



WINTHROP ROCKEFELLER FOUNDATION

FINANCIAL STATEMENTS
December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

The Winthrop Rockefeller Foundation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Winthrop Rockefeller Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of **The Winthrop Rockefeller Foundation** (the Foundation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 of 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 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.

To the Board of Directors of
The Winthrop Rockefeller Foundation
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Opinion

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the financial position of **The Winthrop Rockefeller Foundation** as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Winthrop Rockefeller Foundation as of and for the year ended December 31, 2015, were audited by other auditors whose report dated May 16, 2016, expressed an unmodified opinion on those statements.

Thomas & Thomas LLP

Certified Public Accountants

May 18, 2017
Little Rock, Arkansas

Financial Statements

The Winthrop Rockefeller Foundation

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 6,004,590	\$ 3,532,465
Accrued interest receivable and other assets	147,951	174,731
Contributions receivable	22,250	22,250
Investment securities	115,549,293	123,209,125
Program-related investments, at cost	6,472,931	6,251,230
Mission-related investments, at cost	955,000	425,000
Certificates of deposit	457,918	454,153
Property and equipment, net	121,625	152,440
TOTAL ASSETS	<u>\$ 129,731,558</u>	<u>\$ 134,221,394</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 137,352	\$ 133,740
Grants payable	2,605,215	3,483,080
Other liabilities	187,922	172,181
Total Liabilities	<u>2,930,489</u>	<u>3,789,001</u>
NET ASSETS - UNRESTRICTED	<u>126,801,069</u>	<u>130,432,393</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 129,731,558</u>	<u>\$ 134,221,394</u>

See accompanying notes to financial statements.

The Winthrop Rockefeller Foundation

STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED SUPPORT, REVENUES AND GAINS (LOSSES)		
Grants and contributions	\$ 89,000	\$ 179,000
Investment return	3,499,802	(3,168,502)
Total Support, Revenues and Gains (Losses)	<u>3,588,802</u>	<u>(2,989,502)</u>
EXPENSES		
Program Services		
Grants	3,575,680	4,222,495
Program administration	1,829,098	2,187,936
Total Program Service Expenses	<u>5,404,778</u>	<u>6,410,431</u>
Supporting Activities		
Investment management expense	526,182	536,505
General administration	1,240,939	1,249,148
Federal excise tax	48,227	108,277
Total Supporting Activity Expenses	<u>1,815,348</u>	<u>1,893,930</u>
Total Expenses	<u>7,220,126</u>	<u>8,304,361</u>
DECREASE IN NET ASSETS	(3,631,324)	(11,293,863)
NET ASSETS, BEGINNING OF YEAR	<u>130,432,393</u>	<u>141,726,256</u>
NET ASSETS, END OF YEAR	<u>\$ 126,801,069</u>	<u>\$ 130,432,393</u>

See accompanying notes to financial statements.

The Winthrop Rockefeller Foundation

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (3,631,324)	\$ (11,293,863)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation	56,710	50,017
Loss on disposal of property and equipment	-	2,513
Net realized and unrealized (gains) losses on investment securities	(1,554,927)	5,393,876
Interest on certificates of deposit	(3,765)	(1,140)
Change in operating assets and liabilities:		
Accrued interest receivable and other assets	26,780	97,694
Accounts payable	3,612	13,582
Grants payable	(877,865)	281,490
Other liabilities	15,741	(7,181)
Net Cash Used in Operating Activities	<u>(5,965,038)</u>	<u>(5,463,012)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(58,868,519)	(27,469,160)
Proceeds from sale of investment securities and principal pay downs	68,111,490	35,088,494
Purchases of program-related investments	(249,913)	(1,249,535)
Proceeds from program-related investments	-	74,963
Purchase of mission-related investments	(530,000)	(75,000)
Purchase of property and equipment	(25,895)	(49,731)
Net Cash Provided by Investing Activities	<u>8,437,163</u>	<u>6,320,031</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,472,125	857,019
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,532,465</u>	<u>2,675,446</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,004,590</u>	<u>\$ 3,532,465</u>

See accompanying notes to financial statements.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS

The Winthrop Rockefeller Foundation (the "Foundation") is a private foundation incorporated as a nonprofit organization under the laws of the state of Arkansas, and is dedicated to improving the economic and social well-being of Arkansans. The Foundation is a recipient of contributions from the estate of Winthrop Rockefeller. Since inception, the Foundation has received \$25,550,000 from the trust created under the will of Winthrop Rockefeller (the "Trust") in order to grow the long-term assets of the Foundation. Separate grants are provided by the Trust to support the current operations of the Foundation.

The Foundation affirms Winthrop Rockefeller's vision of a thriving and prosperous Arkansas that benefits all Arkansans. The Foundation's mission is to improve the lives of Arkansans in three inter-related areas: education, economic development, and economic, racial, and social justice. For over 40 years, the Foundation has pursued this mission through strategic grant making and partnerships, and using its voice to help close the economic and educational gaps that leave too many Arkansas families in persistent poverty. Understanding that moving Arkansas from poverty to prosperity takes time, the Foundation invests for the long term in efforts that promise a sustained and positive impact for Arkansas. The Foundation is committed to the development, promotion and support of activities, programs and organizations that address education, economic development, and economic, racial, and social justice. In 2008, the Foundation adopted Moving the Needle, a strategic plan that included four specific goals to guide the Foundation's efforts through 2013. In 2013, the Board reaffirmed these goals and adopted Moving the Needle 2.0, a continuation of the strategic plan through 2019. The needle can and must move from poverty to prosperity for all Arkansans.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

(a) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all short-term investment funds and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(b) Investment Securities

The Foundation records purchases of investment securities at cost on the transaction trade date. Thereafter, securities are reported at fair value on the statements of financial position. Changes in fair values are recorded in the period in which they occur. Realized gains and losses on sales of securities are recognized on the transaction trade dates. Dividend income is recorded on the ex-dividend date, and interest income is accrued as it is earned. Investment return presented on the statements of activities includes dividends, interest, other investment income, as well as realized and unrealized gains and losses.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Program-Related Investments

Program-related investments represent a strategy that complements traditional grant making by extending the Foundation's ability to accomplish programmatic goals while preserving assets for future use. Program-related investments may be made in four basic forms, which include loans, loan guarantees, linked deposits and equity investments. Interest charged on any program-related investment is less than the then prevailing market rate, determined using the London Interbank Offered Rate (LIBOR) plus or minus 1%. The Board of Directors has established guidelines for selection, approval and monitoring of program-related investments. In addition, the amount of funds committed to new program-related investments in any given year may not exceed 30% of budgeted grant payments.

Program-related investments are reported at cost, as no readily determinable fair value is available, and a reasonable estimate of fair value cannot be made without incurring excessive costs. Program-related investments are evaluated annually for impairment. The carrying amounts of the program-related investments are reduced by the amount of any impairment.

(d) Mission-Related Investments

Mission-related investments represent a strategy that aligns the Foundation's investment capital with its mission by proactively cultivating and implementing investment opportunities that improve the lives of Arkansans, or focus on education, foster economic development, achieve positive impact on economic, social or racial justice or promote the environment and sustainability. Mission-related investments may be pursued across asset classes. Certain mission-related investments are reported as investment securities at fair value, while others are reported at cost if no readily determinable fair value is available, and a reasonable estimate of fair value cannot be made without incurring excessive costs. Those mission-related investments that are reported at cost are evaluated annually for impairment, and the carrying amounts of those mission-related are reduced by the amount of any impairment.

(e) Property and Equipment

Property and equipment are reported at historical cost, net of accumulated depreciation. The Foundation capitalizes additions of property and equipment in excess of \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 10 years.

(f) Net Assets Classification

Generally accepted accounting principles require that the Foundation classify net assets as follows:

Unrestricted net assets – Net assets are classified as unrestricted if they are not subject to donor-imposed stipulations. However, donor-restricted contributions whose restrictions are met in the same reporting period are reported as increases in unrestricted net assets.

Temporarily restricted net assets – Net assets are classified as temporarily restricted if they are subject to donor-imposed stipulations that will be met either by action of the Foundation and/or the passage of time. The Foundation had no temporarily restricted net assets as of December 31, 2016 or 2015.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Net Assets Classification (Continued)

Permanently restricted net assets – Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation had no permanently restricted net assets as of December 31, 2016 or 2015.

(g) Allocation of Administration Expenses

The administrative staff of the Foundation spend their time working on various charitable programs and supporting activities. The staff salaries, other compensation-related expenses, and certain other expenses are charged directly to the various functional classifications on the basis of time spent and expenses incurred in support of these functions.

(h) Federal Income Taxes

The Foundation is a publicly supported organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code on income related to the mission of the Foundation. However, the Foundation's net investment income is subject to excise taxes.

The Foundation follows standards under the *Income Taxes* topic of the Financial Accounting Standards Codification (the "Codification") related to uncertainties in income taxes. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

(i) Grants

Grants made by the Foundation are recorded when the grants are approved by the Foundation's Board of Directors. All grantees are eligible organizations who are required to use the funds for charitable purposes. Any grant awards that have not been paid to the intended recipient as of the reporting date are reported as grants payable.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(k) Financial Instruments and Credit Risk

The Foundation maintains cash and cash equivalent balances in accounts with financial institutions and investment banking firms. The balances in these accounts may exceed applicable insured limits. Management believes that such accounts are maintained with reputable financial institutions and investment banking firms, and the Foundation has not experienced any losses in these accounts to date.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Instruments and Credit Risk (Continued)

The Board of Directors has adopted a comprehensive investment policy that specifies target portfolio allocations, permissible investment vehicles, as well as monitoring benchmarks and procedures. In addition, the Board of Directors has adopted general policies relevant to performing due diligence on and continuous monitoring of mission-related investments and program-related investments. While risks related to investing, such as market risk and credit risk, cannot be avoided, management and the Board of Directors, working with reputable investment managers and advisors, believe that investment policies are prudent, properly designed and implemented to ensure the longevity of the Foundation.

(l) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenues from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which extends the effective date one year from that stated in ASU 2014-09. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which relates to when another party, along with the entity, is involved in providing a good or service to a customer. The amendments in ASU 2016-08 are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The guidance in ASU 2014-09 and ASU 2016-08 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is allowed for annual reporting periods beginning after December 15, 2016. The Foundation does not anticipate that the updated standards will have a material effect on the financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements- Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity’s ability to continue as a going concern and to provide related disclosures. ASU 2014-15 was effective for the Foundation for the year ended December 31, 2016, and did not have any impact on its financial statement disclosures.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in ASU 2015-07 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 practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The standard will be effective

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Recent Accounting Pronouncements (Continued)

for fiscal years beginning after December 15, 2016, and must be applied retrospectively. Earlier application is permitted. The Foundation is currently evaluating the effect that the updated standard will have on the financial statement disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10)*. The amendments in ASU 2016-01 supersede the guidance to classify equity securities with readily determinable fair values into different categories and allow equity investments that do not have readily determinable fair values to be measured at fair value either upon the occurrence of an observable price change or upon identification of impairment. The amendments of ASU 2016-01 also exempt nonpublic entities from disclosing fair value information for financial instruments measured at amortized cost on the balance sheet. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The requirements under the updated standard are effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for fiscal years beginning after December 15, 2017, will require presentation of two classes of net assets (net assets with donor restrictions and net assets without donor restrictions). ASU 2016-14 will also require enhanced disclosures including, but not limited to, disclosures about governing board designations and other self-imposed limits on the use of resources as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources; qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date; and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date. While this new standard will significantly impact the presentation of the financial statements and the content of disclosures in the notes to the financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

(m) Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to presentation in the 2016 financial statements.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 3: PROGRAM-RELATED INVESTMENTS, AT COST

At December 31, 2016 and 2015, the program-related investments include the following:

	<u>2016</u>	<u>2015</u>
Southern Bancorp, Inc. ^(a)		
Common stock, voting	\$ 700,000	\$ 700,000
Common stock, nonvoting	4,454,182	4,204,269
Total Southern Bancorp, Inc.	5,154,182	4,904,269
Hope Enterprise Corp., note receivable ^(b)	1,000,000	1,000,000
Diamond State Ventures II, LP ^(c)	184,434	184,434
Communities Unlimited, Inc., note receivable ^(d)	42,956	49,075
Financing Ozarks Rural Growth and Economy, note receivable ^(e)	91,359	113,452
Total program-related investments	<u>\$ 6,472,931</u>	<u>\$ 6,251,230</u>

^(a) Southern Bancorp, Inc. is a bank holding company established for the purpose of conducting rural economic development activities in Arkansas. As of December 31, 2016, the Foundation has unfunded commitments of \$250,000 to purchase additional nonvoting shares of common stock of Southern Bancorp, Inc. in 2017.

^(b) Hope Enterprise Corporation provides financial services in Arkansas, Louisiana, Mississippi and the Greater Memphis area of Tennessee for small businesses, homebuyers and community development in low-income communities. The note receivable bears no interest for the first year and interest at 1% beginning April 1, 2016, receivable in quarterly interest only payments commencing June 30, 2016, with all unpaid principal and accrued interest due March 31, 2025.

^(c) Diamond State Ventures II, LP is a venture capital fund established to make equity and subordinated debt investments in early and expansion stage businesses in Arkansas and very selectively in surrounding states.

^(d) Communities Unlimited, Inc. is a multi-state community development organization and community development financial institution established in 1975 to move people and communities in persistently poor counties in the south toward prosperity. The note receivable bears interest at one year LIBOR plus 1%, receivable in quarterly principal and interest payments, with all unpaid principal and accrued interest due October 1, 2021.

^(e) Financing Ozarks Rural Growth and Economy (FORGE) is a community based revolving loan fund established to help build sustainable small communities. The note receivable bears interest at LIBOR plus 1%, receivable in quarterly principal and interest payments, with all unpaid principal and accrued interest due December 1, 2020.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 4: MISSION-RELATED INVESTMENTS

At December 31, 2016 and 2015, the mission-related investments include the following:

	<u>2016</u>	<u>2015</u>
At cost:		
Diamond State Ventures III, LP ^(a)	\$ 675,000	\$ 425,000
Owl Ventures II, LP ^(b)	80,000	-
SJF Ventures IV, LP ^(c)	200,000	-
	<u>955,000</u>	<u>425,000</u>
Certificates of deposit ^(d)	<u>457,918</u>	<u>454,153</u>
At fair value:		
Investment securities - municipal bond mutual fund	<u>5,747,516</u>	<u>10,122,761</u>
Total mission-related investments	<u>\$ 7,160,434</u>	<u>\$ 11,001,914</u>

^(a) Diamond State Ventures III, LP (Diamond III) is a venture capital fund established to make equity and subordinated debt investments in early and expansion stage businesses in Arkansas and very selectively in surrounding states. As of December 31, 2016, the Foundation has unfunded commitments of \$325,000 for Diamond III.

^(b) Owl Ventures II, LP (Owl II) is a venture capital fund that invests in leading education technology companies, with a focus on entrepreneurs that seek to meaningfully improve student achievement. As of December 31, 2016, the Foundation has unfunded commitments of \$920,000 for Owl II.

^(c) SJF Venture IV, LP (SJF IV) is a venture capital fund that invests in companies concerned with making a difference across a range of sectors, including the environment and education. As of December 31, 2016, the Foundation has unfunded commitments of \$1,800,000 for SJF IV.

^(d) Mission-related investments includes two certificates of deposit, one of which is in the amount of \$202,617, pledged as security for a bank loan to Better Community Development that matures in June 2017. The second certificate of deposit, in the amount of \$255,301, is invested with an affiliate of Hope Enterprise Corporation and is structured so the Foundation receives half the interest earned and half the interest earned is reinvested in the communities in which Hope Enterprise Corporation operates.

NOTE 5: FAIR VALUE MEASUREMENTS

(a) Fair Value Measurements

The Foundation reports investment securities in accordance with generally accepted accounting principles, which provide a framework for measuring fair value and applies to all financial instruments that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to determine fair values that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values, as follows:

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

(a) Fair Value Measurements (Continued)

Level 1 – Fair values are determined based on unadjusted quoted prices for identical assets in active markets that the Foundation has the ability to access.

Level 2 – Fair values are determined based on inputs other than quoted prices that are observable for the asset, either directly or indirectly. These might include quoted prices for similar assets in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset, or inputs that are derived principally from or corroborated by market data by correlation or other means. If the asset has a specified (contractual) term, the input must be observable for substantially the full term of the asset or liability.

Level 3 – Fair values are determined based on valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For the years ended December 31, 2016 and 2015, the application of valuation techniques used to determine the fair values of investment securities has been consistent. The following is a description of the valuation methodologies used by the Foundation:

Domestic Common Stock, International Common Stock and International Real Estate Trust – The fair values of these investments are based on the closing price reported on the active market on which the individual securities are traded.

Domestic Equities Mutual Funds, International Equities Mutual Funds, Municipal Bond Mutual Funds and Government Agency Mutual Funds – The fair values of these investments are based on the net asset values per share of the funds as of the close of business on the reporting date. Those classified as level 1 are open ended mutual funds that have an active market on which the shares are traded. Those classified as level 2 are closed funds that do not have an active market on which the shares are traded.

International Hedge Funds, Domestic Hedge Funds, and the Domestic Hedge Fund of Funds – The fair values of these investments are determined based on the net asset value of the units held, as reported by the fund advisor, because these securities are not readily marketable. Net asset value is used as a practical expedient as permitted under generally accepted accounting principles, and the resulting estimated value is subject to uncertainty and may differ from the value that would have been reported if a readily available market existed for such securities, and the differences could be material.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Winthrop Rockefeller Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

(b) Fair Value on a Recurring Basis

The following table presents assets measured at fair value on a recurring basis at December 31, 2016 and 2015:

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2016				
Domestic common stock	\$ 10,513,696	\$ -	\$ -	\$ 10,513,696
International common stock	42,488	-	-	42,488
Domestic equities mutual fund	4,361,067	20,102,665	-	24,463,732
International equities mutual funds	32,859,702	9,444,136	-	42,303,838
International real estate trust	3,820,090	-	-	3,820,090
Domestic bond mutual funds	5,596,340	-	-	5,596,340
Municipal bond mutual funds	5,747,516	-	-	5,747,516
Government agency mutual funds	-	10,242,204	-	10,242,204
International hedge funds	-	-	10,372,727	10,372,727
Domestic hedge fund	-	-	2,103,024	2,103,024
Domestic hedge fund of funds	-	-	343,638	343,638
Total	<u>\$ 62,940,899</u>	<u>\$ 39,789,005</u>	<u>\$ 12,819,389</u>	<u>\$ 115,549,293</u>
December 31, 2015				
Domestic common stock	\$ 14,029,049	\$ -	\$ -	14,029,049
International common stock	122,766	-	-	122,766
Domestic equities mutual fund	-	20,941,119	-	20,941,119
International equities mutual funds	39,291,267	7,788,116	-	47,079,383
International real estate trust	6,262,485	-	-	6,262,485
Domestic bond mutual funds	8,805,611	-	-	8,805,611
Municipal bond mutual funds	10,122,761	-	-	10,122,761
Government agency mutual funds	-	8,779,382	-	8,779,382
Domestic hedge fund of funds	-	-	7,066,569	7,066,569
Total	<u>\$ 78,633,939</u>	<u>\$ 37,508,617</u>	<u>\$ 7,066,569</u>	<u>\$ 123,209,125</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

(b) Fair Value on a Recurring Basis (Continued)

There were no transfers into or out of Level 3 investments during the years ended December 31, 2016 or 2015. Redemption of certain investments is subject to terms provided in the investment agreement, which may change depending on market conditions. The changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015, are summarized as follows:

Balance, January 1, 2015	\$ 7,259,533
Unrealized loss	<u>(192,964)</u>
Balance, December 31, 2015	7,066,569
Realized and unrealized gain	213,367
Purchases of international hedge fund investments	13,000,000
Purchases of domestic hedge fund investments	343,638
Sales of domestic hedge fund investments	<u>(7,804,185)</u>
Balance, December 31, 2016	<u><u>\$ 12,819,389</u></u>

The following table summarizes the Foundation's investments measured at fair value based on net asset value per share as a practical expedient as of December 31, 2016:

	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Fair value</u>
International hedge fund	Quarterly	45 Days	\$ 10,372,727
Domestic hedge fund	Quarterly	45 days ^(a)	2,103,024
Domestic hedge fund of funds	Quarterly	95 Days	<u>343,638</u>
			<u><u>\$ 12,819,389</u></u>

^(a) This redemption notice period represents the most restrictive in a range of periods.

There were no unfunded commitments associated with any investments listed in the preceding page.

NOTE 6: INVESTMENT RETURN

Investment return consists of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 1,944,875	\$ 2,225,374
Net realized and unrealized gains (losses)	<u>1,554,927</u>	<u>(5,393,876)</u>
Total investment return	<u><u>\$ 3,499,802</u></u>	<u><u>\$ (3,168,502)</u></u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Office equipment and furnishings	\$ 263,176	\$ 250,769
Tenant improvements	122,625	122,625
Computer software and hardware	<u>98,400</u>	<u>87,124</u>
	484,201	460,518
Less accumulated depreciation and amortization	<u>(362,576)</u>	<u>(308,078)</u>
Property and equipment, net	<u>\$ 121,625</u>	<u>\$ 152,440</u>

NOTE 8: GRANTS PAYABLE

Grants payable are due to be paid for years subsequent to December 31, 2016, as follows:

2017	\$ 2,093,919
2018	491,120
2019	<u>20,176</u>
Total grants payable	<u>\$ 2,605,215</u>

NOTE 9: EMPLOYEE BENEFIT PLAN

The Foundation provides a defined contribution retirement plan pursuant to section 403(b) of the Internal Revenue Code (the 403(b) plan) and a supplemental retirement annuity plan (SRA) to all employees. The Foundation contributes to the 403(b) plan an amount equal to 5% of each employee's salary for each pay period, regardless of whether or not the employee is making salary deferrals. Employees may defer any amount from 2% to 6% of earnings, and the Foundation will match 100% of employee contributions up to 6% of earnings. Employees may choose to make contributions over 6% into the SRA, subject to maximum amounts imposed by the Internal Revenue Code. During the years ended December 31, 2016 and 2015, the Foundation's retirement expense totaled \$130,870 and \$112,941.

NOTE 10: DISTRIBUTION REQUIREMENT

The Internal Revenue Code provides for additional taxes, which may be imposed upon a private foundation such as the Foundation, if it fails to make qualifying distributions equal to its minimum investment return reduced by excise taxes within the year of receipt and the succeeding taxable year. Minimum investment return is equal to 5% of the aggregate fair market value of all of the Foundation's assets not directly used in carrying out the Foundation's exempt purpose. The additional taxes are 30% of

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NOTES TO FINANCIAL STATEMENTS

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NOTE 10: DISTRIBUTION REQUIREMENT (Continued)

the undistributed minimum investment return and 100% of such minimum investment return if it is not distributed by the earlier of the date of mailing a notice of deficiency with respect to the 30% tax or the date on which the 30% tax is assessed. The Foundation anticipates making the required distributions in the time frame necessary to avoid additional taxes.

As of January 1, 2016, the Foundation made qualifying distributions in excess of the required distributable amount, resulting in an excess distribution carryover of \$2,267,829 with \$420,036 expiring in 2017 and \$1,847,793 expiring in 2020. The Foundation is currently assessing the qualifying distribution made during the year ended December 2016, to determine the amount of excess contributions made or the use of any distribution carryovers. The Foundation does not anticipate any tax liability related to the minimum distribution requirements.

NOTE 11: LEASE AGREEMENTS

In September 2008, the Foundation entered into an operating lease agreement for office facilities from which to conduct its operations. These facilities are leased under a ten-year operating lease expiring in 2019. There is an option to renew the lease for two additional five-year periods at an increased monthly rental rate.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2016:

2017	\$ 123,052
2018	127,533
2019	<u>10,658</u>
	<u>\$ 261,243</u>

NOTE 12: RELATED PARTIES

Certain Foundation employees and members of the Foundation's Board of Directors serve on the boards of or are employed by grantees of the Foundation. The Foundation has implemented policies to ensure that the approval or denial of grant requests is in no way directly influenced by individual Foundation employees or individual members of the Foundation's Board of Directors who have affiliations with those entities requesting consideration for award. The Foundation awarded grants of \$98,871 and \$687,500 and made grant payments of \$343,711 and \$1,008,660 to such entities during the years ended December 31, 2016 and 2015, respectively.

The Foundation received operating support grants of \$89,000 from the Trust in both the years ended December 31, 2016 and 2015. Operating support grant receipts were expended for operations in the year received.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 13: SUBSEQUENT EVENTS

The Foundation has evaluated events that occurred after December 31, 2016, but prior to May 18, 2017, the date the financial statements were issued. The Foundation did not identify any events or transactions during this period of time that require recognition or disclosure in the financial statements as of and for the year ended December 31, 2016.