# John S. and James L. Knight Foundation

Financial Statements
For the Years Ended December 31, 2015 and 2014
With the Independent Auditor's Report

John S. and James L. Knight Foundation

Financial Statements

Years Ended December 31, 2015 and 2014

## Contents

RSM

RSM US LLP

**Independent Auditor's Report**

The Board of Trustees
John S. and James L. Knight Foundation

We have audited the accompanying financial statements of the John S. and James L. Knight 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.

***Auditor's 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 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 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 changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Miami, Florida
May 17, 2016

## John S. and James L. Knight Foundation

## Statements of Financial Position

| | Dec. 31 2015 | Dec. 31 2014 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investment assets: | | |
| Cash and cash equivalents | $ 53,972,437 | $ 63,646,211 |
| Interest, dividends and other investment receivables | 29,668,554 | 12,285,413 |
| U.S. government and agency obligations | 67,383,763 | 70,277,831 |
| Government-sponsored enterprises obligations | 23,157,713 | 27,662,831 |
| International government bonds | 28,401,171 | 3,241,637 |
| Corporate bonds and other obligations | 142,734,266 | 158,915,400 |
| Equity securities | 668,071,105 | 755,018,339 |
| Hedge fund investments | 506,452,010 | 552,371,300 |
| Alternative equity investments | 551,790,760 | 555,446,384 |
| Real estate investments | 77,000,133 | 86,647,548 |
| Total investments | 2,148,631,912 | 2,285,512,894 |
| Securities loaned under security lending agreement | 99,337,378 | 104,050,054 |
| Program-related investments, net | 2,179,128 | 2,768,295 |
| Beneficial interest in remainder trusts | 46,498,129 | 48,617,461 |
| Other assets | 4,855,930 | 2,869,542 |
| Total assets | $2,301,502,477 | $2,443,818,246 |
| | | |
| **Liabilities and net assets** | | |
| Liabilities: | | |
| Payable under securities lending agreement | $ 103,975,386 | $ 106,758,864 |
| Grants payable | 157,071,380 | 126,107,818 |
| Pension and postretirement benefits liability, net | 953,581 | 2,491,686 |
| Deferred taxes payable | 1,666,025 | 2,563,503 |
| Other liabilities | 4,551,663 | 5,389,127 |
| Total liabilities | 268,218,035 | 243,310,998 |
| | | |
| Net assets: | | |
| Temporarily restricted | | |
| Beneficial interest in remainder trust | 46,498,129 | 48,617,461 |
| Other | 110,000 | - |
| Total temporary restricted net assets | 46,608,129 | 48,617,461 |
| Unrestricted | 1,986,676,313 | 2,151,889,787 |
| Total net assets | 2,033,284,442 | 2,200,507,248 |
| Total liabilities and net assets | $2,301,502,477 | $2,443,818,246 |

*See accompanying notes.*

## John S. and James L. Knight Foundation

## Statements of Activities

| | Year Ended Dec. 31 | |
|---|---|---|
| | **2015** | **2014** |
| Changes in unrestricted net assets: | | |
| Investment activity: | | |
| Interest | **$ 6,518,283** | **$ 10,360,786** |
| Dividends | **15,784,354** | **13,834,245** |
| Net realized gain on sale of investments | **117,864,447** | **152,010,123** |
| Other income | **3,133,048** | **6,226,810** |
| Net change in fair value of investments | **(130,195,580)** | **(33,380,995)** |
| Less: investment expenses | **(6,035,199)** | **(9,070,799)** |
| Total investment activity | **7,069,353** | **139,980,170** |
| Contributions received | **515,000** | **250,000** |
| Total investment activity and other support | **7,584,353** | **140,230,170** |
| Grants approved and expenses: | | |
| Communities and National grants | **43,641,249** | **79,480,581** |
| Journalism grants | **50,798,044** | **22,179,862** |
| Media Innovation grants | **13,024,476** | **16,125,745** |
| Arts | **38,854,800** | **16,826,344** |
| Other grants | **4,369,621** | **13,952,434** |
| Grant forfeitures and other | **(2,093,704)** | **(415,105)** |
| Change in grant payable discount | **(2,544,457)** | **(9,356,060)** |
| Direct charitable activities | **13,085,501** | **11,748,427** |
| General and administrative expenses | **16,396,418** | **13,765,335** |
| Federal excise and other taxes, net | **(2,027,985)** | **2,336,681** |
| Total grants and expenses | **173,503,963** | **166,644,244** |
| (Decrease) in unrestricted net assets from operating activities | **(165,919,610)** | **(26,414,074)** |
| Pension and postretirement changes other than net periodic pension and postretirement costs | **706,136** | **(1,709,012)** |
| (Decrease) in unrestricted net assets | **(165,213,474)** | **(28,123,086)** |
| Changes in temporarily restricted net assets: | | |
| Change in value of beneficial interest in remainder trusts | **(2,119,332)** | **2,303,827** |
| Contributions | **110,000** | **-** |
| Increase in temporarily restricted net assets | **(2,009,332)** | **2,303,827** |
| Net change in net assets | **(167,222,806)** | **(25,819,259)** |
| Net assets at beginning of year | **2,200,507,248** | **2,226,326,507** |
| Net assets at end of year | **$ 2,033,284,442** | **$ 2,200,507,248** |

*See accompanying notes.*

## John S. and James L. Knight Foundation

## Statements of Cash Flows

| | Year Ended Dec. 31 | |
|---|---|---|
| | **2015** | **2014** |
| **Operating activities** | | |
| Change in net assets | **$ (167,222,806)** | **$ (25,819,259)** |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Net realized (gain) on sale of investments | **(117,864,447)** | **(152,010,123)** |
| Other income | **(3,133,048)** | **(6,226,811)** |
| Net change in fair value of investments | **130,195,580** | **33,380,995** |
| Change in value of beneficial interest in remainder trusts | **2,119,332** | **(2,303,827)** |
| Changes in operating assets and liabilities: | | |
| Interest, dividends and other investment receivables | **(17,440,331)** | **19,327,792** |
| Disbursements for program-related investments | **(246,667)** | **(3,057,590)** |
| PRI recoveries | **421,174** | **244,000** |
| Conversion of program investment to grant, net of allowance | **687,500** | **-** |
| Valuation allowance – program-related investments | **(272,840)** | **2,076,545** |
| Grants payable | **30,963,562** | **23,231,572** |
| Deferred taxes | **(897,478)** | **(391,591)** |
| Pension and postretirement liability | **(1,538,105)** | **2,219,549** |
| Other liabilities | **(837,464)** | **1,006,722** |
| Net cash used in operating activities | **(145,066,038)** | **(108,322,026)** |
| | | |
| **Investing activities** | | |
| Proceeds from sale of investments | **694,736,253** | **745,109,350** |
| Purchases of investments | **(559,343,989)** | **(599,147,448)** |
| Net cash provided by investing activities | **135,392,264** | **145,961,902** |
| | | |
| Net change in cash and cash equivalents | **(9,673,774)** | **37,639,876** |
| Cash and cash equivalents at beginning of year | **63,646,211** | **26,006,335** |
| Cash and cash equivalents at end of year | **$ 53,972,437** | **$ 63,646,211** |
| | | |
| **Supplemental data** | | |
| Federal and state taxes paid/(refunded) | **$ 2,337,000** | **$ (747,000)** |

*See accompanying notes.*

John S. and James L. Knight Foundation

Notes to Financial Statements

## 1. The Organization

The John S. and James L. Knight Foundation (the foundation), a nonprofit corporation, supports transformational ideas that promote quality journalism, advance media innovation, engage communities, and foster the arts. The foundation believes that democracy thrives when people and communities are informed and engaged. A significant part of the foundation's activities focus on 28 U.S. communities where the Knight brothers owned newspapers.

## 2. Significant Accounting Policies

### Cash and Cash Equivalents

Cash and cash equivalents are composed of various operating accounts and highly liquid investments with original maturities of 3 months or less.

### Investments

The foundation's investments are stated at fair value. Certain of the foundation's investments are reported at net asset value (NAV) as provided by the investment managers and is used as a practical expedient to estimate fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned.

### Fair Value of Certain Financial Instruments

The carrying amounts of cash and cash equivalents, interest, dividends and other investments receivables, and liabilities approximate fair value due to the short maturity or discounting of these financial instruments.

### Furniture and Equipment

The foundation records furniture and equipment as an expense in the year purchased. Furniture and equipment purchased for 2015 and 2014 was approximately $288,000 and $194,000, respectively, of which approximately $267,000 and $181,000, respectively, is included in "General and administrative expenses" with the remainder being included in "Investment expenses" in the Statements of Activities.

## 2. Significant Accounting Policies (continued)

### Knight Enterprise Fund LLC

In 2011, the foundation established Knight Enterprise Fund LLC (Knight Investments), a single member Delaware limited liability company, to assist in the execution of its mission. The results of Knight Enterprise's operations are consolidated with the foundation's financial statements and all inter-entity activities are eliminated.

### Program-Related Investments (PRIs)

In accordance with Section 4944 of the Internal Revenue Code (the code), the foundation is permitted to make Program Related Investments (PRIs) that are related to its philanthropic programs. A PRI is defined as an investment (i) whose primary purpose is to further the exempt objectives of the foundation, (ii) where the production of income or appreciation in property is not a significant purpose and (iii) which is not used to lobby or support lobbying. The foundation's PRIs consist of convertible promissory notes, limited partnership interests, and amortizing loans. These PRIs are anticipated to have a return lower than fair value. In the year of the investment, the foundation receives a credit toward its distribution requirement. To the extent the investment is recovered by the foundation, the recovery is recognized as a negative distribution, increasing its distribution requirement, in the year it is received. PRIs are recorded at their net realizable value on the Statements of Financial Position. Valuation allowances are recorded in the Statements of Activities via a charge to "Investment expenses" except for those related to limited partnership interests, which are reflected in "net change in fair value of investments". Recoveries of the convertible promissory notes are reflected as a reduction in "Investment expenses" in the Statements of Activities as their value is fully reserved. Recoveries of the limited partnership interests are reflected in the appropriate category of investment income in the Statements of Activities. Recoveries of the amortizing loans are reflected as a reduction of the principal and a reduction in "Investment expenses" for that portion related to the valuation allowance. The foundation recovered $421,000 and $244,000 in 2015 and 2014, respectively. Any costs associated with originating these investments are expensed in the year incurred. Management regularly reviews the collectability of these investments and determines any valuation allowance based on several factors including the borrower/investee's underlying business conditions and risks and performance of the investment. The foundation will discontinue the accrual of interest if interest payments are over 90 days past due.

### Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The most significant estimate involves the determination of the fair value of the investments. Estimates also affect the reported amounts of investment activity and expenses during the reporting period. Actual results could differ from those estimates.

## 2. Significant Accounting Policies (continued)

### Direct Charitable Activities (DCAs)

The foundation conducts certain activities, which are recorded as Direct Charitable Activities in the Statements of Activities. Those activities include holding conferences which build the field and promote charitable issues and conducting challenges to deal with charitable topics, which promote its charitable purpose. DCAs also include educational activities such as research and evaluation studies and reports and technical assistance to foundation grantees, improving their ability to implement their projects.

As recommended by the IRS, "compensation and travel expenses of employees and officers directly engaged in an activity" are accounted for as DCA. The foundation allocates a portion of its staff costs to DCA. The allocation is based on staff's estimate of actual time spent implementing a DCA initiative.

### Income Taxes

The foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments. The deferred federal excise tax in the accompanying financial statements represents tax provided on the net unrealized appreciation of investments. Tax on unrelated business income is recorded based on the best available estimates. No deferred taxes are provided for unrelated business income on unrealized appreciation as such amount cannot be estimated.

### Subsequent Events

The foundation has evaluated subsequent events through May 13, 2016 noting no impact on the foundation's financial statements.

### Net Asset Accounting

The foundation reports information regarding its financial position and activities according to the following two classes of net assets:

- Unrestricted net assets are not subject to donor-imposed stipulations or the restrictions have expired.

- Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the foundation or that expire by the passage of time. As of December 31, 2015 and 2014, the temporarily restricted net assets consist primarily of the foundation's beneficial interest remainder trusts which are discussed further in Note 10.

The foundation has no permanent restriction on its net assets imposed by its founders.

## 2. Significant Accounting Policies (continued)

### Recently Adopted Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU amends the fair value accounting rules to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. For non-public entities, like the foundation, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The earlier application is permitted for any interim and annual financial statements that have not yet been made available for issuance.

The foundation has elected early adoption of the provisions of this ASU for the fiscal year ended December 31, 2015 which resulted in investments with a value of $1,120,793,745 to no longer be classified as Level 3 financial instruments.

## 3. Investments

The investment goal of the foundation is to invest its assets in a manner that will achieve, over the long-term, a total rate of return sufficient to replace the assets utilized for grants and expenses and to recoup any value lost due to inflation and to increase the spending power of the portfolio while adhering to the risk and asset allocation parameters established by the investment committee.

To achieve this goal, some investment risk must be taken. To minimize such risk, the foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. Key decisions in this regard are made by the foundation's investment committee, which has oversight responsibility for the foundation's investment program. The investment committee identifies appropriate asset categories for investments, determines the allocation of assets to each category and approves the investment strategies employed. The foundation has engaged Cambridge Associates LLC (Cambridge), an independent consulting firm, to execute the investment program, including the engagement of investment managers, legal advisers and to advise the foundation on strategic allocations to index funds and limited partnerships. All financial assets are held in custody for the foundation in proprietary accounts by BNY Mellon, a major commercial bank, or are invested in limited partnerships, hedge funds or in certain products with multiple investors, such as index funds, all of which have separate custodial arrangements appropriate to their legal structure.

Highly liquid investments with original maturities of three months or less are reported as cash equivalents.

**3. Investments (continued)**

As required by Accounting Standards Codification ASC 820, Fair Value Measurements, investments except for those that are valued using net asset value as a practical expedient, are measured and reported at fair value in one of the following categories based on valuation inputs:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which are included in Level 1 include listed equity securities, commingled funds traded in active markets with daily pricing. As required by ASC 820, the foundation, does not adjust the market close quoted price for these investments.

Level 2 – Pricing inputs are observable for the investment, either directly or indirectly, as of the reporting date but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. The types of investments included in this category are all other commingled funds, publicly-traded securities in less active markets or with restrictions on disposition, fixed income securities and cash equivalents such as cash management accounts custodied and traded by BNY Mellon.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The foundation uses the NAV of the hedge funds and limited partnerships as fair value as a practical expedient except where certain conditions exist. Those conditions include, changes to key personnel, material amendments to key terms, material pending litigations, imposition of gates and redemption fees. Investments recorded at NAV are not classified in the fair value hierarchy.

The foundation’s policy is to recognize transfers within the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no significant transfers among Levels 1, 2 and 3 during the year.

## 3. Investments (continued)

The following tables summarize the levels in the ASC 820 fair value hierarchy into which the foundation's investments fall as of December 31, 2015 and 2014:

| | | | Fair Value Measurement at the end of Dec. 31, 2015 Using | | |
|---|---|---|---|---|---|
| | | Total | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| **Description** | | | (Level 1) | (Level 2) | (Level 3) |
| Cash equivalents | | $ 21,511,429 | | $ 21,511,429 | |
| U.S. government and agency obligations | (a) | 67,383,763 | | 67,383,763 | |
| Government-sponsored enterprises obligations | (a) | 23,157,713 | | 23,157,713 | |
| International government bonds | (a) | 28,401,171 | | 28,401,171 | |
| Corporate bonds and other obligations | (a) | 142,734,266 | | 142,734,266 | |
| Equity securities | (a)(b)(c) | 668,071,105 | 533,992,348 | 134,078,757 | |
| Hedge fund investments | (d) | | | | |
| Multi-strategy and credit focused measured at net asset value[2] | (e) | 109,225,678 | | | |
| Open mandate measured at net asset value[2] | (f) | 99,151,416 | | | |
| Global and regional long/short measured at net asset value[2] | (g) | 298,074,916 | | | |
| Alternative equity investments | (h) | | | | |
| Private equity[1] | (i) | 14,449,158 | | | 14,449,158 |
| Private equity measured at net asset value[2] | (i) | 423,634,448 | | | |
| Private natural resources measured at net asset value[2] | (j) | 113,707,154 | | | |
| Real estate investments measured at net asset value[2] | (h)(k) | 77,000,133 | | | |
| Total investments measured at fair value | | $ 2,086,502,350 | $ 533,992,348 | $ 417,267,099 | $ 14,449,158 |
| Cash (net, outstanding checks) | | 32,461,008 | | | |
| Interest, dividends and other Investment receivables | | 29,668,554 | | | |
| Total investments | | $ 2,148,631,912 | | | |

[1] Excludes investments measured at net asset value.

[2] In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

## 3. Investments (continued)

| | | Fair Value Measurement at the end of Dec. 31, 2014 Using | | | |
|---|---|---|---|---|---|
| | | Total | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| **Description** | | | (Level 1) | (Level 2) | (Level 3) |
| Cash equivalents | | $ 36,550,517 | | $ 36,550,517 | |
| U.S. government and agency obligations | (a) | 70,277,831 | | 70,277,831 | |
| Government-sponsored enterprises obligations | (a) | 27,662,831 | | 27,662,831 | |
| International government bonds | (a) | 3,241,637 | | 3,241,637 | |
| Corporate bonds and other obligations | (a) | 158,915,400 | | 158,915,400 | |
| Equity securities | (a)(b)(c) | 755,018,339 | 582,586,923 | 172,431,416 | |
| <u>Hedge fund investments</u> | (d) | | | | |
| Multi-strategy and credit focused measured at net asset value[2] | (e) | 119,274,273 | | | |
| Open mandate measured at net asset value[2] | (f) | 106,739,647 | | | |
| Global and regional long/short measured at net asset value[2] | (g) | 326,357,380 | | | |
| <u>Alternative equity investments</u> | (h) | | | | |
| Private equity[1] | (i) | 9,064,761 | | | 9,064,761 |
| Private equity measured at net asset value[2] | (i) | 426,494,538 | | | |
| Private natural resources measured at net asset value[2] | (j) | 119,887,085 | | | |
| Real estate investments measured at net asset value[2] | (h)(k) | 86,647,548 | | | |
| Total investments measured at fair value | | $ 2,246,131,787 | $ 582,586,923 | $ 469,079,632 | $ 9,064,761 |
| Cash (net, outstanding checks) | | 27,095,694 | | | |
| Interest, dividends and other Investment receivables | | 12,285,413 | | | |
| Total investments | | $ 2,285,512,894 | | | |

[1] Excludes investments measured at net asset value.

[2] In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position. In the 2014 financial statements these investments were classified as level 3.

## 3. Investments (continued)

The following tables summarize the foundation's investments as of December 31, 2015 and 2014 whose fair value is calculated using NAV per share:

| **Description** | | Fair Value 12/31/15 | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Hedge fund investments | (d) | | | | |
| Multi-strategy and credit focused | (e) | $ 109,225,678 | N/A | Monthly-every 2 years | 45-90 days |
| Open mandate | (f) | 99,151,416 | N/A | Monthly-every 2 years | 60-180 days |
| Global and regional long/short | (g) | 298,074,916 | N/A | Monthly-every 2 years | 30-184 days |
| Alternative equity investments | (h) | | | | |
| Private equity | (i) | 423,634,448 | 122,832,357 | N/A | N/A |
| Private natural resources | (j) | 113,707,154 | 71,756,011 | N/A | N/A |
| Real estate investments | (h) (k) | 77,000,133 | 33,257,899 | N/A | N/A |
| Total investments | | $1,120,793,745 | $ 227,846,267 | | |

| **Description** | | Fair Value 12/31/14 | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Hedge fund investments | (d) | | | | |
| Multi-strategy and credit focused | (e) | $ 119,274,273 | N/A | Monthly-every 2 years | 45-90 days |
| Open mandate | (f) | 106,739,647 | N/A | Monthly-every 2 years | 60-180 days |
| Global and regional long/short | (g) | 326,357,380 | N/A | Monthly-every 2 years | 30-184 days |
| Alternative equity investments | (h) | | | | |
| Private equity | (i) | 426,494,538 | 131,147,458 | N/A | N/A |
| Private natural resources | (j) | 119,887,085 | 77,432,407 | N/A | N/A |
| Real estate investments | (h) (k) | 86,647,548 | 40,891,237 | N/A | N/A |
| Total investments | | $1,185,400,471 | $ 249,471,102 | | |

**3. Investments (continued)**

(a) Approximately 43 percent and 44 percent of the foundation's total investments at December 31, 2015 and 2014, respectively, are invested in institutional mutual funds or publicly traded securities that are listed on national and international exchanges, treasury and agency bonds of the U.S. government, bonds of sovereign foreign governments and investment and non-investment grade corporate bonds for which trading markets exist. Such assets are valued at quoted closing prices at year-end in accordance with GAAP and are classified as Level 1 or Level 2. Realized gains and losses and increases and decreases in fair value on such investments are reflected in the Statements of Activities.

(b) As of December 31, 2015 and 2014, respectively, these assets include an equity interest in a publicly traded investment management company valued at $55.8 million and $65.7 million or 2.6 percent and 2.9 percent of the foundation's total investments. As of December 31, 2015 this interest consisted of approximately 1.5 million ownership units, which are convertible to publicly traded shares at the management company's discretion. The shares are valued using a lattice model that takes into account assumptions for volatility, availability of opportunity to convert and sell units, the closing price of publicly traded shares in the public market, and discounted growth rate and is classified as Level 2. Management of the investment management company has a right of first refusal on any stock sales as well as certain other contractual rights associated with any sale of stock. This investment gives rise to a significant portion of the foundation's unrelated business income tax liability.

(c) The class consists of publicly traded equity securities that are listed on national and international exchanges including amounts in less active markets which are classified as Level 2. On the basis of its analysis of the nature, characteristics, and risks of the securities, the reporting entity has determined that presenting them as a single class is appropriate. As of December 31, 2015, 85.5% of these assets were invested in international equities and 14.5% were invested in domestic equities. As of December 31, 2014, 68.3% of these assets were invested in international equity and 31.7% were invested in domestic equities.

(d) Approximately 24 percent of the foundation's total investments at December 31, 2015 and December 31, 2014 were invested in hedge funds and derivative instruments. The derivative instruments are included in a "portable alpha" product. These investments are not publicly listed or traded, and are not liquid investments. Investments in hedge funds are generally subject to a lock up period of between 12 and 36 months from the date of investment. During that period, funds may not be withdrawn from the fund. The redemption terms of hedge funds may vary, but in general terms after the lock up period, redemption requests may be made by the foundation on a pre-set basis as specified in each hedge fund's operating agreement. As of year-end 2015 and 2014, no additional restrictions on redemptions were implemented by hedge funds within the foundation's portfolio. Each fund's investment manager calculates the fair value of investments on a monthly basis using the valuation guidelines stipulated in the respective investment agreement in accordance with fair value methods accepted under GAAP less related liabilities.

**3. Investments (continued)**

The NAV, as provided by the investment manager is used as a practical expedient to estimating fair value. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. All hedge funds are audited annually by independent certified public accounting firms. Realized gains and losses and increases and decreases in fair value on the investments in hedge funds and derivative instruments are reflected in the Statements of Activities.

(e) Multi-strategy funds generally invest in event-driven securities (both debt and equity) which seek to exploit situations in which announced or anticipated events have inefficiencies in the pricing of securities. These funds invest in the securities of companies involved in mergers, agreed upon and unsolicited, spin-offs, recapitalizations, etc. Also included are securities of companies experiencing financial distress that are attempting to complete an out-of-court restructuring, are involved in a bankruptcy or similar proceeding, and/or are involved in substantial litigation. Some multi-strategy funds also invest in value equities where there is a perceived mispricing that will be corrected in a defined period of time. The value equity book in these funds generally has very low net exposure, with shorts offsetting most of the longs. These funds employ leverage in that longs plus shorts generally exceed more than 100% of capital.

Credit focused funds generally attempt to generate equity-like returns while taking fixed income-type risk. Focus is generally on long/short credit, and event-driven opportunities, including distressed, stressed, and out-of-favor situations, capital structure trades, shorting investment grade or high yield debt, etc. These funds can invest in a range of credit instruments at any level of an issuer's capital structure including bank debt, corporate bonds, trade claims, credit-default swaps, equities, options, and other derivative instruments. These funds employ leverage in that longs plus shorts generally exceed more than 100% of capital.

(f) Open Mandate funds take an opportunistic approach seeking to invest in investment opportunities that provide the best risk-adjusted returns. While these funds may focus principally on debt or equity investments, at any given point in time, the portfolio might consist entirely of debt, either distressed or stressed, or equities, long and short. Balance sheets are generally levered in that longs and shorts total more than 100% of capital. When equities are in the portfolio, net exposure is generally less than 50%.

(g) Global and Regional Long/Short Funds invest primarily in publicly traded equity securities. Longs consist of investing in companies that appear to be trading at a discount to their intrinsic value and shorts consist of selling companies that appear to be trading at a premium to their intrinsic value. Longs and shorts are generally not paired, and net exposures range from 30% to 60% net long. Global funds will search for equity securities around the world, while regional fund will focus on securities of a specific geographic region (e.g. Asia, Europe, etc.). These funds frequently employ leverage in that longs plus shorts exceed more than 100% of capital.

**3. Investments (continued)**

(h) Approximately 29 percent and 28 percent of the foundation's total investments at December 31, 2015 and 2014, respectively, were invested in alternative equity investments including private equity, private natural resources and real estate with numerous partnerships, in which the foundation is a limited partner. Following the investment period, the general partner will generally attempt to sell the assets of the partnership over the partnership's remaining term and distribute funds to the partners as mandated in the partnership agreements. The value of such investments is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable public company trade data, stipulated in the respective limited partnership agreements and in accordance with fair value methods prescribed under GAAP less related liabilities (the NAV). The NAV, as provided by the investment manager, is used as a practical expedient in estimating fair value. This practical expedient is not used when it is determined to be probable that the foundation will sell the investment for an amount different than the reported NAV. The fair values of the investments in this class have been estimated using the net asset value of the foundation's ownership interest in partners' capital. The foundation's interests in the fund are not redeemable. Instead, distributions from each fund will be received as the underlying investments of the funds are disposed and liquidated by the fund management.

Realized gains and losses and increases and decreases in fair value on the investments in limited partnerships and direct investment are reflected in the Statements of Activities. All limited partnerships are audited annually by independent certified public accounting firms.

(i) Private Equity includes a number of investment strategies, primarily described as buyout, venture capital, growth equity, credit/distressed, and secondary funds that invest in U.S. and international companies.

Leverage is often used by private equity managers to help finance the acquisition of a company. Typically, a private equity manager employs leverage to buy mature, cash-flowing businesses. According to information compiled by Standard & Poors, the 2015 average "debt multiple" of private equity companies (total debt on a company's balance sheet divided by that company's annual EBITDA) was 5.3x. Individual companies can have higher or lower levels of leverage depending on the specific situation and the health / cash-flow characteristics of the underlying business. For venture capital and growth equity transactions, leverage is typically much lower (often no debt at all for venture companies, or certainly below the industry averages for high-growth companies sought by growth equity managers). The average leverage level described for each strategy below is based on this average debt multiple.

Investments in buyout funds were $105,561,079 (24%) at December 31, 2015 and $121,524,999 (28%) at December 31, 2014. Buyout includes illiquid opportunistic funds that typically take majority and/or control-oriented equity ownership of companies. A buyout fund can employ leverage ranging in level from minimal to high, depending on its specific strategy. If these funds were held, it is estimated that the underlying assets of the funds would be liquidated over 3 to 10 years.

**3. Investments (continued)**

Investments in venture capital funds were $271,691,519 (62%) at December 31, 2015 and $248,435,095 (57%) at December 31, 2014. Venture capital includes illiquid funds that invest in equity securities of companies typically in the early stage of their lifecycle (pre-revenue, pre-profitability, or post-profitability but still small in scale relative to the majority of other private and public companies). These funds and the underlying companies generally employ no or minimal leverage. If these funds were held, it is estimated that the underlying assets of the funds would be liquidated over 3 to 10 years.

Investments in growth capital funds (Growth Equity) were $19,321,533 (4%) at December 31, 2015 and $18,037,801 (4%) at December 31, 2014. Growth Equity includes illiquid funds that invest in equity securities of private companies typically with established business models, products, and customers, and are still positioned for meaningful growth. These funds primarily seek to acquire minority equity ownership of companies that have typically not raised institutional capital previously. At the initial investment date, Growth Equity funds generally employ no leverage or low leverage. If these funds were held, it is estimated that the underlying assets of the funds would be liquidated over 3 to 10 years.

Investments in credit/distressed funds were $16,352,096 (4%) at December 31, 2015 and $22,630,043 (5%) at December 31, 2014. Credit/Distressed includes opportunistic funds that typically invest in debt and/or equity securities. A credit/distressed fund can employ leverage ranging in level from minimal to high, depending on its specific strategy. If these funds were held, it is estimated that the underlying assets of the funds would be liquidated over 1 to 7 years.

Secondaries include illiquid opportunistic funds that primarily purchase Limited Partner interests of illiquid partnership funds and/or side-pocket investments. Investments in secondaries were $10,708,220 (2%) at December 31, 2015 and $16,223,521 (4%) at December 31, 2014. These funds may also occasionally make direct commitments to illiquid funds, or invest directly in securities. Secondary funds typically employ minimal leverage. If these funds were held, it is estimated that the underlying assets of the funds would be liquidated over 1 to 10 years.

Private Equity also includes direct investments of $14,449,158 (3%) at December 31, 2015 and $9,064,761 (2%) at December 31, 2014, respectively, in private companies that are typically in the early stages of their lifecycle (pre-revenue, pre-profitability, or post-profitability but still small in scale relative to the majority of other private and public companies). Direct investments are held at cost rather than NAV. Valuations are adjusted based on information received from investors and as a result of subsequent financing events. Due to the nature of the investments an estimated liquidation period cannot be provided.

**3. Investments (continued)**

(j) Private Natural Resources includes funds that invest in U.S. and international (with the primary focus in the U.S.) upstream oil & gas assets and royalties, midstream energy companies, oilfield service companies, mining and metals companies, power generation assets and companies, and timber and infrastructure assets. A Private Natural Resources fund can employ leverage ranging in level from minimal to high, depending on its specific strategy. It is estimated that the underlying assets of the fund will be liquidated over 3 to 10 years.

(k) Private Real Estate includes funds that invest in equity and/or debt securities of U.S. and international (primarily in the U.S.) real estate. A Private Real Estate fund can employ leverage ranging in level from moderate to high, depending on its specific strategy. It is estimated that the underlying assets of the fund will be liquidated over 3 to 10 years.

**3. Investments (continued)**

| | Level 3 Reconciliation Fair Value Measurements Using Significant Unobservable Inputs |
|---|---|
| | **Private Equity** |
| Opening Balance, Jan. 1, 2015 | **$ 9,064,761** |
| Purchases | **2,760,614** |
| Sales and settlements | **(72,292)** |
| Total gains or losses for the period included in changes in net assets | **2,696,075** |
| Closing Balance, Dec. 31, 2015 | **$ 14,449,158** |
| Change in unrealized gains on losses for the period included in changes in net assets for assets held at the end of the reporting period. | **$ 2,793,921** |

| | Level 3 Reconciliation Fair Value Measurements Using Significant Unobservable Inputs |
|---|---|
| | **Private Equity** |
| Opening Balance, Jan. 1, 2014[1] | **$ 5,080,425** |
| Purchases | **2,669,188** |
| Sales and settlements | |
| Total gains or losses for the period included in changes in net assets | **1,315,148** |
| Closing Balance, Dec. 31, 2014 | **$ 9,064,761** |
| Change in unrealized gains on losses for the period included in changes in net assets for assets held at the end of the reporting period. | **$ 1,340,147** |

[1] Beginning of period 2014 balances have been adjusted to remove investments that are measured at fair value using the net asset value per share.

## 4. Securities Lending

The foundation lends certain securities to generate investment income. Selected securities are loaned and securitized primarily by collateral in the form of cash or cash equivalents equal to at least 102% of the fair market value of the securities. As of December 31, 2015, the foundation reclassified gross assets loaned under "Securities loaned under security lending agreement" with a market value of approximately $99,337,000 and a corresponding gross liability under "Payable under securities lending agreement" of approximately $103,975,000 was recognized for collateral received on the Statements of Financial Position. The amounts in the accompanying Statements of Financial Position have not been offset. If the foundation terminated the securities lending program as of December 31, 2015 and December 31, 2014, the net position would be a liability of $4,638,000 and $2,709,000, respectively. As of December 31, 2014, the asset for securities pledged was approximately $104,050,000 and the corresponding liability of approximately $106,759,000 for collateral received.

At December 31, 2015, the securities loaned consisted of approximately $38,973,000 in U.S. government obligations, approximately $138,900 in non-U.S government obligation, approximately $1,730,000 in government-sponsored enterprises obligations and approximately $7,885,000 in corporate bonds, all of which are considered level 2 in the fair value hierarchy, and approximately $50,613,000 in equity securities, which are considered level 1 in the fair value hierarchy. At December 31, 2014, the securities loaned under the security lending agreement consisted of approximately $69,429,000 in government obligations, approximately $4,665,000 in government-sponsored enterprises obligations, approximately $9,342,000 in corporate bonds, which are all considered level 2 in the fair value hierarchy, and approximately $20,615,000 in equity securities, which are considered level 1 in the fair value hierarchy.

At December 31, 2015, the liability for collateral received by the foundation, consisted of $90,445,000 in cash and $13,530,000 in short-term government obligations which are considered level 2 in the fair value hierarchy; and $77,875,000 in cash and $28,884,000 in short-term government obligations, which are considered level 2 in the fair value hierarchy as of December 31, 2014. Of the cash collateral received, $33,068,000 was invested in securities with maturities of 3 months or less and $57,356,000 was invested in corporate obligations which were considered level 2 in fair value hierarchy as of December 31, 2015; and $26,402,000 was invested in securities with maturities of 3 months or less and $51,369,000 was invested in corporate obligations which were considered level 2 in fair value hierarchy as of December 31, 2014.

**4. Securities Lending (continued)**

At December 31, 2015, the fair market value of the reinvested collateral was $103,954,000 of which $33,068,000 was included in cash and cash equivalents, $13,530,000 was included in U.S. government and agency obligations and $57,356,000 was included in corporate bonds and other obligations in the Statements of Financial Position and were considered level 2 in fair value hierarchy. At December 31, 2014, the fair market value of collateral was $106,746,000, of which $26,505,000 was included in cash and cash equivalents, $28,884,000 was included in U.S. government and agency obligations and $51,357,000 was included in corporate bonds and other obligations in the Statements of Financial Position and were considered level 2 in fair value hierarchy.

The foundation recognized an unrealized gain of approximately $9,000 and $7,000 for the years ended December 31, 2015 and December 31, 2014, respectively, included in "Net change in fair value of investments" in the Statements of Activities related to the changes in the value of collateral investments related to corporate obligations.

**5. Derivative Financial Instruments**

Some investment managers retained by the foundation have been authorized to use certain derivative financial instruments in a manner set forth by the foundation's written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, derivative financial instruments may be used for the following purposes: (1) currency forward contracts and options may be used to hedge non-U.S. dollar exposure in foreign investments; (2) covered call options may be sold to enhance yield on major equity positions; (3) futures contracts may be used to equitize excess cash positions, rebalance asset categories within the portfolio, adjust risk exposures within the portfolio, or to rapidly increase or decrease exposure to specific investment positions in anticipation of subsequent cash trades; and (4) futures contracts and options may be used by hedge fund managers to hedge or leverage positions in portfolios in their respective funds. Authorization to use these derivative financial instruments currently is restricted to 26 hedge fund managers, who manage investments totaling $506,452,000.

Cambridge is also authorized to use derivatives to execute certain investment strategies. Derivative financial instruments are recorded at fair value in the Statements of Financial Position with changes in fair value reflected in the Statements of Activities.

## 5. Derivative Financial Instruments (continued)

During 2015 and 2014, the foundation invested in a "portable alpha" product which is designed to provide a return in excess of a certain benchmark and requires the use of a derivative swap agreement. The investment manager invests the principal in a basket of securities that replicates the benchmark, and then leverages the principal investment and invests in fixed income strategies. The foundation's investment benchmarked to the Standard & Poor's 500 Index is valued at $6,542,461 and $28,060,731 at December 31, 2015 and December 31, 2014, respectively. The foundation's investment benchmarked to MSCI EAFE was valued at $18,235,555 at December 31, 2014. The total of $6,542,461 and $46,296,286 are reflected on the respective Statements of Financial Position in "Equity securities." A receivable related to the fair value of the derivative swap of approximately $181,000 and a payable of approximately $916,000 at December 31, 2015 and December 31, 2014, respectively, reflecting the fair value of the leveraged investments is included in the "Hedge Funds" category on the Statements of Financial Position, and the change in fair value is included in "Net change in fair value of investments" in the Statements of Activities.

In Cambridge's opinion, the use of derivative financial instruments in its investment program is appropriate and customary for the investment strategies employed. The foundation's management concurs with this opinion. Using those instruments reduces certain investment risks and generally adds value to the portfolio. The instruments themselves, however, do involve some investment and counterparty risk not fully reflected in the foundation's financial statements. Cambridge does not anticipate that losses, if any, from such instruments would materially affect the financial position of the foundation and the foundation's management concurs.

## 6. Charitable Distributions

Charitable distributions include grants, direct charitable activities (DCAs) and program related investments (PRIs). All charitable distributions are made to promote the charitable purpose of the foundation and are "qualifying distributions" as defined by the IRS. The foundation made charitable distributions of $126,796,384 and $130,284,911 in 2015 and 2014, respectively.

The foundation records grants in full as expenses when approved. With the exception of one grant that is discounted at the grantee's estimated internal borrowing rate, grants payable at December 31, 2015 and 2014 represent the present value of multiyear grants using a 3.25 percent discount rate based on the U.S. prime rate in each year. The foundation made grant payments of $114,027,425 and $115,976,297 in 2015 and 2014, respectively.

**6. Charitable Distributions (continued)**

As of December 31, 2015, the foundation had grant commitments which are scheduled for payment in future years as follows:

| | |
|---|---|
| 2016 | $ 76,640,642 |
| 2017 | 38,031,851 |
| 2018 | 20,357,888 |
| 2019 | 11,924,721 |
| Thereafter | 28,000,000 |
| | 174,955,102 |
| Discounted to present value | (17,883,722) |
| Grants payable | $157,071,380 |

The foundation made DCA payments of $12,882,519 and $11,251,024 in 2015 and 2014, of which $2,131,680 and $1,899,821, respectively, were allocated from general and administrative expenditures.

PRIs in the Statements of Financial Position consist of three amortizing loans with principal amounts of $1,250,000, $375,000 and $865,000, one limited partnership interest with a cost basis of $1,743,256 and fifteen convertible promissory notes representing a maximum potential investment and outstanding principal of $4,266,120.

The first amortizing loan is a 13-year loan that began in 2007, bearing interest at 1% per annum. The loan terms provide for interest payments only during the first 10 years and principal amortization in years 11 through 13. In September 2015, the foundation amended this loan agreement resulting in $1,250,000 conversion to a grant in 2015. If certain programmatic benchmarks are met in 2016 and 2017, an additional $625,000 will be converted to grants in each year. The foundation has recognized a valuation allowance of $562,500 against the remaining loan and as a result it is reflected on the Statements of Financial Position at $687,500. The second amortizing loan is a 10-year loan that began in 2013, bearing interest at 1% per annum. The loan terms provide for interest and principal payments during the life of a loan. The foundation intends to hold this loan to maturity.

For the second amortizing loan the foundation has recovered $50,000 in 2015 and recognized a valuation allowance of $187,500 against this loan and as a result it is reflected on the Statements of Financial Position at $187,500.

The third amortizing loan is a 7-year loan that began in 2014, bearing interest at 1% per annum. The loan terms provide for interest payments only during the first 3 years and principal amortization in years 4 through 7. The foundation intends to hold this loan to maturity. The foundation has recognized a valuation allowance of $432,500 against this loan and as a result it is reflected on the Statements of Financial position at $432,500.

**6. Charitable Distributions (continued)**

The limited partnership represents an ownership interest in a public media business incubator that is meant to be a demonstration project for the field. The general partner makes capital calls specified under the terms of the partnership agreement. As a reflection of the below market return expected on this investment, the foundation has a 50% reserve on this investment and it is reflected on the Statements of Financial Position at $871,628.

The convertible promissory notes have a five-year term and do not bear interest. The notes are convertible to equity at a premium to the company valuation established by a third-party investor as part of a qualifying future round of investment. The premium declines over the term of the note. The foundation has fully reserved the value of these notes and as a result they have a zero value on the Statements of Financial Position.

The foundation made PRI payments of $246,667 and $3,057,590 in 2015 and 2014, respectively.

**7. Federal Excise Taxes and Other Taxes, net**

The foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the code and, with the exception of unrelated business income from debt-financed, passive investments, is not subject to federal or state income tax. However, the foundation is classified as a private foundation and is subject to a federal excise tax of 2 percent (or 1 percent under certain circumstances) on net investment income and net realized gains, as defined by the code. The foundation expects to qualify for the 1 percent tax rate in 2015 and was subject to the 1 percent tax rate in 2014.

The foundation files tax returns in the U.S. federal jurisdiction. The foundation is generally only subject to U.S. federal tax examinations by tax authorities for all years since 2010. The foundation's management analyzed its tax positions and determined that no additional income tax adjustment related to the ASC 740, Income Taxes, is necessary for the fiscal years ended December 31, 2015 and December 31, 2014.

For the year ended December 31, 2015, the foundation paid approximately $2,337,000 in estimated excise and other taxes. During the year ended December 31, 2014, estimated excise and other taxes paid, net of refunds received, of $747,000. The foundation recognized a decrease of approximately $897,000 and $392,000 in its deferred tax liability in 2015 and 2014, respectively. The deferred tax liability is recorded at 1 percent. No valuation allowance is applied against either amount.

At December 31, 2015 and 2014 the foundation recorded prepaid taxes in other assets in the Statements of Financial Position of $3,006,278 and $1,038,593, respectively.

## 8. Employee Pension Plan and Other Postretirement Benefit Plans

The foundation sponsors a pension plan with defined benefit and cash balance features for its eligible employees. The pension benefits for all employees hired prior to January 1, 2000, will be the greater of the benefits as determined under the defined benefit feature of the pension plan or the cash balance feature of the pension plan. The pension benefits for all employees hired on or subsequent to January 1, 2000, will be determined under the cash balance feature of the pension plan. The foundation also sponsors postretirement medical and life insurance benefit plans. During 2015, the foundation amended its post-retirement medical and life insurance benefit plans restricting access for certain future retirees.

The following table sets forth the pension and other postretirement benefits plans' funded status and amounts recognized in the foundation's Statements of Activities and Financial Position:

| | Pension Plan Year Ended December 31 | | Other Postretirement Benefit Plan Year Ended December 31 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Funded status** | | | | |
| Fair value of plan assets | $ 13,418,214 | $ 13,366,326 | $ 1,772,838 | $ 1,829,714 |
| Benefit obligation | (14,087,659) | (14,681,883) | (2,056,974) | (3,005,843) |
| Funded status of the plan | $ (669,445) | $ (1,315,557) | $ (284,136) | $ (1,176,129) |
| Prior service credit | $ 4,474 | $ 6,830 | $ 690,154 | $ 317,817 |
| Accumulated (loss) gain | (4,622,116) | (4,361,278) | 306,398 | (290,595) |
| Pension and postretirement changes other than net periodic pension and postretirement costs | (4,617,642) | (4,354,448) | 996,552 | 27,222 |
| Cumulative employer contribution in excess (deficiency) of net periodic benefit costs | 3,948,197 | 3,038,891 | (1,280,688) | (1,203,351) |
| Accrued benefit asset recognized in the Statements of Financial Position | $ (669,445) | $ (1,315,557) | $ (284,136) | $ (1,176,129) |

## 8. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

| | Pension Plan | | Other Postretirement Benefit Plan | |
|---|---|---|---|---|
| | Year Ended December 31 | | Year Ended December 31 | |
| | 2015 | 2014 | 2015 | 2014 |
| **Components of net periodic benefit cost** | | | | |
| Service cost | $ 606,741 | $ 609,050 | $ 259,253 | $ 218,109 |
| Interest cost | 519,712 | 558,852 | 114,421 | 113,057 |
| Expected return on plan assets | (918,568) | (939,861) | (142,360) | (135,737) |
| Amortization of prior service cost | (2,356) | (2,356) | (63,564) | (63,564) |
| Recognized actuarial loss | 325,165 | 244,126 | - | - |
| Net periodic benefit cost | $ 530,694 | $ 469,811 | $ 167,750 | $ 131,865 |
| Actual return on plan assets | $ (394,897) | $ 562,865 | $ (56,876) | $ 72,886 |
| Employer contributions | 1,440,000 | - | 90,413 | 91,139 |
| Employee contributions | - | - | 41,146 | 46,604 |
| Benefits paid | 993,215 | 908,648 | 131,559 | 137,743 |
| **Actuarial assumptions** | | | | |
| Discount rate | 4.49% | 3.85% | 4.58% | 4.19% |
| Expected return on plan assets | 7.5 | 7.75 | 7.5 | 8 |
| Rate of compensation increase | 3.5 | 3.5 | 3.5 | 3.5 |
| **Health care cost trend rate assumptions** | | | | |
| Initial trend rate | N/A | N/A | 7.10% | 7.40% |
| Ultimate trend rate | N/A | N/A | 4.5 | 4.5 |
| Year ultimate trend is reached | N/A | N/A | 2028 | 2028 |

The expected long-term rate of return on plan assets for determining net periodic pension cost is chosen by the foundation from a best estimate range determined by the actuary by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plan.

The calculations related to other postretirement benefit plans do not anticipate any savings from the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

**8. Employee Pension Plan and Other Postretirement Benefit Plans (continued)**

Expected benefit payments are as follows:

| | Pension Plan | Other Postretirement Benefit Plan |
|---|---|---|
| 2016 | $ 838,010 | $ 84,488 |
| 2017 | 978,364 | 84,015 |
| 2018 | 1,096,621 | 96,602 |
| 2019 | 1,064,818 | 98,160 |
| 2020 | 1,138,867 | 112,196 |
| 2021-2025 | 5,000,518 | 677,027 |

During 2016, the foundation is not required to make any contributions to the pension plan. The foundation will be required to make a contribution of $84,488 to the other post-retirement benefit plan. The foundation may choose to make additional contributions to either plan during 2016.

The investment goal for plan assets is to provide sufficient liquidity to meet payout requirements while maintaining safety of principal through prudent diversification. During 2015 asset allocation targets for the pension plan and other postretirement benefit plan were domestic equities, 32.5 percent; international equities, 27.5 percent; emerging market equities, 5 percent; fixed income, 25 percent; and commodities 10 percent.

**8. Employee Pension Plan and Other Postretirement Benefit Plans (continued)**

A detail of the fair value of plan assets by investment class follows:

| | Pension Plan December 31 | | | | Other Postretirement Benefit Plan December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | **%** | 2014 | % | **2015** | **%** | 2014 | % |
| Cash and cash equivalents | **$ 154,223** | **1%** | $ 103,752 | 1 | **$ 8,579** | **0%** | $ 6,785 | 0 |
| Interest, dividends and other investment receivables | **48** | **0%** | 7 | 0 | **2** | **0%** | 2 | 0 |
| U.S. government and agency obligations | **2,358,684** | **18%** | 2,307,996 | 17 | **312,923** | **18%** | 326,494 | 18 |
| Corporate bonds and other obligations | **1,047,346** | **8%** | 1,066,047 | 8 | **138,968** | **8%** | 146,073 | 8 |
| Equity securities | **8,884,380** | **66%** | 8,915,248 | 67 | **1,178,865** | **66%** | 1,219,678 | 67 |
| Commodities | **973,533** | **7%** | 973,276 | 7 | **133,801** | **8%** | 130,682 | 7 |
| Total | **$ 13,418,214** | **100%** | $ 13,366,326 | | **$ 1,773,138** | **100%** | $ 1,829,714 | |

The pension plan and other postretirement benefit plan invest principally in collective trust investments of a major bank which are categorized as Level 2 within the fair value hierarchy of ASC 820.

In addition, the foundation sponsors a defined contribution plan for its eligible employees for which it has no fixed liabilities. Effective Jan. 1, 2002, the foundation's defined contribution plan was amended to add an employer matching contribution component. During 2015 and 2014, the foundation made contributions to the defined contribution plan of approximately $285,000 and $271,000, respectively.

**9. Leases**

Rental expense for office leases for 2015 and 2014 was approximately $968,000 and $948,000, respectively. The foundation leases offices in Miami, Florida and several other U.S. cities. The foundation's Miami lease is approximately 22,800 square feet of office space, and expires in 2020. Future minimum lease payments for the Miami office lease are as follows:

| | |
|---|---|
| 2016 | $ 925,889 |
| 2017 | 953,731 |
| 2018 | 982,259 |
| 2019 | 1,011,699 |
| 2020 | 1,042,053 |
| | $ 4,915,631 |

## 10. Beneficial Interest in Remainder Trusts

The foundation has a beneficial interest in charitable remainder trusts established by John S. Knight. Under the terms of the trusts, distributions are made from the trusts to designated beneficiaries for the remainder of their lives. The remainder of the assets in the trusts will be transferred to the foundation. All of the assets of the trusts are administered and held in the custody of First Merit Bank. The trusts were established in 1975 and became irrevocable in 1981.

The foundation values its interest in the trusts using the methodology described in the *Financial Reporting Whitepaper: Measurement of Fair Value for Certain Transactions of Not-for Profit Entities,* issued by AICPA. This methodology is a two-step process starting with the fair market value of the assets. The first step uses a 5 percent payout rate, life expectancy based on IRS Mortality Tables and assumed investment returns to determine the value of the interest at its projected termination. The second step discounts this future value using an estimated investment return rate of 7.5%. As of December 31, 2015 and 2014 the value of the foundation's estimated interest in the remainder trusts reported on the Statements of Financial Position was approximately $46,498,000 and $48,617,000, respectively. This compares to a current fair market value of the trusts of approximately $80,608,000 and $86,573,000 in December 31, 2015 and 2014, respectively.

For the purposes of applying ASC 820, all beneficial interest in remainder trust assets are classified as Level 3 for the years ended December 31, 2015 and 2014. The changes in beneficial interest in remainder trust assets classified as Level 3 are as follows for the years ended December 31, 2015 and 2014:

**Level 3 Reconciliation**

| | Remainder Trust |
|---|---|
| Beginning Balance, January 1, 2014 | $ 46,313,634 |
| Change in value of beneficial interest in remainder trusts | 2,303,827 |
| Ending Balance, December 31, 2014 | $ 48,617,461 |
| | |
| Beginning Balance, January 1, 2015 | $ 48,617,461 |
| Change in value of beneficial interest in remainder trusts | (2,119,332) |
| Ending Balance, December 31, 2015 | $ 46,498,129 |

Change in value of beneficial interest in remainder trusts are included in "Changes in temporary restricted net assets" in Statements of Activities for the years ended December 31, 2015 and 2014.