

# The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the  
Years Ended December 31, 2015 and 2014,  
and Independent Auditors' Report

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
The Kresge Foundation  
Troy, Michigan

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

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

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

*Deloitte + Touche LLP*

June 16, 2016

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
CASH	\$ 668,551	\$ 654,056
INVESTMENTS—At fair market value	3,634,869,619	3,614,075,082
PROGRAM-RELATED INVESTMENTS—Net of allowance of \$1,949,752 and \$1,774,134, respectively	36,826,568	32,875,219
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	17,232,330	16,944,878
ACCRUED INTEREST AND DIVIDENDS	1,898,284	1,711,348
PROPERTY AND EQUIPMENT—Net of accumulated depreciation of \$7,780,741 and \$7,302,403, respectively	21,388,605	13,720,139
OTHER	<u>5,075,812</u>	<u>3,528,040</u>
<b>TOTAL</b>	<b><u>\$3,717,959,769</u></b>	<b><u>\$3,683,508,762</u></b>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
<b>LIABILITIES:</b>		
Grants payable—net of discount of \$64,764 and \$60,309, respectively	\$ 87,617,173	\$ 86,770,702
Accounts payable and other liabilities	5,627,666	4,993,218
Other postemployment benefit liability	12,046,717	16,786,451
Borrowings under revolving line of credit	38,358,876	-
Payable under securities lending agreement	17,232,330	16,944,878
Deferred federal excise taxes	<u>13,535,642</u>	<u>13,388,406</u>
Total liabilities	174,418,404	138,883,655
<b>UNRESTRICTED NET ASSETS</b>	<b><u>3,543,541,365</u></b>	<b><u>3,544,625,107</u></b>
<b>TOTAL</b>	<b><u>\$3,717,959,769</u></b>	<b><u>\$3,683,508,762</u></b>

See notes to financial statements.

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>INVESTMENT INCOME AND LOSS:</b>		
Interest, dividends, and other income	\$ 19,597,648	\$ 13,201,812
Net realized and unrealized gains on investments	149,677,179	285,323,856
Investment management fees	(2,822,108)	(2,582,322)
Federal excise tax expense and other	<u>(3,254,672)</u>	<u>(5,500,732)</u>
Net investment income	<u>163,198,047</u>	<u>290,442,614</u>
<b>EXPENSES:</b>		
Grants approved—net of change in discount of \$4,455 and \$(66,219), respectively	138,644,452	153,799,873
Administrative expenses	<u>32,251,030</u>	<u>27,415,081</u>
Total expenses	<u>170,895,482</u>	<u>181,214,954</u>
<b>OTHER POSTEMPLOYMENT ADJUSTMENTS</b>	<u>6,613,693</u>	<u>(5,003,966)</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	(1,083,742)	104,223,694
<b>UNRESTRICTED NET ASSETS:</b>		
Beginning of year	<u>3,544,625,107</u>	<u>3,440,401,413</u>
End of year	<u><u>\$3,543,541,365</u></u>	<u><u>\$3,544,625,107</u></u>

See notes to financial statements.

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in unrestricted net assets	\$ (1,083,742)	\$ 104,223,694
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	1,022,129	836,936
Loss on disposals of property and equipment	6,929	10,667
Increase in program-related investments provision	175,618	79,425
Change in value of grants payable	(4,455)	66,219
Net realized and unrealized gains on investments	(149,677,179)	(285,323,856)
Increase in accrued interest and dividends	(186,936)	(590,898)
Increase in other assets	(1,547,772)	(257,739)
Increase in approved grants pending payment	850,926	13,916,972
Increase in accounts payable and other liabilities	634,448	268,510
(Decrease) increase in other postemployment benefit liability	(4,739,734)	5,917,370
Increase (decrease) in deferred federal excise taxes	147,236	(1,234,048)
	<u>(154,402,532)</u>	<u>(162,086,748)</u>
Net cash used in operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	1,277,021,098	1,252,159,362
Purchases of investments	(1,148,138,456)	(1,085,905,064)
Returns of principal for program-related investments	3,503,157	2,936,644
Disbursements for program-related investments	(7,630,124)	(4,877,482)
Purchases of property and equipment	(8,697,524)	(2,645,842)
	<u>116,058,151</u>	<u>161,667,618</u>
Net cash provided by investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	49,208,476	-
Repayments of line of credit	(10,849,600)	-
	<u>38,358,876</u>	<u>-</u>
Net cash provided by financing activities		
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>14,495</b>	<b>(419,130)</b>
<b>CASH:</b>		
Beginning of year	<u>654,056</u>	<u>1,073,186</u>
End of year	<u>\$ 668,551</u>	<u>\$ 654,056</u>

See notes to financial statements.

# THE KRESGE FOUNDATION

(A Michigan Trustee Corporation)

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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### 1. ORGANIZATION AND NATURE OF OPERATIONS

The Kresge Foundation (the “Foundation”) is a tax-exempt private foundation that works to expand opportunities in America’s cities through grantmaking and investing in arts and culture, education, environment, health, human services, and community development. The Foundation was established in June 1924 as a Michigan trustee corporation. Its office is in Troy, Michigan.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Financial Presentation**—The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Program-Related Investments (PRIs)**—In accordance with Section 4944 of the Internal Revenue Code (the “Code”), the Foundation is permitted to make investments that further some aspect of its charitable mission. In 2008, the Foundation began making PRIs. These investments are anticipated to have lower-than-market returns on a risk-adjusted basis. Like grants, these investments count toward the Foundation’s payout requirement in the year of distribution. Return of PRI principal affects the annual payout requirement in a similar manner as a grant refund.

**Property and Equipment**—Property and equipment represents primarily land and buildings. Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 45 years. The associated depreciation was \$1,022,129 and \$836,936 as of December 31, 2015 and 2014, respectively. The Foundation annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

On September 18, 2013, the Board of Trustees approved the expansion of its Troy headquarters. At December 31, 2015 and 2014, the Foundation had \$342,000 and \$5,741,000, respectively, of commitments outstanding related to the planned construction of the building expansion.



Property and equipment as of December 31, 2015 and 2014, consists of the following:

	<b>2015</b>	<b>2014</b>
Building and improvements	\$23,394,706	\$ 14,226,520
Furniture and fixtures	1,988,241	1,260,936
Computer and office equipment	<u>3,035,483</u>	<u>2,206,309</u>
	28,418,430	17,693,765
Less accumulated depreciation and amortization	<u>(7,780,741)</u>	<u>(7,302,404)</u>
Subtotal depreciable assets—net	<u>20,637,689</u>	<u>10,391,361</u>
Land	500,000	500,000
Art	124,466	92,671
Construction in progress	<u>126,450</u>	<u>2,736,107</u>
Subtotal nondepreciable assets	<u>750,916</u>	<u>3,328,778</u>
Total property and equipment—net	<u>\$21,388,605</u>	<u>\$ 13,720,139</u>

**Grant Expenditures**—Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee substantially meets the terms of the conditions. The Foundation had approximately \$95,300,000 and \$106,700,000 in conditional grants as of December 31, 2015 and 2014, respectively. At December 31, 2015, conditional grants included \$90,000,000 to the Foundation for Detroit’s Future (FDF), payable in equal installments over an 18 year-period, subject to any terms and conditions of the Foundation FDF Agreement.

**Line of Credit**—The Foundation has an unsecured line of credit totaling \$100,000,000 as of December 31, 2015 and December 31, 2014. The line of credit has been recorded at carrying value, which approximates fair value. The credit line has a three-month LIBOR effective rate of 1.06% and 0.71% and contains a commitment fee on the unused available balance of 0.17% and 0.13% as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the outstanding borrowings were \$38,358,876 and \$0, respectively. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination date August 31, 2016. Interest and related fees payable at year-end are included in accounts payable and other liabilities. The Foundation is in compliance with financial covenants on the line of credit as of December 31, 2015 and 2014.

**Tax Status**—The Foundation is an organization exempt from federal income taxation under Section 501(c)(3) and is a private foundation as described in Section 509(a) of the Code. The Foundation is subject to federal excise taxes. It is also subject to federal and state income tax on its unrelated business taxable income. Management believes it is no longer subject to federal tax examinations for years prior to December 31, 2012. The Foundation evaluates uncertain tax positions for more-likely than-not sustainability. The Foundation has concluded that as of December 31, 2015 and 2014, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

**Use of Estimates**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Investment Risks**—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying financial statements.

**Adoption of Accounting Pronouncements**—In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*. The new guidance removes, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. The guidance is effective for the Foundation beginning after December 15, 2016, with retrospective application required for all comparative periods presented. At this time, the Foundation is evaluating the implications of ASU No. 2015-07 and its effects on the financial statements.

### 3. INVESTMENTS AND FAIR VALUE

**Temporary Investments**—The Foundation considers temporary investments to be unsettled trade purchases and sales and cash and cash equivalents held as part of the long-term investment strategy of the Foundation. Cash equivalents are considered to be investments with an original maturity of three months or less. The Foundation records investments as of the trade date. Unsettled trade purchases and sales are reported in the investment category on the statements of financial position. The Foundation had unsettled trade purchases of approximately \$2,673,000 and \$40,215,000 as of December 31, 2015 and 2014, respectively. The Foundation had unsettled trade sales of approximately \$3,121,000 and \$51,616,000 as of December 31, 2015 and 2014, respectively.

**Fixed-Income, U.S. Equity, and Foreign Equity Securities**—Fixed-income, U.S. equity, and foreign equity securities include investments in securities as well as commingled funds. The securities have readily determinable fair market values based on quoted prices in active markets. The commingled funds calculate a net asset value per share in accordance with near term guidance.

**Hedge Funds, Natural Resources, Private Equity, and Real Estate**—Hedge funds' fair values are based on information provided by the administrators of each underlying fund. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method. Gains and losses on investments include equity earnings from limited partnerships.

**Securities Lending**—The Foundation participates in a securities lending program with its custodian bank. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of loaned investments. Securities lending collateral is not subject to a master netting arrangement. Loaned investments consist of agency notes, equity and exchange traded securities. Securities loaned are fully collateralized. All cash collateral received is invested in approved money market and short-term funds. The Foundation maintains effective control of the loaned investments during the term of the agreement. As of December 31, 2015 and 2014, the Foundation had

loaned securities with a total market value of approximately \$23,052,000 and \$19,335,000, respectively, and received related cash collateral of approximately \$17,232,000 and \$16,945,000, respectively. The carrying value of securities lending collateral approximates fair value as recorded collateral is composed of cash and cash equivalents that are received. Income from the program was approximately \$216,000 and \$177,000 for the years ended December 31, 2015 and 2014, respectively.

The changes in security lending collateral of approximately \$287,000 and \$17,711,000 as of December 31, 2015 and 2014, respectively, are considered noncash transactions.

**Realized and Unrealized Gains/Losses**—Net realized gains and change in net unrealized market gains are determined by comparing cost to proceeds and fair market value, respectively. Cost is determined on a first-in, first-out basis. The gains or losses on the Foundation’s investment portfolio for the years ended December 31, 2015 and 2014, consist of the following:

	2015	2014
Net realized gains	\$ 142,316,150	\$ 347,026,273
Net unrealized gains (losses)	<u>7,361,029</u>	<u>(61,702,417)</u>
Net realized and unrealized gains on investments	<u>\$ 149,677,179</u>	<u>\$ 285,323,856</u>

**Fair Value Hierarchy**—The Foundation is subject to the provisions of FASB issued ASC 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The carrying amounts reported in the statements of financial position for cash, accrued interest and dividends, accounts payable and other liabilities, borrowings under revolving line of credit, and deferred federal excise taxes approximate fair value because of their short-term nature.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

*Level 1*—Quoted market prices in active markets for identical assets or liabilities.

*Level 2*—Observable market-based inputs and unobservable inputs that are corroborated by market data.

*Level 3*—Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Foundation’s accounting policies.

In certain instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2015, are as follows:

	2015	Level 1	Level 2	Level 3
Temporary investments	\$ 47,035,360	\$ (3,798,116)	\$ 50,833,476	\$ -
Fixed-income securities:				
U.S. treasury securities	38,167,933	37,667,933	500,000	-
Credit and other	133,563,248	-	28,263,071	105,300,177
U.S. equity securities	525,072,913	214,858,780	26,971,296	283,242,837
Foreign equity securities	886,847,959	87,979,678	102,401,491	696,466,790
Hedge funds	388,940,099	-	79,799,281	309,140,818
Derivative contracts:				
Equity	5,831,911	150	5,831,761	-
Interest rate	162,417	-	162,417	-
Foreign exchange	46,442,534	-	46,442,534	-
Natural resources	271,358,172	-	-	271,358,172
Private equity	967,166,445	-	-	967,166,445
Real estate	324,280,628	-	-	324,280,628
Total investments	<u>\$ 3,634,869,619</u>	<u>\$ 336,708,425</u>	<u>\$ 341,205,327</u>	<u>\$ 2,956,955,867</u>
Collateral under securities lending agreement	<u>\$ 17,232,330</u>	<u>\$ 17,232,330</u>	<u>\$ -</u>	<u>\$ -</u>

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2014, are as follows:

	2014	Level 1	Level 2	Level 3
Temporary investments	\$ 120,357,874	\$ 34,946,059	\$ 85,411,815	\$ -
Fixed-income securities:				
U.S. treasury securities	67,700,896	67,700,896	-	-
Credit and other	128,668,452	43,252	39,616,335	89,008,865
U.S. equity securities	526,757,054	236,816,685	24,391,939	265,548,430
Foreign equity securities	808,806,052	83,087,364	124,107,959	601,610,729
Hedge funds	437,133,293	-	108,026,429	329,106,864
Derivative contracts:				
Equity	18,098,623	-	18,098,623	-
Interest rate	(532,363)	-	(532,363)	-
Foreign exchange	15,070,913	-	15,070,913	-
Natural resources	302,964,127	-	-	302,964,127
Private equity	840,326,866	-	-	840,326,866
Real estate	348,723,295	-	-	348,723,295
Total investments	<u>\$ 3,614,075,082</u>	<u>\$ 422,594,256</u>	<u>\$ 414,191,650</u>	<u>\$ 2,777,289,176</u>
Collateral under securities lending agreement	<u>\$ 16,944,878</u>	<u>\$ 16,944,878</u>	<u>\$ -</u>	<u>\$ -</u>



The Foundation's policy related to fair value measurement hierarchy classification, including any level transfers, occurs as of the end of the reporting period. Transfers into Level 3 are recorded in accordance with the near-term guidance of ASU No. 2009-12. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

Gains (realized and unrealized) as reported above are included in net investment income on the statements of activities.

As of December 31, 2015 and 2014, the Foundation had commitments to contribute approximately \$788,480,000 and \$691,198,000, respectively, in additional capital under the terms of various investment agreements over the next 7–10 years.

In accordance with ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, the Foundation classifies such investments as Level 2 when there is the ability to redeem the investment in the near term; however, if the Foundation does not have the ability to redeem its investment in the near term, the Foundation classifies such investments as Level 3. The Foundation defines near term to be within 90 days of the measurement date.

The Foundation uses net asset value (NAV) per share (or its equivalent) to determine the fair value of all the underlying investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Foundation's investment in these funds have a redemption notice period of daily to bi annually. The Foundation's investments in funds that calculate NAV per share (or its equivalent) primarily consist of the following:

	<b>2015</b>				<b>Total</b>
	<b>Redemption Period</b>				
	<b>90 days or fewer</b>	<b>91 to 180 days</b>	<b>181 to 400 days</b>	<b>Greater than 400 days</b>	
Fixed-income	\$ -	\$ 27,204,003	\$ 67,136,799	\$ -	\$ 94,340,802
U.S. equity	-	-	135,886,003	145,706,715	281,592,718
Foreign equity	102,401,491	84,700,618	459,317,051	152,449,121	798,868,281
Hedge funds	79,799,281	96,515,579	190,620,926	22,004,313	388,940,099
Natural resources	-	-	-	216,118,653	216,118,653
Private equity	-	-	-	930,116,490	930,116,490
Real estate	-	-	-	299,846,147	299,846,147
<b>Total</b>	<b><u>\$ 182,200,772</u></b>	<b><u>\$ 208,420,200</u></b>	<b><u>\$ 852,960,779</u></b>	<b><u>\$ 1,766,241,439</u></b>	<b><u>\$ 3,009,823,190</u></b>

	<b>2014</b>				<b>Total</b>
	<b>Redemption Period</b>				
	<b>90 days or fewer</b>	<b>91 to 180 days</b>	<b>181 to 400 days</b>	<b>Greater than 400 days</b>	
Fixed-income	\$ -	\$ -	\$ 73,025,154	\$ 4,184,329	\$ 77,209,483
U.S. equity	-	-	145,646,667	119,901,763	265,548,430
Foreign equity	124,107,959	86,075,909	396,942,139	118,592,681	725,718,688
Hedge funds	108,026,429	64,750,076	237,777,661	26,579,127	437,133,293
Natural resources	-	-	-	228,572,989	228,572,989
Private equity	-	-	-	840,326,866	840,326,866
Real estate	-	-	-	348,723,295	348,723,295
<b>Total</b>	<b><u>\$ 232,134,388</u></b>	<b><u>\$ 150,825,985</u></b>	<b><u>\$ 853,391,621</u></b>	<b><u>\$ 1,686,881,050</u></b>	<b><u>\$ 2,923,233,044</u></b>

#### 4. DERIVATIVES

The Foundation accounts for derivative financial instruments in accordance with ASC 815, *Derivatives and Hedging*. The Foundation enters into derivative arrangements to manage a variety of market risks and to adjust asset class exposure. The Foundation recognizes all derivatives as either assets or liabilities measured at fair value. The Foundation has netted liability positions against the investment balance. For accounting purposes, the derivatives do not have hedge designation, and all gains and losses are reported in the net realized and unrealized gains on investments on the statements of activities.

In connection with its derivative activities, the Foundation enters into master netting agreements and collateral support agreements with its counterparties. These agreements provide the Foundation with the right, in the event of default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty. The master netting agreement is taken into account in the Foundation's risk management practices and application of counterparty credit limits.

To determine the amount of exposure to each counterparty, the Foundation nets the exposure on transactions by individual counterparty against the value of any collateral posted by the counterparty (a) when both parties owe determinable amounts, (b) where a legal right of setoff exists, and (c) when the right to setoff is enforceable by law. The thresholds for collateral postings vary by counterparty.

The aggregate fair value of derivative instruments in asset positions on December 31, 2015 and 2014, is approximately \$70,574,000 and \$44,336,000, respectively. The exposure to counterparty credit risk on December 31, 2015, is reduced by \$48,936,000 of collateral held and approximately \$15,699,000 of liabilities included in netting arrangements with those counterparties. The exposure to counterparty credit risk on December 31, 2014, is reduced by \$16,560,000 of collateral held and approximately \$11,275,000 of liabilities included in netting arrangements with those counterparties. The Foundation has never failed to access collateral when required. The Foundation has posted collateral of \$0 and \$1,000,000 to counterparties as of December 31, 2015 and 2014, respectively.

The fair values of derivative instruments in the statements of financial position and information about the offsetting of derivative instruments and related collateral amounts as of December 31, 2015 and 2014, are as follows:

		<b>2015</b>		
	<b>Balance Sheet Location</b>	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Assets Presented in the Statements of Financial Position</b>
Equity contracts	Investments	\$19,234,704	\$17,488,336	\$ 1,746,368
Interest rate contracts	Investments	432,278	432,278	-
Foreign exchange contracts	Investments	<u>50,906,834</u>	<u>46,714,300</u>	<u>4,192,534</u>
Total derivative instruments		<u>\$ 70,573,816</u>	<u>\$ 64,634,914</u>	<u>\$ 5,938,902</u>

<b>2015</b>				
	<b>Balance Sheet Location</b>	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Liabilities Presented in the Statements of Financial Position</b>
Equity contracts	Investments	\$ 13,402,793	\$ 11,234,463	\$ 2,168,330
Interest rate contracts	Investments	269,861	-	269,861
Foreign exchange contracts	Investments	<u>4,464,300</u>	<u>4,464,300</u>	<u>-</u>
Total derivative instruments		<u>\$ 18,136,954</u>	<u>\$ 15,698,763</u>	<u>\$ 2,438,191</u>
<b>2014</b>				
	<b>Balance Sheet Location</b>	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Assets Presented in the Statements of Financial Position</b>
Equity contracts	Investments	\$ 21,302,488	\$ 11,358,500	\$ 9,943,988
Interest rate contracts	Investments	784,969	-	784,969
Foreign exchange contracts	Investments	<u>22,248,102</u>	<u>16,477,189</u>	<u>5,770,913</u>
Total derivative instruments		<u>\$ 44,335,559</u>	<u>\$ 27,835,689</u>	<u>\$ 16,499,870</u>
<b>2014</b>				
	<b>Balance Sheet Location</b>	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Liabilities Presented in the Statements of Financial Position</b>
Equity contracts	Investments	\$ 3,203,865	\$ 3,203,865	\$ -
Interest rate contracts	Investments	1,317,332	894,377	422,955
Foreign exchange contracts	Investments	<u>7,177,189</u>	<u>7,177,189</u>	<u>-</u>
Total derivative instruments		<u>\$ 11,698,386</u>	<u>\$ 11,275,431</u>	<u>\$ 422,955</u>

The Foundation does not have any gross amounts of financial instruments or cash collateral received or pledged not offset in the statements of financial position, except for \$4,964,000 held related to two counterparties as of December 31, 2015.

The effect of derivative instruments on the statements of activities as of December 31, 2015 and 2014, is as follows:

		<b>Gain (Loss) Recognized on Derivatives</b>	
		<b>2015</b>	<b>2014</b>
	<b>Location of Gains (Losses)</b>		
Commodity contracts	Net realized and unrealized gains on investments	\$ -	\$ (2,235,100)
Equity contracts	Net realized and unrealized gains on investments	9,363,166	8,084,590
Interest rate contracts	Net realized and unrealized gains on investments	(328,998)	(2,838,161)
Foreign exchange contracts	Net realized and unrealized gains on investments	<u>31,371,620</u>	<u>14,531,713</u>
Total derivative instruments		<u>\$40,405,788</u>	<u>\$17,543,042</u>

The Foundation is not credit rated, and therefore, no credit rating contingent provisions are required by counterparties.



Counterparty credit risk is the risk that counterparties to derivative contracts will fail to perform according to the terms of the agreements. Nationally recognized statistical rating organizations, such as Standard & Poor's (S&P) and Moody's, assign credit ratings to security issuers that indicate a measure of potential credit risk to investors. The Foundation manages credit risk by reviewing the credit standing of each counterparty and limits exposure to credit risk by requiring that the minimum acceptable credit rating of the counterparty be BBB- and Baa3 for S&P and Moody's, respectively.

## 5. PROGRAM-RELATED INVESTMENTS

PRIs in the statements of financial position represent various below-market-rate loans and linked deposits with outstanding principal totaling \$38,776,320 and \$34,649,353 as of December 31, 2015 and 2014, respectively. Interest rates range from 0.50% to 4% at December 31, 2015. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. Net realizable value approximates fair value. There was \$3,503,157 and \$2,936,645 received as return of principal for the years ended December 31, 2015 and 2014, respectively. The Foundation has PRI commitments of approximately \$30,791,000 and \$25,110,000 as of December 31, 2015 and 2014, respectively.

The loans and linked deposits are scheduled for collection as of December 31, 2015, as follows:

### December 31,

2016	\$ 5,696,763
2017	2,819,811
2018	2,113,700
2019	7,895,734
2020	5,308,350
2021–2025	<u>14,941,962</u>
	38,776,320
Less allowance	<u>(1,949,752)</u>
Net	<u>\$ 36,826,568</u>

Management has reviewed the collectability of all PRIs and has recorded an allowance of \$1,949,752 and \$1,774,134 as of December 31, 2015 and 2014, respectively. The Foundation establishes a loan loss allowance in accordance with the risk rating assigned to the PRI. The risk rating is based on a combination of financial and organizational factors and is evaluated annually unless more frequent monitoring is required.

The Foundation has entered into eleven third party loan guarantee agreements totaling \$19,536,000 and \$13,636,000, of which loss exposure related to the guarantees is \$3,912,000 and \$4,017,000 as of December 31, 2015 and 2014, respectively. Per the terms of the \$486,000 guarantee agreement, any amount disbursed on that guarantee will convert to a loan receivable. The Foundation has recorded a contingent liability at the larger of the net present value of the guarantees or the minimum amount of probable loss. The Foundation recorded a contingency of \$265,833 and \$195,530 as of December 31, 2015 and 2014, respectively.

## 6. GRANTS PAYABLE

Grants payable represent the present value of grants using a 0.05% and 0.04% discount rate, as of December 31, 2015 and 2014, respectively. The discount rate is a Level 2 input and is based on the present value of discounted cash flows using the three-month U.S. Treasury rate. The Foundation made grant payments of approximately \$143,500,000 and \$143,200,000 in 2015 and 2014, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years as of December 31, 2015, are as follows:

### Years Ending December 31

2016	\$ 57,584,230
2017	24,011,707
2018	3,316,000
2019	1,150,000
2020	900,000
2021 and beyond	<u>720,000</u>
	87,681,937
Discount	<u>(64,764)</u>
Net	<u>\$ 87,617,173</u>

## 7. EXCISE TAX REQUIREMENTS

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code, but is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined in the Code. The current excise tax is provided at 2% for 2015 and 2014. The deferred excise tax provision is calculated assuming a 2% rate and is based on projected gains that assume complete liquidation of all assets. The current and deferred portions of the excise tax provision for 2015 were approximately \$2,850,000 and \$147,000, respectively. The current and deferred portions of the excise tax provision for 2014 were approximately \$6,608,000 and (\$1,234,000), respectively. Cash payments for federal excise taxes were \$3,200,000 and \$7,400,000 for the years ended December 31, 2015 and 2014, respectively. Federal excise taxes payable were \$0 for the years ended December 31, 2015 and 2014. The unrelated business income tax expense for 2015 and 2014 was \$1,458,000 and \$1,664,000, respectively. The prepaid unrelated business taxes were \$134,000 for the year ended December 31, 2015 and the unrelated business income tax expense payable was \$49,000 for the year ended December 31, 2014. The Foundation recorded a deferred tax asset of \$2,097,000 and \$1,790,000 related to unrelated business income net operating loss and alternative minimum tax credit carry forwards for the years ended December 31, 2015 and 2014, respectively.

## 8. OTHER POSTEMPLOYMENT BENEFITS

The Foundation is subject to the provisions of FASB-issued ASC 715, *Compensation—Retirement Benefits*, which requires recognition of the overfunded or underfunded status of the other postemployment benefit plan as an asset or liability in the statements of financial position and recognition of changes in the funded status in the year in which the changes occur. The funded status of the plan is measured as the difference between the fair value of plan assets and the benefit obligation.

The Foundation provides certain health care and life insurance benefits for retired employees. The Foundation's employees may become eligible for these postemployment employee benefits. Actuarial assumptions and participant data changes are reported in other postemployment adjustments in the statement of activities.

The other postemployment benefit plan—funded status and amounts recognized in the Foundation's statements of financial position and statements of activities as of and for the years ended December 31, 2015 and 2014, are as follows:

	<b>Postemployment Employee Benefits</b>	
	<b>2015</b>	<b>2014</b>
Fair value of plan assets	\$ -	\$ -
Benefit obligation	<u>(12,046,717)</u>	<u>(16,786,451)</u>
Funded status of the plan	<u>\$ (12,046,717)</u>	<u>\$ (16,786,451)</u>
Accrued benefit liability recognized in the statement of financial position—January 1	<u>\$ (16,786,451)</u>	<u>\$ (10,869,081)</u>
Service cost	\$ 1,187,189	\$ 746,914
Interest cost	651,944	521,119
Prior-service cost amortization	(127,526)	(127,526)
Net amortization loss	<u>410,414</u>	<u>-</u>
Benefit cost recognized in the statements of activities	<u>\$ 2,122,021</u>	<u>\$ 1,140,507</u>
Actuarial (gain) loss recognized in the statements of activities	<u>\$ (6,613,693)</u>	<u>\$ 5,003,966</u>
Employer contributions	<u>\$ 248,062</u>	<u>\$ 227,103</u>
Benefits paid	<u>\$ (248,062)</u>	<u>\$ (227,103)</u>
Benefit obligation—December 31	<u>\$ (12,046,717)</u>	<u>\$ (16,786,451)</u>

The postemployment employee benefit liability is included in the accounts payable and other liability balance on the statements of financial position for the years ended December 31, 2015 and 2014. The actuarial gain of approximately \$6,600,000 for December 31, 2015 can be attributed to a \$5,400,000 gain due to a change in the aging scale/methodology, a \$1,000,000 gain due to the change in the discount rate from 3.90% at December 31, 2014 to 4.32% at December 31, 2015, a \$300,000 gain due to updated mortality assumptions offset by approximately \$100,000 in amortization of prior service cost.

The increase in actuarial loss of approximately \$5,000,000 for December 31, 2014 can be attributed to a \$2,700,000 loss due to the change in the discount rate from 4.85% at December 31, 2013 to 3.90% at December 31, 2014, a \$600,000 loss due to new premium rates, a \$1,600,000 million loss due to updated mortality assumptions and approximately \$100,000 in amortization of prior service cost.

<b>Assumptions and Dates Used for Liability</b>	<b>Postemployment Employee Benefits</b>	
	<b>2015</b>	<b>2014</b>
Discount rate	4.32 %	3.90 %
Compensation increase rate	4.00	4.00
Measurement date	December 31	
<b>Assumptions Used to Determine Expense</b>		
Discount rate	3.90 %	4.85 %
Compensation increase rate	4.00	4.00
Health care cost trend rate assumptions:		
Initial trend rate: Pre/Post Medicare	8.00/6.00	7.00/7.00
Ultimate trend rate: Pre/Post Medicare	4.50/4.50	5.00/5.00
Year ultimate trend is reached: Pre/Post Medicare	2030/2028	2018/2018

A one-percentage-point change in assumed health care cost trends rates as of December 31, 2015, would have the following effects:

	<b>One-Percentage Point</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on postemployment benefit obligations	<u>\$2,213,901</u>	<u>\$ (1,812,864)</u>

Expected amortization during 2016 for amortization of net prior service credit and amortization of net loss are \$127,526 and \$0, respectively.

#### **Future Expected Benefit Payments**

2016	\$ 302,714
2017	356,678
2018	365,085
2019	392,896
2020	422,610
2021–2025	2,896,791

## **9. SUBSEQUENT EVENTS**

There have been no other subsequent events through June 16, 2016, the date these financial statements were issued, requiring adjustment to, or disclosure in, the financial statements.

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