KPMG

GREATER MILWAUKEE FOUNDATION

Combined Financial Statements

December 31, 2020 and 2019

(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

The Board of Directors
Greater Milwaukee Foundation:

We have audited the accompanying combined financial statements of Greater Milwaukee Foundation, which comprise the combined statements of financial position as of December 31, 2020 and 2019, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Milwaukee, Wisconsin
August 26, 2021

GREATER MILWAUKEE FOUNDATION

Combined Statements of Financial Position

December 31, 2020 and 2019

Assets		**2020**	**2019**
Cash and cash equivalents	$	41,557,298	48,310,141
Accounts receivable, prepaid expenses, and accrued investment income		857,624	612,605
Investments, at fair value		1,047,837,085	921,281,475
Loans receivable		191,437	206,065
Program-related investments		807,171	813,002
Beneficial interest in charitable trusts		6,987,652	6,783,935
Property, furniture, and equipment, net		247,114	277,623
Total assets	$	1,098,485,381	978,284,846
Liabilities and Net Assets			
Liabilities:			
Accrued expenses	$	1,236,079	1,056,640
Grants payable		23,115,605	24,313,197
Liability for pooled income funds		84,372	85,345
Agency endowment funds		76,662,351	65,666,067
Total liabilities		101,098,407	91,121,249
Net assets without donor restrictions:			
Undesignated funds		96,410,322	93,629,366
Field of interest funds		250,618,607	217,242,139
Donor-designated funds		258,782,483	228,864,924
Donor-advised funds		382,314,641	337,517,877
Total net assets without donor restrictions		988,126,053	877,254,306
Net assets with donor restrictions		9,260,921	9,909,291
Total net assets		997,386,974	887,163,597
Total liabilities and net assets	$	1,098,485,381	978,284,846

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Activities

Years ended December 31, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and losses:						
Contributions	$ 47,385,690	19,536	47,405,226	57,290,146	2,847,840	60,137,986
Investment income, net	13,446,460	188,873	13,635,333	15,703,344	94,020	15,797,364
Realized net gains on investments	38,334,380	1,792	38,336,172	39,397,992	1,575	39,399,567
Unrealized net gains on investments	81,393,658	6,532	81,400,190	84,086,090	17,238	84,103,328
Administrative fee on agency endowment funds	560,784	—	560,784	453,618	—	453,618
Change in interest in net assets of unconsolidated foundation	—	—	—	—	22,267	22,267
Change in actuarial valuation of split-interest agreements	—	238,997	238,997	—	503,483	503,483
Total revenue, gains, and losses	181,120,972	455,730	181,576,702	196,931,190	3,486,423	200,417,613
Grants and expenses:						
Grants approved for charitable purposes	61,218,607	—	61,218,607	58,641,980	—	58,641,980
Program-related expenses	4,219,459	—	4,219,459	4,753,235	—	4,753,235
Management general	3,416,391	—	3,416,391	3,068,256	—	3,068,256
Development and donor services	2,498,868	—	2,498,868	2,539,322	—	2,539,322
Total grants and expenses	71,353,325	—	71,353,325	69,002,793	—	69,002,793
Net assets released from restrictions	1,104,100	(1,104,100)	—	4,386,606	(4,386,606)	—
Increase (decrease) in net assets	110,871,747	(648,370)	110,223,377	132,315,003	(900,183)	131,414,820
Net assets, beginning of year	877,254,306	9,909,291	887,163,597	744,939,303	10,809,474	755,748,777
Net assets, end of year	$ 988,126,053	9,260,921	997,386,974	877,254,306	9,909,291	887,163,597

See accompanying notes to combined financial statements.

GREATER MILWAUKEE FOUNDATION

Combined Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	110,223,377	131,414,820
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation		158,255	94,515
Realized net gains on investments		(38,336,172)	(39,399,567)
Unrealized net gains on investments		(81,400,190)	(84,103,328)
Change in actuarial valuation of split-interest agreements		(238,997)	(503,483)
Changes in assets and liabilities:			
Increase in accounts receivable, prepaid expenses, and accrued investment income		(245,019)	(98,845)
Decrease in net assets of unconsolidated foundation		—	4,021,762
Increase in beneficial interest in charitable trusts		—	(2,847,029)
Increase in accrued expenses		179,439	218,144
(Decrease) increase in grants payable		(1,197,592)	4,808,231
Increase in agency endowment funds		1,307,288	9,679,296
Net change in other assets and liabilities		3,569	3,152
Net cash (used in) provided by operating activities		(9,546,042)	23,287,668
Cash flows from investing activities:			
Proceeds from sale of investments		342,746,137	335,752,856
Purchase of investments		(339,876,389)	(342,773,306)
Purchase of property, furniture, and equipment		(127,746)	(84,456)
Issuance of loans receivable and program-related investments		—	(24,788)
Proceeds from repayment of loans receivable and return of capital on program related investments		20,459	97,407
Net cash provided by (used in) investing activities		2,762,461	(7,032,287)
Cash flows from financing activities:			
Payments from charitable trusts		35,624	349,883
Payments to pooled income participants		(4,886)	(4,009)
Net cash provided by financing activities		30,738	345,874
Net (decrease) increase in cash and cash equivalents		(6,752,843)	16,601,255
Cash and cash equivalents at beginning of year		48,310,141	31,708,886
Cash and cash equivalents at end of year	$	41,557,298	48,310,141

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.

(Continued)

(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, 2020 and 2019.

(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, 2020 and 2019. The loan principal balances will be repaid to the Foundation at a later date.

(g) Beneficial Interest in Charitable Trusts

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

The Foundation is beneficiary of various deferred gifts, including charitable remainder unitrusts, living trusts, trusts, and bequests under will. As of December 31, 2020, 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.

(Continued)

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.

(h) Property, Furniture, and Equipment

Costs of leasehold improvements, office furniture, and equipment are capitalized and depreciated using the straight-line method over the assets estimated useful life, ranging from 4 to 10 years.

(i) Contributions

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

(j) 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.

(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 2020 and 2019 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.

(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.

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.

(m) 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.

(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 has no impact on the combined financial statements overall.

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.

(Continued)

(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:

		2020	2019
Cash and cash equivalents	$	41,557,298	48,310,141
Liquid investments		717,279,020	662,773,225
Accounts and interest receivable		409,569	460,025
Total	$	759,245,887	711,543,391

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 were $9,992,538 and $10,027,112 as of December 31, 2020 and 2019, 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 2020 and 2019. The spendable amount of $22,726,216 and $22,153,636 for the years ended December 31, 2020 and 2019, 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.

(3) Investments

The fair value of investments as of December 31, 2020 and 2019 is summarized as follows:

Investment		2020	2019
U.S. government obligations	$	16,116,929	11,400,408
U.S. Treasury		13,493,149	16,596,516
Government obligation mutual funds		86,969	80,983
Corporate bonds		25,203,166	24,380,295
Bond mutual funds		136,206,239	140,424,383
Equity mutual funds		447,660,546	395,258,726
Commingled securities		195,585,861	165,640,180
Common and preferred stock		80,589,866	74,384,786
Cash surrender value of life insurance		2,894,086	3,382,887

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Investment		2020	2019
Equity hedge funds	$	45,827,271	30,702,665
Private equities		43,781,152	34,001,654
Other high-yield bonds		17,949,660	13,985,288
Private real assets		12,442,191	11,042,704
Other investments (mission related)		10,000,000	—
Total investments	$	1,047,837,085	921,281,475

Unrealized net gains reported in the Foundation's combined statements of activities in 2020 and 2019 were $81,400,190 and $84,103,328, respectively. Realized and unrealized net gains on agency endowment funds were $9,688,996 and $8,449,821 in 2020 and 2019, respectively (note 6).

Investment income for the years ended December 31, 2020 and 2019 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 during 2020 and 2019 are as follows:

		2020	2019
Total approved grants	$	76,088,442	64,737,741
Interfund grants		(14,535,168)	(5,090,700)
Returned or canceled grants		(592,341)	(929,475)
Adjustment to present value		257,674	(75,586)
	$	61,218,607	58,641,980

Grants payable at December 31, 2020 are scheduled for payment as follows:

Year of payment		Amount
2021	$	13,291,197
2022		5,715,536
2023		1,674,172
2024		1,036,473
Thereafter		1,398,227
	$	23,115,605

(5) Functional Classification of Expenses

Total expenses of the Foundation during 2020 and 2019 are classified by function as follows:

	2020				
	Program services		Management	Development and donor	
	Grants	Other	and general	services	Total
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
Total grants and expenses	$ 61,218,607	4,219,459	3,416,391	2,498,868	71,353,325

	2019				
	Program services		Management	Development and donor	
	Grants	Other	and general	services	Total
Grants	$ 58,641,980	—	—	—	58,641,980
Compensation and benefits	—	2,423,723	2,048,466	1,770,448	6,242,637
Professional services	—	1,684,457	236,569	63,185	1,984,211
Advertising and promotion	—	17,287	30,416	61,742	109,445
Office and insurance expense	—	110,027	171,026	101,387	382,440
Information technology	—	39,861	207,283	42,497	289,641
Occupancy	—	177,509	144,243	127,819	449,571
Conferences, meetings and travel	—	140,520	114,047	144,312	398,879
Depreciation	—	37,318	30,325	26,872	94,515
Community events sponsored by the Foundation	—	26,395	6,454	148,093	180,942
Dues and memberships	—	11,717	53,518	6,737	71,972
Miscellaneous	—	84,421	25,909	46,230	156,560
Total grants and expenses	$ 58,641,980	4,753,235	3,068,256	2,539,322	69,002,793

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:

		2020	2019
Liability for agency endowment funds, beginning of year	$	65,666,067	47,536,950
Receipts		5,848,425	11,884,116
Investment income, net		669,560	663,415
Realized and unrealized net gains on investments		9,688,996	8,449,821
Distributions		(4,649,913)	(2,414,617)
Administrative expense allocations		(560,784)	(453,618)
Liability for agency endowment funds, end of year	$	76,662,351	65,666,067

(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, 2020 and 2019, the Foundation awarded discretionary grants over $50,000 totaling $978,000 and $435,000, 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. 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 2020 and 2019. Employees are allowed to contribute to the plan and the Foundation contributed up to an additional 3% match of eligible employee compensation in 2020 and 2019. Participants are 100% vested in the employer and employee contributions after three years of service. The Foundation's expense related to this plan was $404,580 and $302,611 in 2020 and 2019, respectively.

(9) Commitment and Contingency

The Foundation leases office space under an operating lease that expires on December 31, 2021. Future minimum lease payments due under this, not including utility adjustments, will be $404,028 in 2021.

Total rent expense, including utility adjustments, was $466,884 and $433,909 in 2020 and 2019, 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 June 30, 2022, 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*, 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 $317,663,979 and $258,508,250 as of December 31, 2020 and 2019, 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, 2020 and 2019:

	December 31, 2020				Redemption	Days
	Level 1	Level 2	Level 3	Total	frequency	notice
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
Other asset-backed securities	—	—	—	—	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	$ 730,173,106	—	—	730,173,106		

	December 31, 2020				Redemption	Days
	Level 1	Level 2	Level 3	Total	frequency	notice
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	1–10 Days
Commingled U.S. equities (b)				140,486,028	Quarterly, Redemption dates: 12/31/2022; 06/30/23	45 Days 6 Months
Alternative investments:						
Long/short equity hedge funds (c)				45,827,271	Semiannually	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				317,663,979		
Total investments				1,047,837,085		
Beneficial interest in charitable trusts	—	—	6,987,652	6,987,652		
				$ 1,096,382,035		

	December 31, 2019				Redemption	Days
	Level 1	Level 2	Level 3	Total	frequency	notice
Cash and cash equivalents	$ 48,310,142	—	—	48,310,142	n/a	n/a
Traditional investments:						
U.S. government obligations	11,400,408	—	—	11,400,408	Daily	3 Days
U.S. Treasury	16,596,516	—	—	16,596,516	Daily	3 Days
Government obligation mutual funds	80,983	—	—	80,983	Daily	3 Days
Corporate bonds	22,205,829	—	—	22,205,829	Daily	3 Days
Other asset-backed securities	2,174,466	—	—	2,174,466	Daily	3 Days
Bond mutual funds	123,817,255	—	—	123,817,255	Daily	3 Days
Commingled bond funds	39,196,256	—	—	39,196,256	Daily	3 Days
Other high-yield bonds (e)	13,985,288	—	—	13,985,288	Daily	3 Days
Equity mutual funds	355,548,551	—	—	355,548,551	Daily	3 Days
Common and preferred stock	74,384,786	—	—	74,384,786	Daily	3 Days
Cash surrender value of life insurance	3,382,887	—	—	3,382,887	n/a	n/a
Subtotal traditional investments	$ 662,773,225	—	—	662,773,225		

	December 31, 2019 Level 1	Level 2	Level 3	Total	Redemption frequency	Days notice
Investments measured at NAV:						
Bond mutual funds				$ 16,607,128	Monthly	5 Days
Equity mutual funds				39,710,175	Monthly	5–10 Days
Commingled funds:						
Commingled bond funds (a)				14,215,987	Monthly	1–10 Days
Commingled U.S. equities (b)				112,227,937	Quarterly, Redemption dates: 12/31/2020	60 Days 6 Months
Alternative investments:						
Long/short equity hedge funds (c)				30,702,665	Quarterly, Semiannually Redemption dates: 09/30/2020	45–95 Days
Private equity (d)				33,622,421	No liquidity	n/a
Private real assets (f)				11,421,937	No liquidity	n/a
Subtotal investments measured at NAV				258,508,250		
Total investments				921,281,475		
Beneficial interest in charitable trusts	$ —	—	6,783,935	6,783,935		
				$ 976,375,552		

(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 $18,535,980 and $15,037,957 as of December 31, 2020 and 2019, 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 $13,476,468 and $9,927,984 as of December 31, 2020 and 2019, respectively.

(11) Subsequent Events

Subsequent events have been evaluated through August 26, 2021, 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.