



THE WALLACE FOUNDATION

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
The Wallace Foundation:

We have audited the accompanying financial statements of The Wallace Foundation (the Foundation), which comprise the balance sheets 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 U.S. generally accepted accounting principles; 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Wallace Foundation as of December 31, 2015 and 2014, and changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

June 23, 2016

THE WALLACE FOUNDATION

Balance Sheets

December 31, 2015 and 2014

Assets	2015	2014
Cash equivalents and cash	\$ 19,965,415	18,118,732
Investments (note 3)	1,428,093,141	1,499,787,846
Other assets and receivables	575,371	938,353
Fixed assets, net of accumulated depreciation of \$2,771,272 in 2015 and \$2,569,788 in 2014	<u>1,487,869</u>	<u>1,730,773</u>
Total assets	<u>\$ 1,450,121,796</u>	<u>1,520,575,704</u>
Liabilities and Net Assets		
Liabilities:		
Accrued expenses and other payables	\$ 2,220,758	2,379,326
Grants payable (note 4)	14,837,115	9,320,516
Deferred liabilities (note 5)	<u>6,420,780</u>	<u>7,729,479</u>
Total liabilities	23,478,653	19,429,321
Net assets – unrestricted	<u>1,426,643,143</u>	<u>1,501,146,383</u>
Total liabilities and net assets	<u>\$ 1,450,121,796</u>	<u>1,520,575,704</u>

See accompanying notes to financial statements.

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Statements of Activities

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Interest and dividends	\$ 9,919,777	10,065,652
Realized gains	73,694,424	62,274,740
Total investment income	<u>83,614,201</u>	<u>72,340,392</u>
Investment fees	(1,583,268)	(2,309,232)
Excise and income taxes (note 6)	(427,100)	(2,446,601)
Total investment expenses	<u>(2,010,368)</u>	<u>(4,755,833)</u>
Unrealized (losses) gains, net of deferred tax (note 6)	(73,544,041)	19,159,863
Contributions	39	55
Net revenues	<u>8,059,831</u>	<u>86,744,477</u>
Expenses:		
Grants and related activities	69,540,176	58,684,045
Operating expenses	13,022,895	13,223,212
Total expenses	<u>82,563,071</u>	<u>71,907,257</u>
Change in net assets	(74,503,240)	14,837,220
Net assets:		
Beginning of year	<u>1,501,146,383</u>	<u>1,486,309,163</u>
End of year	<u>\$ 1,426,643,143</u>	<u>1,501,146,383</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (74,503,240)	14,837,220
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized losses (gains) on investments	74,714,476	(19,555,510)
Realized gains on investments	(73,694,424)	(62,274,740)
Depreciation	310,382	298,873
Changes in operating assets and liabilities:		
Accrued investment income	620,570	(309,564)
Other assets and receivables	362,982	2,351,582
Accrued expenses and other payables	(158,568)	18,061
Grants payable	5,516,599	(9,499,157)
Deferred liabilities	(1,308,698)	257,382
Net cash used in operating activities	(68,139,921)	(73,875,853)
Cash flows from investing activities:		
Sales of investments	413,749,165	248,886,588
Purchases of investments	(343,695,083)	(184,082,717)
Purchases of fixed assets	(67,478)	(87,506)
Net cash provided by investing activities	69,986,604	64,716,365
Net increase (decrease) in cash equivalents and cash	1,846,683	(9,159,488)
Cash equivalents and cash at beginning of year	18,118,732	27,278,220
Cash equivalents and cash at end of year	\$ 19,965,415	18,118,732

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Nature of Operations

The Wallace Foundation (the Foundation) is the philanthropic legacy of DeWitt and Lila Acheson Wallace, the co-founders of Reader's Digest. The mission of the Foundation is to foster improvements in learning and enrichment for disadvantaged children and the vitality of the arts for everyone. The Foundation's approach is to identify areas where a gap in knowledge is a barrier to progress. By working to fill those knowledge gaps through grants for innovation, research, and communication, the Foundation aims to spur beneficial changes for fields as a whole, not just for individual grantees. As a result, the Foundation gathers and publishes insights useful to policymakers and those who work in the areas where the Foundation concentrates its philanthropy. Today, the Foundation works in five areas: strengthening education leadership to improve student achievement, helping disadvantaged students gain more time for learning during the summer break and the school year, enhancing after-school opportunities, engaging more young people in high-quality arts learning experiences, and audience development for the arts.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accounts of the Foundation are maintained on the accrual basis of accounting.

(b) *Income Taxes*

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a private foundation as defined in Section 509(a) of the Code. As required by the Code, the Foundation distributes annually at least 5% of the monthly average of the fair market value of its assets no later than the 12-month period following the end of its fiscal year.

The Foundation recognizes the effects of income tax positions only if those positions are more likely than not to be sustained in the future.

(c) *Fair Value Measurements*

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Foundation uses three levels of inputs to measure fair value:

Level 1: Quoted prices in active markets for identical assets. Level 1 assets include debt and equity securities that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

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Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(d) Investments

Investments in equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments in debt securities are measured using quoted market prices where available. If quoted market prices for debt securities are not available, the fair value is determined using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded markets for debt of similar terms to companies with comparable credit risk, the issuer's credit spread, and illiquidity by sector and maturity.

The Foundation follows the accounting standards of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10-35-59, *Fair Value Measurement and Disclosures – Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

(e) Fixed Assets

Fixed assets consist of furniture, fixtures, equipment, and leasehold improvements. All assets are depreciated on a straight-line basis over the estimated useful lives of the assets. Computers are depreciated over 3 years, office equipment is depreciated over 5 years, and furniture and fixtures are depreciated over 15 years. Leasehold improvements are depreciated over the life of the lease or the estimated life of the leasehold improvement, whichever is shorter.

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(f) Grants

Grants are reported as an expense and liability of the Foundation when approved by the Foundation's board of directors or the president, under authority delegated by the board of directors, and communicated to the grantee. Payments due in more than one year are discounted to present value.

(g) Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less at the time of purchase, except for those short-term investments managed by the Foundation's investment managers as part of their long-term investment strategies.

(h) Use of Estimates

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

(i) New Accounting Pronouncements

In 2015, the Foundation early adopted the provisions of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes 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 and removes 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. The Foundation applied the provisions of the update retrospectively to 2014.

Also in 2015, the Foundation adopted an accounting standards update that contains amendments that affect a wide variety of topics in the accounting standards codification. One of these amendments include a clarification that an equity security has a readily determinable fair value if it meets certain conditions. An equity security includes an investment in a mutual fund or an investment in a structure similar to a mutual fund. The fair value of an equity security is considered to be readily determinable if the fair value per share is determined and published, and is the basis for current transactions. The Foundation adopted the provision of this update and applied the provision retrospectively to 2014. As a result, certain investments have been reclassified from Level 2 to Level 1 in the 2014 fair value hierarchy.

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(3) Investments

(a) Fair Value Hierarchy

The following tables present the Foundation's fair value hierarchy for investments, the only financial instruments measured at fair value on an annual basis, as of December 31, 2015 and 2014. Investments measured using the net asset value per share practical expedient are included in the total fair value column only and are not disclosed within the fair value hierarchy levels:

	2015			
	Total fair value	Level 1	Level 2	Level 3
Growth – market stocks:				
Direct ownership:				
International	\$ 57,819,590	57,819,590	—	—
Mutual fund:				
Global	30,161,544	30,161,544	—	—
	<u>87,981,134</u>	<u>87,981,134</u>	<u>—</u>	<u>—</u>
Commingled stock funds:				
United States	85,001,327	85,001,327	—	—
Global	52,629,043	52,629,043	—	—
	<u>137,630,370</u>	<u>137,630,370</u>	<u>—</u>	<u>—</u>
Growth total	<u>225,611,504</u>	<u>225,611,504</u>	<u>—</u>	<u>—</u>
Diversifying – opportunistic:				
Mutual fund:				
Asset allocation	29,425,415	29,425,415	—	—
Diversifying – bond funds:				
Mutual fund:				
Global	63,472,702	63,472,702	—	—
Commingled fund:	645,940	—	—	645,940
Diversifying total	<u>93,544,057</u>	<u>92,898,117</u>	<u>—</u>	<u>645,940</u>
Inflation hedges – market:				
Direct ownership:				
REIT	20,746,649	20,746,649	—	—
Mutual funds:				
United States government/ agency	1,064,117	1,064,117	—	—
Inflation hedges total	<u>21,810,766</u>	<u>21,810,766</u>	<u>—</u>	<u>—</u>

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	2015			
	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Deflation hedges – fixed income:				
Direct ownership:				
United States government/ agency	\$ 69,190,014	—	69,190,014	—
Mutual funds:				
United States corporate and other	<u>201,289</u>	<u>201,289</u>	<u>—</u>	<u>—</u>
Deflation hedges – fixed income total	69,391,303	201,289	69,190,014	—
Other:				
Short-term investments	10,018,564	10,018,564	—	—
Accrued investment loss	(58,535)	(58,535)	—	—
Receivables for investments sold, net	<u>13,783,247</u>	<u>13,783,247</u>	<u>—</u>	<u>—</u>
Total	434,100,906	<u>\$ 364,264,952</u>	<u>69,190,014</u>	<u>645,940</u>
Investments measured using net asset value (or its equivalent):				
Growth – market stocks:				
Commingled stock funds	246,107,616			
Growth – hedge funds:				
Multistrategy	84,064,047			
Long/short equity	110,501,686			
Credit-redeemable	56,591,975			
Credit-nonredeemable	32,872,391			
Growth – private equity funds	232,560,759			
Diversifying – opportunistic:				
Global macro discretionary	75,750,054			
Global macro systematic	30,371,176			
Relative value	23,888,933			
Inflation hedges – market:				
Commodity fund	18,667,321			
Public energy fund	18,336,229			
Inflation hedges – private:				
Private energy funds	44,991,278			
Private real estate funds	<u>19,288,770</u>			
Total investments	<u>\$ 1,428,093,141</u>			

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	2014			
	Total fair value	Level 1	Level 2	Level 3
Growth – market stocks:				
Direct ownership:				
United States	\$ 25,561,706	25,561,706	—	—
International	59,369,002	59,369,002	—	—
	<u>84,930,708</u>	<u>84,930,708</u>	<u>—</u>	<u>—</u>
Commingled stock funds:				
United States	103,279,884	103,279,884	—	—
Global	15,103,382	15,103,382	—	—
	<u>118,383,266</u>	<u>118,383,266</u>	<u>—</u>	<u>—</u>
Growth total	<u>203,313,974</u>	<u>203,313,974</u>	<u>—</u>	<u>—</u>
Diversifying – opportunistic:				
Asset allocation	30,741,984	30,741,984	—	—
Total	<u>30,741,984</u>	<u>30,741,984</u>	<u>—</u>	<u>—</u>
Diversifying – bond funds:				
Mutual fund:				
Global	61,845,316	61,845,316	—	—
Subtotal	<u>61,845,316</u>	<u>61,845,316</u>	<u>—</u>	<u>—</u>
Commingled fund:				
United States corporate and other	877,417	—	—	877,417
Subtotal	<u>877,417</u>	<u>—</u>	<u>—</u>	<u>877,417</u>
Diversifying total	<u>93,464,717</u>	<u>92,587,300</u>	<u>—</u>	<u>877,417</u>
Inflation hedges – market:				
Direct ownership:				
Natural resources stock	23,540,147	23,540,147	—	—
REIT	29,807,192	29,807,192	—	—
Mutual funds:				
United States government/ agency	9,647,434	9,647,434	—	—
Total	<u>62,994,773</u>	<u>62,994,773</u>	<u>—</u>	<u>—</u>

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Notes to Financial Statements

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	2014			
	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Deflation hedges – fixed income:				
Direct ownership:				
United States government/ agency	\$ 71,059,445	—	71,059,445	—
Mutual funds:				
United States corporate and other	<u>187,834</u>	<u>187,834</u>	<u>—</u>	<u>—</u>
Deflation hedges – fixed income total	71,247,279	187,834	71,059,445	—
Other:				
Short-term investments	12,709,250	12,709,250	—	—
Accrued investment income	562,035	562,035	—	—
Receivables for investments sold, net	<u>5,638,548</u>	<u>5,638,548</u>	<u>—</u>	<u>—</u>
Total	449,930,576	<u><u>\$ 377,993,714</u></u>	<u><u>71,059,445</u></u>	<u><u>877,417</u></u>
Investments measured using net asset value (or its equivalent):				
Growth – market stocks:				
Commingled stock funds	247,095,285			
Growth – hedge funds:				
Multistrategy	84,122,099			
Long/short equity	105,491,149			
Credit-redeemable	84,453,216			
Credit-nonredeemable	31,264,395			
Growth – private equity	235,532,945			
Diversifying – opportunistic:				
Global macro discretionary	83,308,851			
Global macro systematic	15,606,892			
Relative value	24,357,291			
Inflation hedges – market:				
Commodity fund	25,774,381			
Public energy fund	26,578,846			
Inflation hedges – private:				
Private energy funds	57,610,564			
Private real estate funds	<u>28,661,356</u>			
Total investments	<u><u>\$ 1,499,787,846</u></u>			

Short-term investments include money market funds, U.S. government securities, and cash managed by the Foundation's investment managers as part of their long-term investment strategies.

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Notes to Financial Statements

December 31, 2015 and 2014

The following tables present reconciliations for all Level 3 assets measured at fair value at December 31, 2015 and 2014:

		2015					Ending	
		Beginning balance	Transfer	Realized gain (losses)	Unrealized gain (losses)	Purchases	Settlements	balance
	Diversifying-fixed income – commingled fund	\$ 877,417	—	104,368	(80,430)	—	(255,415)	645,940
	Total	\$ 877,417	—	104,368	(80,430)	—	(255,415)	645,940
		2014					Ending	
		Beginning balance	Transfers	Realized gain (losses)	Unrealized gain (losses)	Purchases	Settlements	balance
	Growth-market stocks – direct ownership	\$ 729,279	—	—	300,721	—	(1,030,000)	—
	Diversifying-fixed income – commingled fund	1,564,324	—	269,916	(193,176)	—	(763,647)	877,417
	Total	\$ 2,293,603	—	269,916	107,545	—	(1,793,647)	877,417

The Foundation recognizes transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2015 and 2014.

(b) Portfolio Liquidity

The Foundation reviews the liquidity of its investments to ensure that it is able to meet its cash needs for grants, operating expenses, and capital calls. As of December 31, 2015, the Foundation had investments of \$448.5 million that could be sold on a daily basis under normal market conditions. This included \$10 million in a money market fund, \$147.8 million in direct ownership investments held in separate accounts with the Foundation's custodial trustee, \$124.3 million in mutual fund investments, \$18.3 million in a public energy fund, which is part of the Foundation's inflation hedge portfolio, \$63.1 million in an international commingled stock fund, and \$85 million in a U.S. commingled stock fund.

The Foundation's investments in commingled bond and stock funds, hedge funds, inflation hedge funds (except direct ownership funds), and private equity funds, including the \$18.3 million public energy fund, \$63.1 million international commingled stock fund, and the \$85 million in a U.S. commingled stock fund noted above, totaled \$1.1 billion as of December 31, 2015. The liquidity of these investments is determined by the redemption period for each fund, which differs among investments and is detailed in note 3(c).

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Notes to Financial Statements

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(c) *Strategies of Commingled, Hedge, Inflation Hedge, and Private Equity Funds*

The following tables list the investment strategies, redemption terms, and assets for commingled, hedge, inflation hedge, and private equity funds measured at fair value as of December 31, 2015 and 2014:

	2015			
	Total fair value	Unfunded commitments	Redemption dates per year	Redemption notice period
Growth – market stocks:				
Commingled stock funds:				
United States	\$ 160,513,851	—	Daily/Biennial	2/90 days
International	170,595,092	—	Daily/Monthly	3–6/30 days
Global	<u>52,629,043</u>	<u>—</u>	Weekly/Monthly	5 days
Total	<u>383,737,986</u>	<u>—</u>		
Growth – hedge funds:				
Multistrategy	84,064,047	—	Annually	45–180 days
Long/short equity	110,501,686	—	Quarterly/Annually	45/60 days
Credit – redeemable	56,591,975	—	Quarterly/Annually	60 days
Credit – nonredeemable	<u>32,872,391</u>	<u>—</u>	None	N/A
Total	<u>284,030,099</u>	<u>—</u>		
Growth – private equity funds	232,560,759	112,306,350	None	N/A
Diversifying – opportunistic:				
Global macro discretionary	75,750,054	—	Monthly	30/31 days
Global macro systematic	30,371,176	—	Monthly	4/5 days
Relative value	<u>23,888,933</u>	<u>—</u>	Quarterly	65 days
Total	<u>130,010,163</u>	<u>—</u>		
Diversifying – fixed income:				
Commingled bond fund:				
U.S. corporate and other	645,940	—	None	N/A
Inflation hedges – market:				
Commodity fund	18,667,321	—	Monthly	30 days
Public energy fund	<u>18,336,229</u>	<u>—</u>	Daily	1 day
Total	<u>37,003,550</u>	<u>—</u>		
Inflation hedges – private:				
Private energy funds	44,991,278	40,724,319	None	N/A
Private real estate funds	<u>19,288,770</u>	<u>2,545,022</u>	None	N/A
Total	<u>64,280,048</u>	<u>43,269,341</u>		
Total	<u>\$ 1,132,268,545</u>	<u>155,575,691</u>		

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	2014			
	Total fair value	Unfunded commitments	Redemption dates per year	Redemption notice period
Growth – market stocks:				
Commingled stock funds:				
United States	\$ 166,253,211	—	Daily/Biennial	2/90 days
International	184,121,958	—	Daily	3–6/30 days
Global	15,103,382	—	Weekly	5 days
Total	<u>365,478,551</u>	<u>—</u>		
Growth – hedge funds:				
Multistrategy	84,122,099	—	Annually/None	45–180 days
Long/short equity	105,491,149	—	Monthly/Quarterly	45/60 days
Credit – redeemable	84,453,216	—	Annually/Quarterly	60/90 days
Credit – nonredeemable	31,264,395	2,000,000	None	N/A
Total	<u>305,330,859</u>	<u>2,000,000</u>		
Growth – private equity funds	235,532,945	95,488,420	None	N/A
Diversifying – opportunistic:				
Global macro discretionary	83,308,851	—	Monthly	31/60/65 days
Global macro systematic	15,606,892	—	Monthly	5 days
Relative value	24,357,291	—	Quarterly	65 days
Total	<u>123,273,034</u>	<u>—</u>		
Diversifying – fixed income:				
Commingled bond fund:				
U.S. corporate and other	877,417	—	None	N/A
Inflation hedges – market:				
Commodity fund	25,774,381	—	Monthly	65 days
Public energy fund	26,578,846	—	Daily	1 day
Total	<u>52,353,227</u>	<u>—</u>		
Inflation hedges – private:				
Private energy funds	57,610,564	38,659,356	None	N/A
Private real estate funds	28,661,356	3,159,986	None	N/A
Total	<u>86,271,920</u>	<u>41,819,342</u>		
Total	<u>\$ 1,169,117,953</u>	<u>139,307,762</u>		

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The following provides details for the investment strategies as of December 31, 2015 listed above:

Growth – Market Stocks

Commingled Stock Funds

This includes \$383.7 million invested in six funds that invest in publicly traded common stock.

Growth – Hedge Funds

Multistrategy

This consists of \$84.1 million invested in two hedge funds, of which \$64.5 million is redeemable by the Foundation and \$19.6 million is invested in private investments that will not be distributed to the Foundation until they are sold by the funds' managers at their discretion as market opportunities arise. These hedge funds invest in equity, fixed income, and derivative investments and vary their investment strategies in response to changing market opportunities. As of December 31, 2015, the Foundation's combined investments in these funds included 54% equity strategies, 18% credit strategies, 11% private investments and 17% cash.

Long/Short Equity

This includes \$110.5 million invested in three hedge funds that invest in publicly traded equity securities using a combination of long and short positions.

Credit – Redeemable

This includes \$56.6 million invested in two hedge funds that can be redeemed by the Foundation that invest primarily in publicly traded debt securities purchased at discounts to par value, including publicly traded bonds, bank debt, residential and commercial mortgage-backed securities, and other asset-backed securities.

Credit – Nonredeemable

This consists of \$32.9 million invested in two hedge funds with structures similar to private equity that make distributions to investors at the manager's discretion and are expected to fully distribute their assets over the next four to eight years approximately. These funds invest in publicly traded and private debt securities purchased at discounts to par value.

Growth – Private Equity Funds

This includes \$232.6 million invested in 29 funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years approximately. As of December 31, 2015, the Foundation's combined investments in these funds includes 18% in seven primary funds of funds that invest in a diversified portfolio of buyout and venture capital funds, 38% in eleven secondary funds of funds that purchase interests in buyout and venture capital funds on a secondary basis at discounts to net asset value, 27% in seven venture capital funds that invest directly in technology and media companies, and 17% in four buyout funds that invest in specific sectors.

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Diversifying – Opportunistic

Global Macro Discretionary

This includes \$75.8 million invested in two hedge funds. These funds invest in a range of strategies that analyze movements in underlying economic variables and predict the impact these have on equity, fixed income, hard currency, and commodity markets.

Global Macro Systematic

This includes \$30.4 million invested in two hedge funds that invest in strategies that rely on mathematical, algorithmic models that analyze movements in global economic variables or prices. Some of these models seek to predict the impact of these variables on equity, fixed income, currency and commodity markets. Other models seek to identify trends in prices.

Relative Value

This includes \$23.9 million invested in a hedge fund that invests in a range of strategies that analyze spreads between securities that share financial and economic characteristics to identify deviations from historical relationships. These investments benefit when discrepancies in these spreads are recognized by the market.

Diversifying – Fixed Income

Commingled Bond Fund

This consists of \$646 thousand invested in a fund that invests in co-op mortgage loans that are not traded on public markets. This fund is not redeemable by the Foundation but makes distributions to investors at the manager's discretion. While the fund has been making distributions that suggest it may fully distribute its assets over the next several years, the Foundation is not able to determine when it will be fully paid out.

Inflation Hedges – Market

Commodity Fund

This includes \$18.7 million in a fund that invests on a global basis in publicly traded common stock and futures related to investments in energy, metals, grains, cotton, cocoa, sugar, and other commodities.

Public Energy Fund

This includes \$18.3 million invested in a fund that invests on a global basis in the publicly traded common stock of energy companies.

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Inflation Hedges – Private

Private Energy Funds

This consists of \$45.0 million in ten funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next ten years approximately. As of December 31, 2015, the Foundation's combined investments in these funds included 27% in three private energy funds of funds that invest in diversified portfolios of direct private energy funds and 73% in seven direct private energy funds that invest in companies that acquire or develop natural resource reserves, power generation facilities, and energy infrastructure assets.

Private Real Estate Funds

This includes \$19.3 million invested in three funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years approximately. These funds invest directly in real estate properties that are not traded on public markets. As of December 31, 2015, the Foundation's combined investments in these funds include 17% value add and 83% opportunistic investments.

(4) Grants Payable

At December 31, 2015 and 2014, grants scheduled to be paid in future years are as follows:

	<u>2015</u>	<u>2014</u>
Year:		
2015	\$ —	6,923,456
2016	7,713,120	1,739,000
2017	5,207,713	624,499
2018	1,219,928	100,000
2019	400,000	—
2020 and thereafter	500,000	—
	<u>15,040,761</u>	<u>9,386,955</u>
Discount to present value (based on interest rates from 0.26% to 1.55% for 2015 and 0.13% to 1.07% for 2014)	<u>(203,646)</u>	<u>(66,439)</u>
	<u>\$ 14,837,115</u>	<u>9,320,516</u>

(5) Deferred Liabilities

At December 31, 2015 and 2014, deferred liabilities consisted of the following:

	<u>2015</u>	<u>2014</u>
Federal excise tax (note 6)	\$ 5,037,365	6,207,800
5 Penn Plaza landlord incentives	<u>1,383,415</u>	<u>1,521,679</u>
	<u>\$ 6,420,780</u>	<u>7,729,479</u>

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(6) Federal Excise Tax

As a private foundation, the Foundation is normally subject to a federal excise tax equal to 2% of its net investment income for tax purposes. However, under Section 4940(e) of the Code, this tax is reduced to 1% if certain conditions are met. The Foundation's current taxes are estimated at 1% of net investment income for December 31, 2015 and 2% of net investment income for 2014.

The Foundation records a liability for deferred federal excise tax at the 2% rate on the total unrealized appreciation in the fair value of investments. The federal excise tax will be paid as realized gains are reported for tax purposes. The unrealized gains on investments are reported net of the deferred federal excise tax revenue/(expense) of \$(1,170,434) and \$395,647 for the years ended December 31, 2015 and 2014, respectively, on the statements of activities.

(7) Fair Value Disclosures

The carrying amount of cash equivalents and cash, other assets and receivables, accrued expenses and other payables, and grants payable approximates fair value because of the short-term maturities of these financial instruments. Except for cash equivalents and cash, the inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. The inputs to the fair value for cash equivalents and cash are considered Level 1 in the fair value hierarchy.

(8) Lease Commitments

The Foundation occupies office space under a lease agreement expiring in 2021.

The Foundation's total contractual lease commitments are as follows:

	<u>5 Penn Plaza</u>
Year:	
2016	\$ 1,018,000
2017	1,031,000
2018	1,101,000
2019	1,115,000
2020	1,115,000
2021	<u>186,000</u>
	<u>\$ 5,566,000</u>

During the years ended December 31, 2015 and 2014, rent expense, including escalations, was \$962,661 and \$926,668, respectively.

(9) Pension Plans

The Foundation provides a defined-contribution retirement plan for all eligible employees, whereby the Foundation contributes 15% of a participant's eligible earnings on an annual basis. In addition, the Foundation provides a supplemental executive retirement plan for the benefit of certain eligible employees. Total pension expense for the years ended December 31, 2015 and 2014 was \$1,061,298 and \$1,033,425, respectively.

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(10) Subsequent Events

The Foundation evaluated events subsequent to the balance sheet date of December 31, 2015 through June 23, 2016, which was the date the financial statements were available to be issued, and determined there were no additional matters that are required to be disclosed.