

MAYER AND MORRIS KAPLAN FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014



**Lipschultz, Levin & Gray**  
L.L.C. Certified Public Accountants



## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Trustees  
Mayer and Morris Kaplan Foundation  
Highland Park, Illinois

We have reviewed the accompanying financial statements of Mayer and Morris Kaplan Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in unrestricted net assets and statements of cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### Management's Responsibility for the Financial Statements

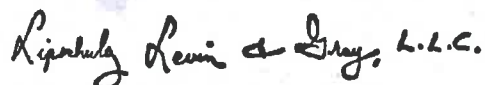
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and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

### Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



Lipschultz, Levin & Gray, LLC  
Northbrook, Illinois  
October 7, 2016



## MAYER AND MORRIS KAPLAN FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>		
CASH	74,651	554,023
INVESTMENTS:		
Cash Management Funds	777,930	2,398,760
Bond Mutual Funds	2,332,200	2,295,614
Common Stocks and Mutual Funds	14,976,836	15,530,697
Limited Partnerships	5,644,766	4,946,499
Offshore Hedge Funds	2,671,605	2,711,957
<b>TOTAL INVESTMENTS</b>	<u>26,403,337</u>	<u>27,883,527</u>
FURNITURE AND EQUIPMENT:		
Office Equipment and Furnishings	105,425	105,425
Less: Accumulated Depreciation	(105,425)	(105,425)
<b>FURNITURE AND EQUIPMENT, NET</b>	<u>0</u>	<u>0</u>
OTHER ASSETS:		
Distributions Receivable from Limited Partnerships		1,026
Prepaid Expenses		86,300
<b>TOTAL OTHER ASSETS</b>	<u>0</u>	<u>87,326</u>
<b>TOTAL ASSETS</b>	<u>\$26,477,988</u>	<u>\$28,524,876</u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
LIABILITIES:		
Current and Deferred Income and Excise Taxes Payable	\$ 116,969	\$ 112,175
Grants Payable	950,000	1,800,000
<b>TOTAL LIABILITIES</b>	<u>1,066,969</u>	<u>1,912,175</u>
UNRESTRICTED NET ASSETS	<u>25,411,019</u>	<u>26,612,701</u>
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<u>\$26,477,988</u>	<u>\$28,524,876</u>

See Accountant's Review Report and Accompanying Notes to Financial Statements.



## MAYER AND MORRIS KAPLAN FOUNDATION

## STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>REVENUES AND OTHER INCOME:</b>		
Contributions	\$ 716,902	\$ 3,218,193
Interest	41,558	50,869
Dividends	432,829	462,420
Realized Gains, Net	1,840,207	3,917,990
Other Income, Net	62,277	61,075
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>3,093,773</b>	<b>7,710,547</b>
<b>GRANTS AND EXPENSES:</b>		
Grant Expenditures	1,670,415	14,438,124
Investment Expenses	215,711	221,669
Investment Interest Expense	14,130	717
Professional Fees	20,809	20,302
Investment Advisor Fees	98,995	94,529
Office Expenses	55,757	86,141
Travel and Meetings	27,469	13,272
Meals and Entertainment	9,536	3,508
Salaries and Payroll Taxes	229,004	269,280
Consulting and Other Expenses	18,484	4,395
<b>TOTAL GRANTS AND EXPENSES</b>	<b>2,360,310</b>	<b>15,151,937</b>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE UNREALIZED LOSSES ON INVESTMENTS, NET AND INCOME AND EXCISE TAXES EXPENSE</b>	<b>733,463</b>	<b>(7,441,390)</b>
<b>UNREALIZED LOSSES ON INVESTMENTS, NET</b>	<b>(1,876,740)</b>	<b>(2,606,724)</b>
<b>DECREASE IN UNRESTRICTED NET ASSETS BEFORE INCOME AND EXCISE TAXES EXPENSE</b>	<b>(1,143,277)</b>	<b>(10,048,114)</b>
<b>INCOME AND EXCISE TAXES EXPENSE</b>	<b>(58,405)</b>	<b>(8,523)</b>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	<b>(1,201,682)</b>	<b>(10,056,637)</b>
<b>UNRESTRICTED NET ASSETS - BEGINNING OF YEAR</b>	<b>26,612,701</b>	<b>36,669,338</b>
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	<b>\$25,411,019</b>	<b>\$26,612,701</b>

See Accountant's Review Report and Accompanying Notes to Financial Statements.



## MAYER AND MORRIS KAPLAN FOUNDATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:</b>		
Decrease in Unrestricted Net Assets	\$ (1,201,682)	\$ (10,056,637)
Adjustments to Reconcile Decrease in Unrestricted Net Assets to Net Cash Flows From (Used by) Operating Activities:		
Unrealized Losses on Investments, Net	1,876,740	2,606,724
(Increase) Decrease in:		
Distributions Receivable	1,026	(1,026)
Prepaid Expenses	86,300	
Current and Deferred Income and Excise Taxes, Net	4,794	(66,939)
Grants Payable	(850,000)	56,667
<b>NET CASH FLOWS USED BY OPERATING     ACTIVITIES</b>	<u>(82,822)</u>	<u>(7,461,211)</u>
<b>CASH FLOW FROM (USED BY) INVESTING ACTIVITY -</b>		
Sales of Investments and Partnership Distributions, Net of Additional Investments	<u>(396,550)</u>	<u>7,995,234</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(479,372)	534,023
<b>CASH - BEGINNING OF YEAR</b>	<u>554,023</u>	<u>20,000</u>
<b>CASH - END OF YEAR</b>	<u>\$ 74,651</u>	<u>\$ 554,023</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for:		
Income and Excise Taxes	<u>\$ 61,356</u>	<u>\$ 75,461</u>
Investment Interest Expense	<u>\$ 14,130</u>	<u>\$ 717</u>

See Accountant's Review Report and Accompanying Notes to Financial Statements.



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**ORGANIZATION AND NATURE OF ACTIVITIES**

The Mayer and Morris Kaplan Foundation (the "Foundation") was established on August 11, 1959, as a private foundation for the purpose of supporting recognized charitable organizations within the United States of America.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting:**

The financial statements of the Foundation are prepared on the accrual basis of accounting.

**Investments:**

Investments of cash management funds, mutual funds and common stocks (foreign and domestic) are carried at fair value based on quoted market prices and net asset values. Quoted prices are provided for offshore hedge funds however these investments are not readily tradable. Unrealized gains and losses are included in the Statements of Activities and Changes in Unrestricted Net Assets.

The Foundation utilizes the practical expedient in valuing its investment in limited partnerships and certain of the underlying investments held by the partnerships. The practical expedient is an acceptable method under accounting principles generally accepted in the United State of America to determine the fair value of investments that do not have a readily determinable fair value predicated upon a public market and have the attributes of an investment company. The Foundation first utilizes the equity method based on K-1 capital account balances provided by the general partner. Under the equity method, the investments are recorded at cost, increased by the Foundation's share of the limited partnerships' operating income and additional capital contributions, and decreased by the amount of any distributions received or receivable and operating losses of the limited partnerships. Management then takes into consideration the other information provided by the general partner to determine overall reasonableness of the recorded value. Management believes that this method represents the best estimate of the partnerships' fair values. Because of the inherent uncertainty of valuing the investments in such partnerships and certain of the underlying investments held by the partnerships, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a ready market for the investments existed.





MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Net Assets:

The Foundation reports information regarding its financial position and activities in three classes of net assets, unrestricted net assets, temporarily restricted net asset and permanently restricted net assets. As of December 31, 2015 and 2014, and for the years then ended, the Foundation only has unrestricted net assets.

Furniture and Equipment:

Purchases of furniture and equipment are carried at cost. Depreciation was provided using an accelerated method over the estimated useful lives of the assets.

Distributions Receivable:

The distributions receivable at December 31, 2014, of \$1,026, represents distributions paid by limited partnership investments prior to the end of the year but not received by the Foundation until the subsequent year.

Contributions:

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. The Foundation has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

Bequests are recorded as contributions in the year of the passing of the donor to the extent that such amounts are readily determinable.

Any noncash contributions received are recorded at the fair market value of the asset at the time of the donation.

Grant Expenditures:

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to substantial future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. As of December 31, 2015 and 2014, the Foundation had approved but unpaid grants amounting to \$950,000 and \$1,800,000, respectively (see the *Grants Payable* footnote).



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Income and Excise Taxes:

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except for unrelated business income taxes. In 2015 and 2014, the Foundation incurred taxes on unrelated business income passed through from partnership investments.

In addition, according to the applicable provisions of the Code, the Foundation is subject to an excise tax (1% or 2%) on net investment income, including realized gains, as defined in the Code (2015-2% and 2014-1%). In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2015 and 2014, the Foundation had distributed more than the required minimum.

Management believes that its tax positions have been taken in accordance with the rules and regulations of the respective taxing authorities in which it files and that they have filed in jurisdictions where required.

The Foundation's income tax returns have not been examined by the tax authorities for the last three years, which remain as the years that are generally still subject to examination. Management realizes that there may be differences of opinion relating to interpretations taken by taxing authorities and that certain tax jurisdictions may require filings which have not been made. However, through October 7, 2016, there have not been any material claims made by any taxing authorities that have not been appropriately defended or provided for in the financial statements, nor is management aware of any specific uncertain tax positions that currently exist.

Deferred Income Taxes:

Deferred income taxes are determined utilizing the liability approach. This method gives consideration to the future tax consequences associated with differences between financial and tax accounting. Such differences relate to the Foundation's unrealized gains or losses on its investments. This method gives immediate effect to changes in income tax laws upon enactment. The income effect is derived from changes in the deferred income tax account on the Statements of Financial Position. Substantially all of the tax provision is comprised of deferred taxes.





MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

**CASH AND CASH MANAGEMENT FUNDS**

The Foundation maintains its cash accounts in what it believes are high-quality financial institutions. Nevertheless, there is exposure where balances exceed federally insured limits.

The Foundation maintains accounts with brokerage firms. The accounts contain cash management funds and other securities. Balances are insured up to \$500,000 for each brokerage firm by the Security Investor Protection Corporation against potential losses, excluding decreases in market value. The Foundation has not experienced any losses in its cash management funds. Management believes that the Foundation is not exposed to any significant credit risk on these accounts.

The Foundation considers cash management funds to be investments since the balances in such accounts routinely exceed the amounts required to fund normal operating expenses.

For the purpose of the statement of cash flows, the Foundation does not consider highly liquid investments with maturity of three months or less, when purchased, to be cash equivalents.

**FAIR VALUE OF INVESTMENTS**

The Foundation's investments at cost/equity basis and fair value are summarized below as of December 31, 2015:

	<u>Cost/Equity Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 777,930	\$ 777,930
Bond Mutual Funds	2,401,305	2,332,200
Common Stocks and Mutual Funds	7,506,993	14,976,836
Limited Partnerships	5,664,766	5,644,766
Offshore Hedge Funds	<u>3,306,519</u>	<u>2,671,605</u>
Total Investments	<u>\$ 19,657,513</u>	<u>\$ 26,403,337</u>



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**FAIR VALUE OF INVESTMENTS (Continued):**

The Foundation's investments at cost/equity basis and fair value are summarized below as of December 31, 2014:

	<u>Cost/Equity Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 2,398,760	\$ 2,398,760
Bond Mutual Funds	2,318,780	2,295,614
Common Stocks and Mutual Funds	6,716,394	15,530,697
Limited Partnerships	4,946,499	4,946,499
Offshore Hedge Funds	<u>3,306,519</u>	<u>2,711,957</u>
Total Investments	<u>\$ 19,686,952</u>	<u>\$ 27,883,527</u>

Accounting principles generally accepted in the United States of America have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**FAIR VALUE OF INVESTMENTS (Continued):**

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

See the *Summary of Significant Accounting Policies* note for description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

The valuation methods described in the *Summary of Significant Accounting Policies* note may produce a fair value calculation that may not be indicative of the 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 following table sets forth, by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Management Funds		\$ 777,930		\$ 777,930
Bond Mutual Funds	\$ 2,332,200			2,332,200
Common Stocks and Mutual Funds	14,976,836			14,976,836
Limited Partnerships			\$ 5,644,766	5,644,766
Offshore Hedge Funds			2,671,605	2,671,605
<b>Total</b>	<b>\$ 17,309,036</b>	<b>\$ 777,930</b>	<b>\$ 8,316,371</b>	<b>\$ 26,403,337</b>



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**FAIR VALUE OF INVESTMENTS (Continued):**

The following table sets forth, by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2014:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Management Funds		\$ 2,398,760		\$ 2,398,760
Bond Mutual Funds	\$ 2,295,614			2,295,614
Common Stocks and Mutual Funds	15,530,697			15,530,697
Limited Partnerships			\$ 4,946,499	4,946,499
Offshore Hedge Funds			2,711,957	2,711,957
<b>Total</b>	<u>\$ 17,826,311</u>	<u>\$ 2,398,760</u>	<u>\$ 7,658,456</u>	<u>\$ 27,883,527</u>

The following table provides a summary of changes in fair value of the Foundation's Level 3 investments in limited partnerships, as well as the portion of gains or losses included in income attributable to unrealized gains or losses that relate to those investments held at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance, January 1	\$ 4,946,499	\$ 5,972,458
Investment Income, Net	118,644	367,963
Purchases, Issuances and Settlements, Net	579,623	(1,393,922)
Balance, December 31	<u>\$ 5,644,766</u>	<u>\$ 4,946,499</u>
Portion of Investment Income, Net Relating to Those Assets Still Held	<u>\$ 118,644</u>	<u>\$ 371,581</u>



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**FAIR VALUE OF INVESTMENTS (Continued):**

The above information for the Level 3 investments in Offshore Hedge Funds is not available since they represent a segment of total investments in a master fund with portions attributable to all levels.

**GRANTS PAYABLE**

Grants payable totaling \$950,000 and \$1,800,000 at December 31, 2015 and 2014, respectively, consisted of approved grant commitments. As of December 31, 2015, based on the specific grant agreements, amounts payable are expected to be paid in the following years:

2016	\$	650,000
2017		100,000
2018		100,000
2019		<u>100,000</u>
Total Grants Payable	\$	<u>950,000</u>

**INVESTMENT RETURN**

The following schedule summarizes the investment return for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest	\$ 41,558	\$ 50,869
Dividends	432,829	462,420
Realized Gains, Net	1,840,207	3,917,990
Unrealized Losses, Net	(1,876,740)	(2,606,724)
Other Income, Net	62,277	61,075
Investment Expenses	(215,711)	(221,669)
Investment Interest Expense	(14,130)	(717)
Investment Advisor Fees	<u>(98,995)</u>	<u>(94,529)</u>
Investment Income, Net	<u>\$ 171,295</u>	<u>\$ 1,568,715</u>



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**RELATED PARTY TRANSACTIONS**

During 2015 and 2014, the Foundation incurred expenses related to investment advisor, personnel and other services from Kaplan Family Investments (KFI), an affiliate of the trustees, in the amount of \$364,810 and \$396,000 respectively.

In December 2014 the Foundation paid KFI \$86,300 as an advance to be applied against services to be provided by KFI. This amount was disclosed as *Prepaid Expenses* in the Statements of Financial Position.

**RISKS AND UNCERTAINTIES**

The Foundation invests in various types of investments. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Financial Position.

**COMMITMENT**

As of December 31, 2015 and 2014, the Foundation was committed to future capital calls on its investments amounting to approximately \$318,000 and \$363,000 respectively.

**GRANT EXPENDITURES**

On February 26, 2014, the Foundation entered into a Fund Division Agreement with Dolores Kohl Kaplan, a former trustee of the Foundation, and the Dolores Kohl Education Foundation ("Kohl Foundation"). The agreement requires the Foundation to make grants to the Kohl Foundation. The grants to the Kohl Foundation for the years ended December 31, 2015 and December 31, 2014 amounted to \$82,155 and \$11,917,700, respectively. De minimus amounts remain to be transferred upon certain hedge liquidations and other transactions. The remaining transfers do not have an agreed upon end date.

**SUBSEQUENT EVENTS**

The Foundation management has evaluated subsequent events through October 7, 2016, the date which financial statements were available for issue.

