

THE MCKNIGHT FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

**THE MCKNIGHT FOUNDATION
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CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The McKnight Foundation
Minneapolis, Minnesota

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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.

Board of Directors
The McKnight Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The McKnight 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 24, 2016

THE MCKNIGHT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
ASSETS		
Cash	\$ 5,377	\$ 5,878
Investments:		
Marketable Securities:		
Cash and Short-Term Investments	209,836	197,999
Equity Securities	866,462	965,826
Corporate Debt Securities	81,734	73,106
Asset-Backed Securities	47,182	46,740
Government Securities	71,074	61,416
Securities Loaned to Broker	56,249	38,277
Alternate Investments:		
Private Equity	368,539	399,129
Hedge Fund	328,226	325,775
Other Alternative	68,606	65,558
Total Investments	2,097,908	2,173,826
Program-Related Investments	19,821	20,807
Investment Collateral	58,630	39,148
Accrued Interest and Dividends Receivable	1,701	1,720
Grant Receivable (Net)	14,118	18,739
Refundable Federal Excise Tax	-	62
Refundable Unrelated Business Income Tax	724	571
Other Assets	1,644	2,177
Total Assets	\$ 2,199,923	\$ 2,262,928
LIABILITIES AND NET ASSETS		
LIABILITIES		
Net Due to Fiscal Agents for Securities with Settlements Pending	\$ 6,168	\$ 2,808
Accounts Payable, Accrued Expenses, and Other Liabilities	2,772	1,941
Unpaid Grants (Net)	83,624	90,895
Payable Under Investment Loan Agreement	58,630	39,148
Federal Excise Tax	6,750	7,266
Total Liabilities	157,944	142,058
NET ASSETS		
Unrestricted	2,013,703	2,087,832
Unrestricted Board-Designated	13,434	14,285
Total Unrestricted Net Assets	2,027,137	2,102,117
Temporarily Restricted	14,842	18,753
Total Net Assets	2,041,979	2,120,870
Total Liabilities and Net Assets	\$ 2,199,923	\$ 2,262,928

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES AND GAINS		
Investment Income:		
Interest	\$ 8,030	\$ 10,384
Dividends	20,995	23,167
Gain on Investments	2,518	127,290
Miscellaneous Income	415	526
Net Assets Released from Restriction	4,435	6,402
Total Revenue and Gains	36,393	167,769
EXPENSES		
Grants Appropriated (Net) and Other Program Related Expense	81,348	65,512
Investment Management Fees	14,084	12,863
Administrative Expenses	13,496	13,732
Federal Tax	2,445	2,825
Total Expenses	111,373	94,932
CHANGE IN UNRESTRICTED NET ASSETS	(74,980)	72,837
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Grant Income	4	16
Change in Discount and Allowance	520	669
Release from Restriction	(4,435)	(6,402)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(3,911)	(5,717)
CHANGE IN NET ASSETS	(78,891)	67,120
Net Assets - Beginning of Year	2,120,870	2,053,750
NET ASSETS - END OF YEAR	\$ 2,041,979	\$ 2,120,870

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (78,891)	\$ 67,120
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Gain on Investments	(2,518)	(127,290)
Discount on Program-Related Investments	186	(297)
Discount on Grants Receivable	(521)	(669)
Discount on Unpaid Grants	1,339	1,183
Changes in Operating Assets and Liabilities:		
Accrued Interest and Dividends Receivable	19	962
Program-Related Investments Receivable	(800)	(500)
Grants Receivable	5,142	-
Federal Excise Tax Refund	62	225
Refundable Unrelated Business Income Tax	(153)	(442)
Other Assets	761	(527)
Accounts Payable, Accrued Expenses, and Other Liabilities	831	531
Unpaid Grants	(8,610)	(24,258)
Federal Excise Tax, Deferred	(516)	133
Net Cash Used by Operating Activities	(83,669)	(83,829)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(228)	(126)
Investments Purchased	(434,238)	(699,345)
Investment Sales and Maturities	517,634	779,222
Net Cash Provided by Investing Activities	83,168	79,751
NET DECREASE IN CASH	(501)	(4,078)
Cash - Beginning of Year	5,878	9,956
CASH - END OF YEAR	\$ 5,377	\$ 5,878
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Federal Excise Taxes Paid	\$ 2,550	\$ 2,750
Unrelated Business Income Taxes Paid	\$ 607	\$ 169

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Foundation

The McKnight Foundation (the Foundation), a Minnesota-based family foundation, seeks to improve the quality of life for present and future generations. The Foundation uses all its resources to attend, unite and empower those it serves. The Foundation's grant making priorities include the arts, early literacy, regional economic and community development, neuroscience research, international crop research, climate and alternative energy, Mississippi river water quality, and greater Minnesota. The Foundation's primary geographic focus is the state of Minnesota.

Financial Statement Presentation

Net asset, revenues, and gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Unrestricted net assets are not subject to donor imposed stipulations. Designated amounts represent those funds that the board of directors has set aside for a particular purpose.

Temporarily Restricted – Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Temporarily restricted net assets consist of grant receivable amounts from Bill and Melinda Gates Foundation as well as amounts received from this foundation that have not been used as of year-end.

Permanently Restricted – Resources subject to donor imposed restrictions that they be maintained permanently by the Foundation.

The Foundation has no permanently restricted net assets.

Tax Exempt Status

The Foundation is tax exempt under Section 501(c)(3) of the Internal Revenue Code and the applicable Minnesota Statutes. The Foundation is a private foundation under Section 509(a) of the Code and pays federal excise taxes on taxable investment income and income tax on any unrelated business income as defined by the Internal Revenue Service (IRS).

The Foundation adopted the accounting standards for uncertain tax positions and files as a tax-exempt organization. No liability has been recognized by the Foundation as a result of the implementation of this standard. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions. These affect assets and liabilities as reported, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For cash flow statement reporting purposes, the Foundation considers all bank demand accounts to be cash.

Concentrations and Credit Risk

The Foundation maintains its cash in bank deposit accounts, which frequently exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

The Foundation invests in various securities, including U.S. government securities and domestic and foreign corporate debt and equity securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the value of investments.

Investments

Investments are stated at fair value. The fair value of publicly traded securities is based upon quoted market prices and net asset values. For other securities, for which no such quotations or valuations are readily available, fair value is estimated using values provided by external investment managers. These can consist of private equity investments, limited partnerships, mutual funds, fund of funds and hedge funds and are recorded at approximate fair value as determined and approved by the managers or valuation committees of the alternative investments based upon judgments, which include, among other factors, restrictions affecting marketability and operating results.

The Foundation may also be invested in fixed income securities that are not actively traded and as such quoted market prices may not be available. These investments are priced using the estimates provided by investment managers. The Foundation believes that these valuations are a reasonable estimate of fair value as of December 31, 2015 and 2014, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Receivables and payables with settlements pending arise out of the ordinary course of buys and sells within the Foundation's investment portfolio. These items are short term in nature and are settled in the next year.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Investments (Continued)

The Foundation invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Changes in fair value are recorded as unrealized gains or losses in the period of change. Realized gains and losses on sales of securities are generally determined using the specific identification method.

The Foundation accounts for derivative instruments in accordance with accounting standards that require that all derivative instruments directly owned by the Foundation be recognized in the statements of financial position at fair value. The fair value adjustment is recorded directly to the invested asset and recognized as an unrealized gain or loss in the statement of activities. The Foundation uses derivative instruments principally to manage equity price risk in the Foundation's investment holdings.

Foreign Currency Translation

The assets denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues are translated using the actual rate on the day of the transaction. Revenues from private equity funds denominated in a foreign currency are translated using the weighted average actual rate during the quarterly reporting period.

Fair Value Measurements

The Foundation follows accounting standards that define fair value, establish a framework for measuring fair value in accordance with existing accounting principles generally accepted in the United States of America, and expand disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes inputs according to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level inputs are defined as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

**NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value Measurements (Continued)

The fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs and minimize the use of unobservable inputs.

Net Due to Fiscal Agents for Securities with Settlements Pending

The amounts due to fiscal agents for securities with settlements pending result from the sales or purchases of securities made prior to the end of the fiscal year, but settled after the fiscal year-end.

Board Designated Net Assets

Board designated net assets consist of amounts designated for board directed grant-making and are presented as unrestricted net assets on the statements of financial position.

New Accounting Pronouncements

During the year ended December 31, 2015, the Foundation early adopted a provision of Financial Accounting Standards Board Accounting Standards Update 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification 825-10-50. As such, the Foundation has omitted this disclosure for the years ended December 31, 2015 and 2014. The early adoption of this provision did not have an impact on the Foundation's financial position or results of operations.

Subsequent Events

The Foundation has evaluated events and transactions for potential recognition or disclosure in these financial statements through August 24, 2016, the date the financial statements were available to be issued.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

NOTE 2 INVESTMENTS

Gains on investments for the years ended December 31, 2015 and 2014 consist of the following:

	2015	2014
Marketable Securities:		
Realized Gain on Sale of Securities	\$ 64,890	\$ 108,887
Unrealized Loss	(103,456)	(54,770)
Alternative Investments:		
Realized Gain on Sale of Securities	56,523	57,214
Unrealized (Loss) Gain	(13,961)	17,758
Fund Loss, Net of Fees	(1,478)	(1,799)
Total	\$ 2,518	\$ 127,290

NOTE 3 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1 – Nature of Foundation and Significant Accounting Policies.

Valuation Inputs

The following tables set forth the Foundation's assets that are measured and recognized at fair value on a recurring basis as of December 31, 2015 and 2014, under the appropriate level of the fair value hierarchy. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Cash and Short-Term Investments are recorded at cost and have been included to facilitate the reconciliation of the footnote to the statements of financial position.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Inputs (Continued)

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable Securities:				
Equity Securities:				
Domestic	\$ 296,216	\$ -	\$ -	\$ 296,216
Corporate Debt Securities	-	77,478	-	77,478
Asset-Backed Securities	-	47,182	-	47,182
Government Securities	-	57,486	-	57,486
Securities Loaned to Brokers	-	56,249	-	56,249
Cash and Short-Term Investments	-	-	-	209,836
Investment Subtotal	296,216	238,395	-	744,447
Investment Collateral	-	58,630	-	58,630
Total Investments at Fair Value	296,216	297,025	-	803,077
Investments Measured at Net Asset Value or its Equivalent	-	-	-	1,353,461
Total Investments	<u>\$ 296,216</u>	<u>\$ 297,025</u>	<u>\$ -</u>	<u>\$ 2,156,538</u>
<u>December 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable Securities:				
Equity Securities:				
Domestic	\$ 357,092	\$ -	\$ -	\$ 357,092
Corporate Debt Securities	-	68,870	-	68,870
Asset-Backed Securities	-	46,740	-	46,740
Government Securities	-	48,062	-	48,062
Securities Loaned to Brokers	-	38,277	-	38,277
Cash and Short-Term Investments	-	-	-	197,999
Investment Subtotal	357,092	201,949	-	757,040
Investment Collateral	-	39,148	-	39,148
Total Investments at Fair Value	357,092	241,097	-	796,188
Investments Measured at Net Asset Value or its Equivalent	-	-	-	1,416,786
Total Investments	<u>\$ 357,092</u>	<u>\$ 241,097</u>	<u>\$ -</u>	<u>\$ 2,212,974</u>

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The Foundation invests primarily in investment funds, limited partnerships, or non-U.S. corporations referred to collectively for this purpose as investment funds. Investment funds are presented in the accompanying financial statements at fair value as determined under standards for fair value measurements and disclosures. In situations where the investment fund does not have a readily determinable fair value and meets other eligibility criteria, the Foundation measures fair value based on net asset value per share or its equivalent. The adoption of authoritative guidance on fair value measurements and disclosure did not have a material impact on the accompanying financial statements.

The following tables list investments in investment funds by major category as of December 31, 2015 and 2014:

<u>December 31, 2015</u>	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity Securities	\$ 570,246	\$ -	Ranges from weekly to quarterly	2 days prior to opening date
Corporate Debt Securities	4,256	-	Ranges from weekly to quarterly	2 days prior to opening date
Asset-Backed Securities	-	-	Ranges from weekly to quarterly	2 days prior to opening date
Government Securities	13,588	-	Ranges from weekly to quarterly	2 days prior to opening date
Private Equity	368,539	150,396	N/A	N/A
Hedge Fund	328,226	-	Quarterly	45-95 days prior to opening date
Other Alternatives	68,606	30,955	N/A	N/A

<u>December 31, 2014</u>	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity Securities	\$ 608,734	\$ -	Ranges from weekly to quarterly	2 days prior to opening date
Corporate Debt Securities	4,236	-	Ranges from weekly to quarterly	2 days prior to opening date
Asset-Backed Securities	-	-	Ranges from weekly to quarterly	2 days prior to opening date
Government Securities	13,354	-	Ranges from weekly to quarterly	2 days prior to opening date
Private Equity	399,129	180,893	N/A	N/A
Hedge Fund	325,775	-	Quarterly	45-95 days prior to opening date
Other Alternatives	65,558	31,821	N/A	N/A

Equity securities include commingled funds containing investments in domestic or foreign stocks that value their investments daily but impose certain liquidity restrictions on investors through periodic fund openings ranging from weekly to quarterly. Investing in equity securities provides diversification, dividend income, and growth potential to the overall portfolio.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Corporate debt securities include commingled funds containing investments in corporate bonds that value their investments daily but impose certain liquidity restrictions on investors through periodic fund openings ranging from weekly to quarterly. Investing in corporate debt securities provides diversification, interest income, and growth potential to the overall portfolio.

Asset-backed securities include commingled funds containing investments in mortgage-backed securities that value their investments daily but impose certain liquidity restrictions on investors through periodic fund openings ranging from weekly to quarterly. Investing in mortgage-backed securities provides diversification, interest income, and growth potential to the overall portfolio.

Government securities include commingled funds containing investments in government bonds that value their underlying investments daily but impose certain liquidity restrictions on investors that have periodic fund openings ranging from weekly to quarterly. Investing in government debt securities provides diversification, interest income, low risk and stability to the overall portfolio.

Private equity includes investments in funds of funds holding underlying positions in funds owning private assets. The unobservable inputs used to determine the fair value of the private equity investments have been estimated based on the capital account balances reported by underlying partnerships subject to the funds' management review and judgment. Underlying investments are valued quarterly and have restrictive liquidity provisions. Investing in private equity provides diversification, growth potential, and wider market access to the overall portfolio.

Hedge funds include the position held by a trust in which the Foundation invests as part of an overall tactical asset allocation strategy. Hedge funds also include funds held as a strategy to reduce portfolio volatility. The unobservable inputs used to determine the fair value of the hedge fund investments have been estimated based on the capital account balances reported by underlying funds subject to the funds' management review and judgment. Underlying assets are valued by the manager at a maximum quarterly. Liquidity restrictions are imposed on investors through quarterly fund openings. Investing in this hedge fund strategy provides diversification, growth potential, and risk reduction to the overall portfolio.

Other alternative investments include limited partnerships in natural resources and distressed debt, and an investment in a real estate investment trust (REIT). The unobservable inputs used to determine the fair value of the other alternative investments have been estimated based on the capital account balances reported by underlying funds subject to the funds' management review and judgment. In this category units are priced daily but the fund managers impose certain liquidity restrictions on participants. Investments in such alternative assets provide diversification and growth potential to the overall portfolio.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 DERIVATIVES

The Foundation uses derivative instruments principally to manage risk in the Foundation's investment holdings. The following is a summary of the Foundation's risk management strategy and the effect on the financial statements:

The Foundation manages an investment portfolio. As part of the Foundation's strategy to manage the risk inherent in the portfolio, the Foundation may enter into hedging transactions, using derivatives, to protect the fair value of investments in the portfolio or the anticipated future cash flows associated with the forecasted purchases or sales of certain investments. Derivative instruments owned are recorded at fair value in the accompanying statements of financial position, and the related gains and losses are immediately recognized in the statements of activities. Net realized and unrealized gains of approximately \$23 and \$1,445 were recognized for the years ended December 31, 2015 and 2014, respectively.

The Foundation manages its risk on a cash collateral pool included in the investment portfolio through the use of futures. Possible risk arises from movement of securities' values and interest rates and the resultant inability of counterparties to meet the terms of the contracts. The Foundation had 361 and 238 contracts outstanding and contract exposure amounts of \$49,165 and \$33,017 as of December 31, 2015 and 2014, respectively. The net fair value of the contract position is included in the Foundation's investment portfolio.

NOTE 5 SECURITIES LENDING

Under a securities lending agreement, the Foundation has authorized the lending agent to manage and administer a securities lending program. The lending agent has the responsibility for negotiating the terms of each loan and for collecting the required collateral, including any accrued interest. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 102% of the fair value of securities lent.

The fair market value of securities on loan was \$56,249 and \$38,277 as of December 31, 2015 and 2014, respectively. The Foundation reflects the collateral received for securities on loan as an asset on its statement of financial position and its obligation to return the collateral as a liability on its statement of financial position. An asset of approximately \$58,630 and \$39,148, and the related liability representing the obligation to return collateral received of \$58,630 and \$39,148 are reflected on the statement of financial position as of December 31, 2015 and 2014, respectively. Net investment earnings for the securities lending activity was \$81 and \$55 for the years ended December 31, 2015 and 2014, respectively.

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NOTE 6 PROGRAM-RELATED INVESTMENTS

The Foundation made loans to various local nonprofit organizations to fund projects that fulfill the charitable purposes of the Foundation. Interest rates on the loans range from 1%-2%. The Foundation discounted loans that were made at below-market-rate interest rates. In the event that a program investment loan is determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as an allowance. An allowance for program related investments is established based on annual review by the Foundation's Investment Committee of the status of all program related investments. If the Investment Committee determines that a specific program related investment should have an allowance established the Investment Committee recommends to the board of directors who approves the allowance. No allowances were recorded at December 31, 2015 and 2014. Total loans outstanding at December 31, 2015 and 2014 were \$19,821 and \$20,807, respectively.

Principal payments on the program-related investments are expected to be collected as follows:

	2015	2014
Less than One Year	\$ 500	\$ 6,500
One Year to Five Years	19,700	10,250
Greater than Five Years	1,000	5,250
Present Value Discount	(1,379)	(1,193)
Total	<u>\$ 19,821</u>	<u>\$ 20,807</u>

At December 31, 2015 and 2014, the program related investments consisted of the following:

	2015	2014
Program Related Investments	\$ 21,200	\$ 22,000
Less Discounts:		
Beginning of Year	(1,193)	(1,490)
(Increases) Decreases	(186)	297
End of Year	<u>(1,379)</u>	<u>(1,193)</u>
Total Program Related Investments, Net	<u>\$ 19,821</u>	<u>\$ 20,807</u>

At December 31, 2015 and 2014, there were no past due program-related investments.

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NOTE 7 GRANT RECEIVABLE

In October 2008, the Foundation was awarded a project support grant from the Bill and Melinda Gates Foundation totaling \$26,749. This grant is intended to assist the Foundation's Collaborative Crop Research Program in identifying, supporting and facilitating the success of crop research projects designed to overcome constraints to food and nutritional security in sub-Saharan Africa. The grant receivable has been discounted using a rate of 3.25% in 2015 and 2014, which is based on what the Foundation would expect to earn on investments with a similar term.

The original terms of the agreement allowed the Foundation to receive funds in semi-annual installments of up to \$2,500 for five years after the initial disbursement of \$1,749. In 2009, the agreement was amended in which the total grant award will be reduced by the difference between the \$5,000 expected to be received each year per the payment schedule below and the amount actually disbursed. As a result of the change in terms, the amount of the change in the total grant award was (\$743) in 2009. The remaining balance was received in 2013, leaving no ending balance of the original grant at December 31, 2013.

In October 2013, the Foundation was awarded a renewal grant from the Bill and Melinda Gates Foundation totaling \$24,961, payable over five years. This grant is intended to assist the Foundation's Collaborative Crop Research Program in continuing the work identified in the original grant. The grant receivable has been discounted using a rate of 3.25% in 2015 and 2014, which is based on what the Foundation would expect to earn on investments with a similar term. No allowance was recorded as of December 31, 2015 and 2014.

The timing of grant receivable payments is as follows as of December 31:

	2015	2014
Less than One Year	\$ 5,056	\$ 5,142
One Year to Five Years	9,659	14,715
Present Value Discount	(597)	(1,118)
Total	\$ 14,118	\$ 18,739

NOTE 8 FEDERAL TAXES AND DISTRIBUTION REQUIREMENTS

Federal Excise Taxes

The Foundation is subject to a 2% excise tax on its taxable investment income, which includes income from investments plus net realized capital gains (net capital losses, however, are not deductible). Tax on net investment income is reduced from 2% to 1% for any taxable year in which the Foundation's qualifying distributions meet certain requirements prescribed by Internal Revenue Code Section 4940(e)(1).

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NOTE 8 FEDERAL TAXES AND DISTRIBUTION REQUIREMENTS (CONTINUED)

Federal Excise Taxes (Continued)

Deferred federal excise taxes based on the 2% rate are computed on the differences between the carrying value and tax basis of the Foundation's investments, as well as temporary differences in income recognition.

The composition of federal excise tax is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Provision:		
Current	\$ 2,699	\$ 2,975
Deferred	(602)	134
Total	<u>\$ 2,097</u>	<u>\$ 3,109</u>
Receivable (Liability):		
Current	(86)	\$ 62
Deferred	(6,664)	(7,266)
Total	<u>\$ (6,750)</u>	<u>\$ (7,204)</u>

Distribution Requirements

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, within one year after the end of each fiscal year, 5% of the fair market value of its investment assets, as defined. The investments includable for the 5% distribution requirement are exclusive of those investments deemed to be held for charitable activities (representing 1.5% of the investments) or other program related investments. Qualifying distributions are determined on a cash basis and include grant payments and certain other expenses incurred by the Foundation.

Unrelated Business Income Taxes

In accordance with Section 511(a)(1) of the Code, the Foundation is subject to corporate tax rates on net income earned from unrelated business activities. The Foundation's investments produce minimal amounts of unrelated business income. The payments made for income taxes relating to unrelated business income was \$607 and \$169 in 2015 and 2014, respectively.

NOTE 9 GRANTS – PAID AND PAYABLE

Grant commitments are recognized in the year authorized by the Foundation's board of directors. Unpaid grants at December 31, 2015 and 2014, represent the present value of multiyear grants that are payable from 2015 to 2023. Present value is determined using a discount rate ranging from 3.25% to 3.26%. Total amount of grant funding was \$88,409 and \$88,357 in 2015 and 2014, respectively.

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NOTE 9 GRANTS – PAID AND PAYABLE (CONTINUED)

The timing of unpaid grants is as follows as of December 31:

	2015	2014
Less than One Year	\$ 49,013	\$ 43,549
One Year to Five Years	34,214	44,568
Greater than Five Years	3,960	7,680
Present Value Discount	(3,563)	(4,902)
Total	<u>\$ 83,624</u>	<u>\$ 90,895</u>

NOTE 10 RELATED PARTIES

The Foundation has agreed to provide grants to The McKnight Endowment Fund for Neuroscience (the Fund) annually through 2023, for the purpose of funding and administering neuroscience awards. The Foundation, which the Fund relies upon for grant funding, has the ability to appoint 2 of the 10 members of the Fund's board of directors. During 2015 and 2014, \$3,721 and \$3,704 of grants were paid to the Fund, respectively. Grants to be paid to the Fund are included in Note 9 and are as follows as of December 31:

	2015	2014
Less than One Year	\$ 3,875	\$ 3,875
One Year to Five Years	19,375	19,375
Greater than Five Years	3,960	7,681
Present Value Discount	(2,777)	(3,573)
Total	<u>\$ 24,433</u>	<u>\$ 27,358</u>

Pursuant to an administrative agreement, the Fund reimbursed the Foundation \$100 for each of the years ended December 31, 2015 and 2014, for administrative services provided by the Foundation.

During the year, grants have been approved and disbursed to organizations in which some of the board members may be involved. It is the Foundation's policy to have each board member disclose any potential conflict of interest. These board members are prohibited from voting on grants to these organizations in those instances.

During the year, payments have been made to board members for their services as board members.