

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

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

(h) Beneficial Interest in Charitable Trusts

The Foundation's split-interest agreements with donors consist of charitable lead trusts, charitable remainder trusts, pooled life income funds, and a retained life estate for which the Foundation is either the remainder beneficiary or both the fiscal agent and remainder beneficiary. These agreements are recognized for financial reporting purposes if the Foundation receives documentation of the terms of its beneficial interest and the designation of the Foundation as beneficiary is irrevocable. Agreements known to the Foundation that do not meet both conditions are not recorded in the Foundation's combined financial statements. Assets related to split-interest agreements are recorded at fair value.

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2018, the Foundation was aware of numerous deferred gifts that are either revocable or include provisions allowing the principal to be invaded by income beneficiaries. The amount of future contribution revenue related to these gifts will not be recorded in the Foundation's combined financial statements until the gift becomes irrevocable and the probable amount is known.

The contributions receivable and investments related to the agreements recorded by the Foundation are 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.

(i) 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.

(j) Contributions

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

(k) Grants Payable

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

(l) Charitable Distributions

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

The Foundation utilizes a total return spending policy that allows for a long-term investment approach in order to achieve an expected return greater than the total of the spending rate and inflation rate, which will maintain the purchasing power of the corpus. The Foundation utilized a 4.75% spending rate in 2018 and 2017 based on a 20-quarter trailing average investment balance determined on a market value basis in order to allocate investment income from component funds for grant purposes. If the traditional yield (interest and dividend income) is not sufficient to support the spending rate, income derived from the accumulated realized gains of the component funds is used. If the traditional yield exceeds the spending rate, the excess income remains invested in the component funds.

(m) 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.

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

(n) Agency Endowment Funds

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

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

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

(o) New Accounting Pronouncements

The Foundation adopted ASC 958, *Not-for-Profit Entities*, effective January 1, 2018 with retroactive application. ASC 958 changed the way a not-for-profit entity classifies and presents net assets on the face of the financial statements and presents information in the financial statements and notes about the entity's liquidity, financial performance, and cash flows. The amendment changed the way the Foundation reports classes of net assets, from the previously required classes, where net assets without donor restrictions of $790,631,407 as of December 31, 2017 were previously reported as unrestricted net assets and net assets with donor restrictions of $48,181,139 as of December 31, 2017 were previously reported as temporarily restricted net assets. The standard also requires additional disclosure related to liquidity which is included in footnote 2.

In May 2014, the FASB issued Accounting Standards Update (ASU) 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 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 adoption of the new standard will be effective for the Foundation for the year ending December 31, 2019. The Foundation estimates that the impact of this standard will be immaterial to the combined financial statements.

In February 2016, the FASB issued ASU 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. The adoption of this ASU will be effective for the Foundation for the year ending December 31, 2020 and mandates a modified transition method. The Foundation estimates that the impact of this standard will be immaterial to the combined financial statements overall.

(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:

		2018
Cash and cash equivalents	$	31,708,886
Liquid investments		563,378,657
Accounts and interest receivable		432,415
Total	$	595,519,958

The Foundation’s core operations are funded primarily through asset-based administrative fees on the charitable funds under management, calculated as a percentage of market 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 of $9,587,915 at December 31, 2018 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 as of December 31, 2018 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%. The spendable amount of $20,960,283 for the year ended December 31, 2018 was made available for grant making 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.

(3) Investments

The fair value of investments as of December 31, 2018 and 2017 is summarized as follows:

Investment		2018	2017
U.S. government obligations	$	11,732,854	14,344,176
U.S. Treasury		9,660,594	8,723,758
Government obligation mutual funds		79,638	72,414
Corporate bonds		18,425,042	14,658,418
Other asset-backed securities		3,076,304	3,571,833
Bond mutual funds		143,459,997	127,460,227
Equity mutual funds		317,084,793	367,929,886
Commingled securities		125,395,074	132,770,922
Common and preferred stock		62,577,463	76,806,051
Cash surrender value of life insurance		2,959,277	2,922,998
Equity hedge funds		28,753,314	29,288,909
Private equities		25,946,244	21,223,964
Other high-yield bonds		24,824,647	25,499,898
Private real assets		8,333,067	4,418,351
Total investments	$	782,308,308	829,691,805

Unrealized net gains (losses) reported in the Foundation's combined statements of activities in 2018 and 2017 were $(91,328,953) and $84,572,210, respectively. Realized and unrealized net gains (losses) on agency endowment funds were $(2,603,566) and $6,665,117 in 2018 and 2017, respectively (note 5).

(4) Grants

Grants approved for charitable purposes and, therefore, recognized in the combined statements of activities during 2018 and 2017 are as follows:

		2018	2017
Total approved grants	$	85,191,594	103,781,933
Interfund grants		(6,990,523)	(9,893,339)
Returned or canceled grants		(506,551)	(493,542)
Adjustment to present value		120,085	(243,153)
	$	77,814,605	93,151,899

(Continued)

Grants payable at December 31, 2018 are scheduled for payment as follows:

Year of payment	Amount
2019	$ 14,451,678
2020	2,814,744
2021	1,086,021
2022	714,557
Thereafter	437,966
	$ 19,504,966

(5) Functional Classification of Expenses

Total expenses of the Foundation during 2018 and 2017 are classified by function as follows:

	2018			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 77,814,605	—	—	77,814,605
Program-related expenses	2,355,261	7,199	70,599	2,433,059
Custodial and investment management fees	—	1,638,532	649	1,639,181
Administrative expenses	2,136,856	3,000,291	1,785,001	6,922,148
Total approved distributions and expenses	$ 82,306,722	4,646,022	1,856,249	88,808,993

	2017			
	Grants and program services	Management and general	Development and donor services	Total
Grants	$ 93,151,899	—	—	93,151,899
Program-related expenses	2,385,776	16,430	43,772	2,445,978
Custodial and investment management fees	—	1,554,859	423	1,555,282
Administrative expenses	2,202,596	2,654,038	1,771,717	6,628,351
Total approved distributions and expenses	$ 97,740,271	4,225,327	1,815,912	103,781,510

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. Administrative expenses in 2018 and 2017 are summarized as follows:

		2018	2017
Administrative expenses:			
Personnel	$	4,649,824	4,406,345
Occupancy		452,423	447,919
Office furniture and equipment		109,497	100,959
Other expenses		1,722,751	1,689,475
		6,934,495	6,644,698
Less reimbursement for services and fees provided to other organizations		(12,347)	(16,347)
Administrative expenses, net	$	6,922,148	6,628,351

(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:

		2018	2017
Liability for agency endowment funds, beginning of year	$	50,689,890	40,782,872
Change in commitments outstanding for distribution		(100,000)	(109,550)
Receipts		2,226,466	5,542,392
Investment income		522,159	431,990
Realized and unrealized net gains on investments		(2,603,566)	6,665,117
Distributions		(2,599,611)	(2,121,966)
Custodial and investment management fees		(148,859)	(129,640)
Administrative expense allocations		(449,529)	(371,325)
Liability for agency endowment funds, end of year	$	47,536,950	50,689,890

(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, 2018 and 2017, the Foundation awarded discretionary grants over $50,000 totaling $576,500 and $1,030,000, respectively, to related-party organizations.

(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 2018 and 2017. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2018. Participants are 100% vested in the employer and employee contributions after five years of service. The Foundation's expense related to this plan was $286,509 and $275,762 in 2018 and 2017, respectively.

(9) Commitment and Contingency

The Foundation leases office space under an operating lease that expires on June 30, 2020. Future minimum lease payments due under this, not including utility adjustments, are as follows:

Year:		
2019	$	393,254
2020		198,392
	$	591,646

Total rent expense, including utility adjustments, was $401,225 and $394,488 in 2018 and 2017, respectively.

(10) Fair Value of Financial Instruments

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

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

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

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

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

Investments: The fair values of investments are based on valuations provided by external investment managers and the custodian financial institutions. Valuations of investments in Level 1, which include U.S. government obligations, U.S. Treasury, government obligation mutual funds, corporate bonds, other asset-backed securities, certain bond and equity mutual funds, 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 $218,929,651 and $231,444,865 as of December 31, 2018 and 2017, respectively, were estimated using the NAV per share provided by external investment managers. Changes in market conditions and the economic environment may impact the NAV of the funds and, consequently, the fair value of the Foundation’s interest in the funds.

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

The primary investment objectives for the other equity securities are to achieve a higher-than-average rate of return relative to the level of risk assumed, by pursuing trading strategies that are based primarily upon convertible hedging (based on equities, bonds, and related derivative instruments); directional, relative value, and event-driven hedging; long/short debt and equity trading; and among others, risk arbitrage.

The following tables present the balance of assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	December 31, 2018				Redemption	Days
	Level 1	Level 2	Level 3	Total	frequency	notice
Cash and cash equivalents	$ 31,708,886	—	—	31,708,886	n/a	n/a
Traditional investments:						
U.S. government obligations	11,732,854	—	—	11,732,854	Daily	3 Days
U.S. Treasury	9,660,594	—	—	9,660,594	Daily	3 Days
Government obligation mutual funds	79,638	—	—	79,638	Daily	3 Days
Corporate bonds	18,425,042	—	—	18,425,042	Daily	3 Days
Other asset-backed securities	3,076,304	—	—	3,076,304	Daily	3 Days
Bond mutual funds	127,992,791	—	—	127,992,791	Daily	1–10 Days
Commingled bond funds	31,988,828	—	—	31,988,828	Daily	1–10 Days
Other high-yield bonds (e)	11,271,358	—	—	11,271,358	Daily	3 Days
Equity mutual funds	283,614,508	—	—	283,614,508	Daily, monthly	1–30 Days
Common and preferred stock	62,577,463	—	—	62,577,463	Daily	3 Days
Cash surrender value of life insurance	2,959,277	—	—	2,959,277	n/a	n/a
Subtotal traditional investments	$ 563,378,657	—	—	563,378,657		
Investments measured at NAV:						
Bond mutual funds				15,467,206	Daily, monthly	1–10 Days
Equity mutual funds				33,470,285	Daily, monthly	1–30 Days
Commingled funds:						
Commingled bond funds (a)				12,135,622	Monthly	1–10 Days
Commingled U.S. equities (b)				81,270,624	Quarterly, Redemption dates: 12/31/2019	60 Days 6 Months
Alternative investments:						
Long/short equity hedge funds (c)				28,753,314	Quarterly, Semiannually Redemption dates: 12/31/2019	45–95 Days
Private equity (d)				25,946,244	No liquidity	n/a
Other high-yield bonds (e)				13,553,289	Monthly	45 Days
Private real assets (f)				8,333,067	No liquidity	n/a
Subtotal investments measured at NAV				218,929,651		
Total investments				782,308,308		
Interest in net assets of unconsolidated foundation	$ —	—	4,021,762	4,021,762		
Beneficial interest in charitable trusts	—	—	3,758,931	3,758,931		
Total assets				$ 821,797,887		

	December 31, 2017 Level 1	Level 2	Level 3	Total	Redemption frequency	Days notice
Cash and cash equivalents	$ 40,994,929	—	—	40,994,929	n/a	n/a
Traditional investments:						
U.S. government obligations	14,344,176	—	—	14,344,176	Daily	3 Days
U.S. Treasury	8,723,758	—	—	8,723,758	Daily	3 Days
Government obligation mutual funds	72,414	—	—	72,414	Daily	3 Days
Corporate bonds	14,658,418	—	—	14,658,418	Daily	3 Days
Other asset-backed securities	3,571,833	—	—	3,571,833	Daily	3 Days
Bond mutual funds	111,825,828	—	—	111,825,828	Daily	1–10 Days
Commingled bond funds	30,744,609	—	—	30,744,609	Daily	1–10 Days
Other high-yield bonds (e)	11,821,227	—	—	11,821,227	Daily	3 Days
Equity mutual funds	322,755,628	—	—	322,755,628	Daily, Monthly	1–30 Days
Common and preferred stock	76,806,051	—	—	76,806,051	Daily	3 Days
Cash surrender value of life insurance	2,922,998	—	—	2,922,998	n/a	n/a
Subtotal traditional investments	$ 598,246,940	—	—	598,246,940		
Investments measured at NAV:						
Bond mutual funds				15,634,399	Monthly	1–10 Days
Equity mutual funds				45,174,258	Monthly	1–30 Days
Commingled funds:						
Commingled bond funds (a)				13,989,455	Monthly	1–10 Days
					Redemption on or after: 06/30/18, 12/31/18	60 Days–6 Months
Commingled U.S. equities (b)				88,036,858	12/31/19	
Alternative investments:						
Long/short equity hedge funds (c)				29,288,909	Quarterly, Semiannually	45–95 Days
Private equity (d)				21,223,964	No liquidity	n/a
Other high-yield bonds (e)				13,678,671	Monthly	45 Days
Private real assets (f)				4,418,351	No liquidity	n/a
Subtotal investments measured at NAV				231,444,865		
Total investments				829,691,805		
Interest in net assets of unconsolidated foundation	$ —	—	40,891,050	40,891,050		
Beneficial interest in charitable trusts	—	—	4,304,825	4,304,825		
Total assets				$ 915,882,609		

(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.

(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 $7,957,753 and $10,283,160 as of December 31, 2018 and 2017, 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 $9,473,405 and $9,759,432 as of December 31, 2018 and 2017, respectively.

(11) Subsequent Events

Subsequent events have been evaluated through August 27, 2019 which is the date the combined financial statements were available to be issued, noting no subsequent events requiring recording or disclosure in the combined financial statements or related notes to combined financial statements.