KPMG

THE BUSH FOUNDATION

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
The Bush Foundation:

We have audited the accompanying financial statements of The Bush Foundation, which comprise the statements of financial position as of December 31, 2016 and 2015, 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 Bush Foundation as of December 31, 2016 and 2015, and the 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

Minneapolis, Minnesota
July 13, 2017

THE BUSH FOUNDATION

Statements of Financial Position

December 31, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Cash	$	116	38
Investments and cash equivalents, at fair value		897,336	831,877
Dividends and interest receivable		451	369
Unsettled trades receivable		93	62,574
Federal excise and unrelated business income tax receivable		1,721	417
Furniture, equipment, and leasehold improvements, net of accumulated depreciation of $121 and $104, respectively		63	75
Other assets		122	118
Total assets	$	899,902	895,468
Liabilities and Net Assets			
Accounts payable	$	483	477
Unsettled trades payable		784	159
Accrued and other liabilities		483	559
Deferred federal excise taxes		4,000	3,500
Grants payable		12,587	10,174
Total liabilities		18,337	14,869
Unrestricted net assets		881,565	880,599
Total liabilities and net assets	$	899,902	895,468

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Activities

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Revenues and gains:			
Dividends	$	3,433	4,231
Interest		1,662	805
Net realized gains on investment transactions		22,010	66,673
Net change in unrealized gains (losses) in fair value of investments, net of deferred federal excise tax (expense) benefit of ($500) in 2016 and $1,160 in 2015		21,704	(43,177)
Other income		64	120
Net revenues and gains		48,873	28,652
Expenses:			
Program:			
Grants, net of cancellations		36,817	37,298
Program management expenses		6,604	7,300
Investment and administrative:			
Investment expenses		2,262	2,166
Administrative expenses		2,212	2,217
Federal excise and unrelated business income tax expense – current		12	1,634
Total expenses		47,907	50,615
Change in unrestricted net assets		966	(21,963)
Unrestricted net assets at beginning of year		880,599	902,562
Unrestricted net assets at end of year	$	881,565	880,599

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Cash Flows

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Change in unrestricted net assets	$	966	(21,963)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:			
Depreciation		17	18
Realized gains on investment transactions		(22,010)	(66,673)
Net change in unrealized (gains) losses in fair value of investments		(22,204)	44,337
Changes in assets and liabilities:			
Dividends and interest receivable		(82)	9
Other assets		(4)	(9)
Accounts payable and accrued and other liabilities		(70)	93
Federal excise and unrelated business income tax receivable		(1,304)	(1,534)
Grants payable		2,413	5,095
Net cash used in operating activities		(42,278)	(40,627)
Cash flows from investing activities:			
Purchase of furniture and equipment		(5)	(5)
Decrease (increase) in unsettled trades receivable		62,481	(62,574)
Increase (decrease) in unsettled trades payable		625	(7,724)
Increase (decrease) in deferred federal excise taxes		500	(1,160)
Proceeds from sale of investments		189,473	249,529
Purchase of investments		(205,375)	(144,732)
Net cash provided by investing activities		47,699	33,334
Net increase (decrease) in cash and cash equivalents		5,421	(7,293)
Cash and cash equivalents at beginning of year		5,753	13,046
Cash and cash equivalents at end of year	$	11,174	5,753
Cash and cash equivalents:			
Cash	$	116	38
Cash equivalents in investments		11,058	5,715
	$	11,174	5,753
Supplemental disclosure of cash flow information:			
Cash paid during the year for taxes	$	1,592	3,511

See accompanying notes to financial statements.

(1) Significant Accounting Policies

(a) Organization

The Bush Foundation (the Foundation) is an exempt private foundation that invests in great ideas and the people who power them. We serve Minnesota, North Dakota, South Dakota, and the 23 Native tribes that share the same geography.

(b) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

(c) Tax-Exempt Status

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. The Foundation is subject to applicable state and federal unrelated business income tax and federal excise tax as discussed in note 3. A provision for unrelated business income tax and federal excise tax has been made and is included in the financial statements.

The Foundation's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Foundation has no uncertain tax positions resulting in an accrual of tax expense or benefit.

(d) Use of Estimates

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

(e) Investments and Cash Equivalents

Investments in securities that are traded on national or international securities exchanges are carried at fair value, based upon quoted market prices provided by external investment managers and the Foundation's custodian. Mutual funds and common and collective trusts are recorded at net asset value (NAV), which represents a readily determinable fair value.

Investments held in alternative structures including equity limited partnerships, private equity limited partnerships and related structures, real asset funds, and hedge funds are recorded at NAV as a practical expedient to fair value based on estimates provided by the respective investment managers if quoted market values are not readily determinable. See additional disclosures in note 2.

Purchases and sales of investments are recorded on the trade-date basis. Interest and dividend income are recorded when earned. Realized gains and losses are recorded as the difference between historical cost and the amount of cash proceeds received when sold. Unrealized gains and losses are recorded as the change in fair value of investments during the year.

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The Foundation considers all interest-bearing deposits, money market accounts, and short-term investments purchased with maturities of three months or less to be cash equivalents.

(f) Unsettled Trades Receivable or Payable

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

(g) Fair Value of Financial Instruments

The carrying values of dividends and interest receivable, unsettled trades receivable and payable, accounts payable, and accrued and other liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. Investments are stated at fair value. Grants payable approximate fair value by discounting multi-year grants.

(h) Grants, Net of Cancellations

Grants are recorded as an expense when the Foundation makes an unconditional award. Payment of grants reduces the resulting liability incurred at the time of the award. Cancellations of grants occur principally when the grantees do not meet the grant terms or when terms are adjusted and are reflected as a reduction of grant expense. Cancellations were $415 and $549 in 2016 and 2015, respectively. Grants awarded, net of cancellations, were $36,817 and $37,298 for the years ended December 31, 2016 and 2015, respectively.

(i) Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The guidance supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, on May 9, 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers Narrow-Scope Improvements and Practical Expedients*. The guidance amends ASU 2014-09 to clarify the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, completed contracts, and contract modifications at transition. This guidance is effective for private entities with fiscal years beginning after December 15, 2018, and early adoption is permitted. The Foundation is currently evaluating the impact of the updated guidance, but does not believe the adoption of ASU 2014-09 or ASU 2016-12 will have a significant impact on the Foundation’s financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The Foundation has not evaluated the impact of the updated guidance on its financial statements.

(Continued)

(In thousands)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expenses and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

(2) Investments

Investments at fair value consisted of the following:

		2016	2015
Cash equivalents	$	11,058	5,715
Corporate and debt securities		73,002	33,222
Mutual funds and common and collective trusts:			
Fixed income funds		56,630	64,751
International equity funds		109,708	105,438
Equity securities:			
U.S. equities		61,434	66,323
International equities		25,534	26,161
Total marketable investments		337,366	301,610
Alternative investments:			
Multistrategy hedge funds		37,522	35,795
Long/short hedge funds		64,237	65,730
Fixed income hedge funds		5,581	8,930
Real asset funds		90,692	85,969
Equity limited partnership		82,035	74,917
Private equity limited partnerships and related structures		279,903	258,926
Total alternative investments		559,970	530,267
Total	$	897,336	831,877

The Foundation follows Accounting Standards Codification Topic 820, *Fair Value Measurement* (ASC 820), which establishes a three-level 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 or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – quoted prices in active markets for identical securities. Mutual funds, U.S. equities, and international equities traded on securities exchanges are carried at fair value based upon closing market quotations on such exchange on the date of valuation or, in the absence of sales, at values based on the closing bid price or last sale price on the previous trading day. Common and collective trusts are valued using the NAV as a readily determinable fair value. Investments in cash equivalents include money-market securities that are valued at closing net asset value.

(In thousands)

- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.). The current fair values of corporate and debt securities are provided by an independent pricing service, but where an active market exists, are valued using market quotations obtained from broker-dealers or quotation systems.
- Level 3 – significant unobservable inputs that are not corroborated by observable market data. The Foundation does not hold any Level 3 investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. There have been no changes in the valuation methodologies used as of December 31, 2016 and 2015.

The summary of inputs used to value the Foundation's investments measured on a recurring basis as of December 31, 2016 is as follows:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 11,058	—	—	11,058
Corporate and debt securities	—	73,002	—	73,002
Mutual funds and common and collective trusts:				
Fixed income security funds	56,630	—	—	56,630
International equity funds	109,708	—	—	109,708
Equity securities:				
U.S. equities	61,434	—	—	61,434
International equities	25,534	—	—	25,534
Investments measured at net asset value (1):				
Alternative investments:				
Multistrategy hedge funds				37,522
Long/short hedge funds				64,237
Fixed income hedge funds				5,581
Real asset funds				90,692
Equity limited partnership				82,035
Private equity limited partnerships and related structures				279,903
Total investments	$ 264,364	73,002	—	897,336

(Continued)

(In thousands)

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

For the year ended December 31, 2016, common and collective trusts were added to Level 1 investments as it was determined that their NAV represented a readily determinable fair value.

The summary of inputs used to value the Foundation's investments measured on a recurring basis as of December 31, 2015 is as follows:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 5,715	—	—	5,715
Corporate and debt securities	—	33,222	—	33,222
Mutual funds and common and collective trusts:				
Fixed income security funds	64,751	—	—	64,751
International equity funds	105,439	—	—	105,439
Equity securities:				
U.S. equities	66,323	—	—	66,323
International equities	26,160	—	—	26,160
Investments measured at net asset value (1):				
Alternative investments:				
Multistrategy hedge funds				35,795
Long/short hedge funds				65,730
Fixed income hedge funds				8,930
Real asset funds				85,969
Equity limited partnership				74,917
Private equity limited partnerships and related structures				258,926
Total investments	$ 268,388	33,222	—	831,877

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The above table as of December 31, 2015 was restated to add back certain Level 1 investments with a readily determinable fair value.

(In thousands)

The following is a summary of the investments valued using NAV as a practical expedient and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2016:

		Fair value	Unfunded commitments	Redemption frequency ranges	Redemption notice period
Alternative investments:					
Multistrategy hedge funds (a)	$	37,522	—	none – quarterly	65 days
Long/short hedge funds (b)		64,237	—	annually – biennially	45–90 days
Fixed income hedge fund (c)		5,581	—	none	none
Real asset funds (d)		90,692	30,927	none – quarterly	none – 45 days
Equity limited partnership (e)		82,035	—	quarterly	60 days
Private equity limited partnerships and related structures (f)		279,903	112,066	none	none
Total	$	559,970	142,993		

The following is a summary of the investments valued using NAV as a practical expedient and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2015:

		Fair value	Unfunded commitments	Redemption frequency ranges	Redemption notice period
Alternative investments:					
Multistrategy hedge funds (a)	$	35,795	—	none – quarterly	65 days
Long/short hedge funds (b)		65,730	—	annually – biennially	45–90 days
Fixed income hedge fund (c)		8,930	—	none	none
Real asset funds (d)		85,969	37,350	none – quarterly	none – 45 days
Equity limited partnership (e)		74,917	—	quarterly	60 days
Private equity limited partnerships and related structures (f)		258,926	109,706	none	none
Total	$	530,267	147,056		

(a) This category includes direct investments in multistrategy hedge funds that invest in both fixed income and equity instruments. The managers of these funds have the flexibility to adjust their allocations between fixed income and equity investments based on their particular strategy (event-driven, relative value, directional) and view of the market. These funds have various redemption and notice of redemption requirements that generally limit the Foundation's ability to liquidate them in a short period of time.

(b) This category includes direct investments in long/short hedge funds that invest in equity securities by taking either a long position in a company's equity securities, expecting the price will rise, or a short position, expecting the price will decline. The managers of these funds have the flexibility to change their exposure based on their view of particular securities and the overall market. Long/short hedge funds are generally less volatile than long-only equity funds and have higher manager fees. These funds have various redemption and notice of redemption requirements that generally limit the Foundation's ability to liquidate them in a short period of time.

(c) This category includes direct investments in a fixed income hedge fund that invested in debt securities, including corporate debt, mortgage debt, and sovereign debt. The Foundation has requested full redemption of this fund and will continue to receive distributions as the illiquid investments are realized.

(d) This category includes direct investments in real asset funds, generally through limited partnerships, that invest in commercial real estate, infrastructure projects, and natural resources. These investments cannot be redeemed with the funds except for the master limited partnerships fund noted below. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next one to ten years.

This category also includes a fund that invests primarily in publicly and privately traded master limited partnerships (MLPs) that invest primarily in energy infrastructure assets (the MLP Fund). The MLP Fund allows quarter-end withdrawals upon 45 days' prior written notice, subject to performance and balance restrictions that could limit the Foundation's ability to liquidate within the specified time period.

(e) This category includes an equity limited partnership that holds long and short positions primarily in equity securities of companies within the S&P 500 Index. Derivative instruments, such as forward contracts, futures, options, and swaps, may be used to attempt to hedge existing long and short positions in order to both maximize returns and reduce risks. The equity limited partnership fund allows quarter-end withdrawals upon 60 days' prior written notice, subject to performance and balance restrictions that could limit the Foundation's ability to liquidate within the specified time period.

(f) This category includes private equity limited partnerships and related structures that invest in private companies. These investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next one to ten years, except for the business development corporation noted below.

This category also includes a related structure called a business development corporation that invests in private debt with middle market companies. This investment cannot be redeemed until a public offering or listing of the shares is completed, which is estimated to occur within the next three years.

The Foundation's alternative investments in hedge funds (categories (a) and (b) above) are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and based on operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. The Foundation's alternative investments in real asset funds (except for the MLP Fund noted in (d) above) and private equity limited partnerships (categories (d) and (f) above) cannot be redeemed with the funds. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. The Foundation's alternative investment in an equity limited partnership (category (e) above) is redeemable with the fund at NAV subject to redemption restrictions noted above.

(3) Federal Taxes and Distribution Requirements

Federal Excise Taxes – The Foundation is subject to a 2% excise tax on its taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible). Tax on net investment income is reduced from 2% to 1% for any taxable year in which the Foundation's qualifying distributions meet certain requirements prescribed by Internal Revenue Code Section 4940(e). The Foundation met these requirements in both 2016 and 2015, and accordingly, the federal excise tax expense is based upon the reduced 1% tax rate.

Deferred federal excise taxes arise from unrealized gains in the market value of investments, as well as from differences in the recognition of income from certain investments (timing differences). As of December 31, 2016 and 2015, the Foundation had unrealized gains in the market value of investments and has recorded a deferred tax liability of $4,000 and $3,500, respectively.

Distribution Requirements – The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, within one year after the end of each fiscal year, it must distribute 5% of the average market value of its assets as defined in the Code. The investments includible for the 5% distribution requirement are exclusive of those investments deemed to be held for charitable activities (representing 1.5% of the investments). Qualifying distributions are determined on a cash basis and include grant payments and certain other expenses incurred by the Foundation. The Foundation has complied with distribution requirements through December 31, 2016.

Unrelated Business Income Taxes – In accordance with Section 511(a)(1) of the Code, the Foundation is subject to corporate tax rates on net income earned from unrelated business activities. The Foundation's investments produce varying amounts of unrelated business income depending on the performance of and levels of debt of the underlying investments.

(4) Program Management, Investment, and Administrative Expenses

The Foundation's operating costs have been allocated between program management, investment, and administrative expenses in the accompanying statements of activities based on direct activity and management's estimates. Program management expenses include salaries and expenses required to run program operations. Investment expenses include salaries and expenses attributable to managing the Foundation's investments. Administrative expenses include salaries and all other expenses incidental to operating the Foundation.

(Continued)

(In thousands)

(5) Retirement Plan

The Foundation has a defined contribution retirement plan managed by Teachers Insurance and Annuity Association of America. In 2016 and 2015, the amount of the contribution was 8% of the employee's salary and a 2:1 employer match on employee contributions up to a maximum of 4% of the employee's salary, subject to the maximum includible compensation limit per Section 401(a)(17) of the Code. The expense of the plan for 2016 and 2015 was $481 and $451, respectively.

The Foundation has a nonqualified deferred compensation 457(b) plan for the benefit of certain employees of the Foundation who are eligible to participate in the plan. There is no expense to the Foundation for this plan.

(6) Grants Payable

The following table provides the activity within the unpaid grants account:

		2016	2015
Unpaid grants at beginning of year	$	10,174	5,079
Grants appropriated, net of cancellations		36,817	37,298
Grants paid		(34,553)	(32,518)
Refund of previous years' grants		149	315
Unpaid grants at end of year	$	12,587	10,174

Grants payable in more than one year are stated at their net present value using discount rates established in the year the grant was made with resulting discount rates ranging from 0.3% to 2.7%. The following is a summary of grants authorized and payable at December 31:

		2016	2015
To be paid in less than one year	$	10,134	8,839
To be paid in one to five years		2,599	1,406
		12,733	10,245
Discount		(146)	(71)
	$	12,587	10,174

(Continued)

(In thousands)

As of December 31, 2016 and 2015, the Foundation has approximately $258 and $2,401, respectively, of conditional grant obligations.

(7) Lease Commitments

The Foundation has a 145-month (12 years and 1 month) operating lease for office space, which commenced on September 1, 2013 and ends on September 30, 2025. The lease agreement allows for the right to extend the term for two 5-year periods. The Foundation pays base rent per the terms of the agreement and operating costs as incurred for the leased property. Total base rent expense under this lease was $123 for the years ended December 31, 2016 and December 31, 2015 respectively.

Future base rent payments at December 31, 2016 are as follows:

		Amount
Year ending December 31:		
2017	$	119
2018		125
2019		131
2020		136
2021		142
Thereafter		580
Total	$	1,233

(8) Subsequent Events

The Foundation has evaluated subsequent events through July 13, 2017, the date on which the financial statements were available to be issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.