Hall Family Foundation

Financial Report
December 31, 2015

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Contents

Independent Auditors' Report

Board of Directors
Hall Family Foundation
Kansas City, Missouri

Report on the Financial Statements
We have audited the accompanying financial statements of Hall Family Foundation (the Foundation), which comprise the statements of financial position—modified cash basis as of December 31, 2015 and 2014, the related statements of activities and changes in net assets—modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hall Family Foundation as of December 31, 2015 and 2014, and the changes in its net assets for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting
We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

RSM US LLP

Kansas City, Missouri
December 12, 2016

Hall Family Foundation

Statements of Financial Position—Modified Cash Basis
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	**$ 4,180,710**	$ 19,603,596
Investments, at fair value	**818,699,291**	873,014,016
Stock fund income receivable	**642,832**	852,088
Other assets	**156,767**	448,629
Total assets	**$ 823,679,600**	$ 893,918,329
Unrestricted Net Assets		
Fund balance	**$ 622,006,344**	$ 632,799,956
Net unrealized gains on investments	**201,673,256**	261,118,373
Total unrestricted net assets	**$ 823,679,600**	$ 893,918,329

See notes to financial statements.

Hall Family Foundation

Statements of Activities and Changes in Net Assets—Modified Cash Basis
Years Ended December 31, 2015 and 2014

	2015	2014
Revenues (losses):		
Interest income	**$ 3,519,650**	$ 4,454,507
Dividends	**10,119,129**	14,831,089
Other income (losses), net	**(1,339,421)**	251,595
Realized gains	**28,564,579**	58,270,122
Total revenues, other than unrealized losses on investments	**40,863,937**	77,807,313
Expenditures:		
Contributions (Note 7)	**42,112,087**	38,257,056
Operating expenditures:		
Investment	**7,871,461**	7,226,473
Charitable	**1,203,457**	1,242,514
Total operating expenditures	**9,074,918**	8,468,987
Foreign and excise taxes paid, net of refunds received	**470,544**	1,358,156
Total expenditures	**51,657,549**	48,084,199
(Decrease) increase in net assets before unrealized losses on investments	**(10,793,612)**	29,723,114
Change in unrealized losses on investments	**(59,445,117)**	(23,261,535)
Decrease increase in unrestricted net assets	**(70,238,729)**	6,461,579
Unrestricted net assets, beginning of year	**893,918,329**	887,456,750
Unrestricted net assets, end of year	**$ 823,679,600**	$ 893,918,329

See notes to financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Hall Family Foundation (the Foundation) is a private foundation dedicated to purposes that are strictly charitable, educational, scientific, religious, literary, benevolent and philanthropic. The Foundation was established in 1943 by Joyce C. Hall, his wife Elizabeth Ann Hall and his brother, Rollie B. Hall (the Founders). As outlined in the original bylaws, the Founders intended that the Foundation should promote “the health, welfare and happiness of school-age children; the advancement and diffusion of knowledge; activities for the improvement of public health; and the advancement of social welfare.”

The Foundation’s mission statement reads: “The Hall Family Foundation is a private philanthropic organization dedicated to enhancing the quality of human life. Programs that enrich the community, help people and promote excellence are considered to be of prime importance. The Foundation views its critical function as that of a catalyst. It seeks to be responsible to programs which are innovative, yet strive to create permanent solutions to community needs in the greater Kansas City area.” In keeping with the Founders’ mission, the Foundation concentrates its philanthropic efforts in five areas of interest in the greater Kansas City area: (1) children, youth and families, (2) education, (3) the arts, (4) community development and (5) additional interests. The Foundation provides contributions to charitable organizations that qualify as tax exempt under section 501(c)(3) of the Internal Revenue Code.

Significant accounting policies:

Basis of accounting: The accompanying financial statements have been prepared on the modified cash basis of accounting. Under this method, revenue is recognized when received rather than when earned, and contributions and expenses are recognized when paid rather than when the obligation is incurred. Exceptions from the modified cash basis are as follows:

- The Foundation reports its investments at fair value, using the fair value hierarchy established by accounting principles generally accepted in the United States of America (U.S. GAAP), rather than at cost.

- Income earned related to the stock fund investment is recorded when earned rather than when received, recording income when required for tax purposes.

The modified cash basis of accounting differs from U.S. GAAP in the following significant respects: (a) The Foundation’s obligations for contributions to be paid in future years, as discussed in Notes 4 and 5, are recognized when paid rather than being recorded as obligations when approved by the governing body, (b) the fair value of the interest rate swap agreement, discussed in Note 5, is not recorded in the financial statements, (c) the fair values of the rent-free space and services provided to the Foundation, as described in Note 6, are not recorded as contribution revenue and operating expenses, (d) nonfinancial contributions made are recorded at the Foundation’s cost, rather than fair value, (e) no liability would be recorded for uncertain tax positions, if any, in accordance with Financial Accounting Standards Board (FASB) guidance on uncertain tax positions and (f) income (other than that related to the stock fund investment) and expenses are recognized when received or paid rather than when earned or incurred.

Use of estimates: The preparation of financial statements in conformity with the Foundation’s basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets as of the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market funds.

Investments and investment return: All investments having a readily determinable fair value are carried at fair value based on quoted market prices at the reporting date. Investments without readily available market prices consist of limited partnerships, limited liability companies and other nonreadily marketable investments. The Foundation establishes their value based on information gathered from the investees, including audited financial statements and other reports provided by the investees. For more information on the valuation of investments, see Notes 2 and 3.

Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments, and is reflected in the statement of activities and changes in net assets—modified cash basis as unrestricted. The stock fund income receivable represents the fourth-quarter income distribution due to the Foundation from its equity partnership interests, as required for tax purposes.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the risk inherent in certain investment vehicles, it is possible that changes in their risk profile could occur in the near term and those changes could materially affect the value of those investments reported in the statements of financial position—modified cash basis.

Fair value of financial instruments: Financial instruments consist of cash and cash equivalents, investments and income receivable. The carrying amounts for cash and cash equivalents and income receivable approximate fair value because of the short maturity of these instruments. The Foundation's estimate of the fair value of investments is further described in Notes 2 and 3.

Income taxes: The Foundation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. As a private foundation, it is subject to federal excise tax at the rate of 2 percent on net investment income. Annually, the excise tax rate can be reduced to 1 percent if statutory distribution requirements are met. The Foundation met this requirement in 2015 but did not meet this requirement in 2014. The excise tax liabilities are approximately $337,000 and $1,379,000 as of December 31, 2015 and 2014, respectively. As of December 31, 2015, approximately $42,658,000 of undistributed income remains, which is required and expected to be distributed in 2016.

Subsequent events: Subsequent events have been evaluated through December 12, 2016, which is the date the financial statements were available to be issued.

Note 2. Investments, Historical Cost Basis

The historical cost and current fair value of investments at December 31, 2015 and 2014, are as follows:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Treasury inflation-protected securities (TIPS)	$ 53,504,100	$ 51,268,706	$ 53,201,913	$ 51,534,477
Mortgage-backed debt	9,413,141	9,298,528	6,430,580	6,407,846
Asset-backed debt	-	-	356,630	355,418
Mutual funds:				
Bonds	52,360,592	54,662,262	52,307,717	55,790,457
Non-U.S. equities	-	-	23,307,767	22,451,532
Total mutual funds	52,360,592	54,662,262	75,615,484	78,241,989
Stocks:				
U.S. equities	1,637,293	1,223,421	1,676,018	4,094,309
Non-U.S. equities	30,725,461	38,634,382	29,595,143	41,010,282
Total stocks	32,362,754	39,857,803	31,271,161	45,104,591
Real estate investment trusts	20,493,792	21,202,225	19,582,665	21,111,342
Common trust funds:				
Non-U.S. equities	56,262,345	52,070,446	53,629,959	51,111,155
Real asset category	8,467,748	7,137,936	16,964,796	13,539,412
Total common trust funds	64,730,093	59,208,382	70,594,755	64,650,567
Limited partnerships and limited liability companies:				
Marketable:				
U.S. equities	6,549,279	154,853,403	6,868,989	179,069,502
Non-U.S. equities	60,681,322	61,975,682	39,962,133	48,096,391
Real asset category	43,226,972	34,350,626	42,195,898	45,804,804
Global long/short equities	58,502,492	72,692,013	60,925,480	76,618,305
Absolute return strategies	77,289,188	99,874,399	76,164,795	106,511,309
Nonmarketable alternatives	137,912,313	159,455,262	128,725,164	149,507,475
Total limited partnerships and limited liability companies	384,161,566	583,201,385	354,842,459	605,607,786
	$ 617,026,038	$ 818,699,291	$ 611,895,647	$ 873,014,016

Note 2. Investments, Historical Cost Basis (Continued)

Investments are recorded on a trade-date basis at fair value. The fair values of the Treasury inflation-protected securities (TIPS), mutual funds, non-U.S. equity stocks and real estate investment trusts are based primarily on quoted market prices. Mortgage-backed debt and asset-backed debt are valued using discounted cash flows or various pricing models.

The Foundation is invested in various common trust funds. Common trust funds permit the commingling or pooling of investors' money into one account (known as a common fund) for the purpose of creating a single investment. Because they are not a bank product, common trust funds are not required to be registered with the Securities and Exchange Commission and they are not considered to be a security under state and federal securities law. Much like mutual funds, common trust funds strike a net asset value on a periodic basis and have varying investment strategies that primarily include investments in traditional assets, such as domestic and international equity, fixed income and other securities. The Foundation's investments in common trust funds may be redeemed at net asset value (NAV) on a daily or monthly basis, depending on the fund.

The Foundation also owns interests in various limited partnerships and limited liability companies (LLCs). These investments employ a number of strategies that utilize a variety of securities and financial instruments in sophisticated trading and portfolio management techniques. The fair value of the limited partnerships and LLCs has been estimated using the NAV per share of the investment. These assets include marketable and nonmarketable alternatives.

Limited partnerships and LLCs that are classified as marketable consist of equity investment pools, real asset category, equity hedge funds (U.S. long/short, global long/short and sector-specific investments) and absolute return strategies (diversified arbitrage, distressed investment and convertible arbitrage). Fair value has been estimated using the NAV per share of the investment. These investments are typically redeemable at NAV on a monthly or annual basis, depending on the respective investment agreement. However, it is possible that these redemption rights may be restricted, suspended or eliminated by the funds in the future in accordance with the underlying fund agreements. 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.

Nonmarketable alternatives are limited partnerships and LLCs invested in various venture capital, hard assets, and distressed and private equity partnerships. Fair value has been estimated using the NAV per share of the investment. Each fund operates in accordance with the terms of a limited partnership agreement and continues to operate year to year, until dissolved in accordance with the agreements. There are significant restrictions on the transfer and assignment of these interests. Distributions from each fund are received as the underlying investments of the funds are liquidated. The Foundation estimates that the underlying assets of the funds will be liquidated over the next one to 15 years. Outstanding capital commitments to these partnerships as of December 31, 2015, approximated $77,369,890. Although a secondary market exists for these investments, it is not active, and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Note 3. Disclosures About Fair Value of Assets

The accounting guidance for fair value measurements defines fair value as 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 in its principal market, or in the absence of a principal market, the most advantageous market for the investment. The Foundation accounts for its investments at fair value. The Foundation has elected to report the fair value of certain NAV investments, primarily those included in other investments on the statements of financial position—modified cash basis, using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or as adjusted by the Foundation based on various factors, to be used to determine fair value, under certain conditions. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. In accordance with the guidance, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, which gives the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, into a three-level fair value hierarchy. These levels are as follows:

Level 1: Inputs are quoted prices in active markets for identical instruments traded in active markets that the Foundation has the ability to access as of the measurement date. Level 1 securities include Treasury inflation-protected securities, mutual funds invested in bonds and equities, publicly traded real estate investment trusts, and stocks.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable, or can be corroborated by, observable market data. Level 2 securities include mortgage-backed debt and asset-backed debt.

Level 3: Inputs are significant and unobservable and reflect the Foundation’s own assumption about the assumptions that market participants would use in pricing an asset or liability. Valuation techniques may include use of option pricing models, discounted cash flow models and similar techniques.

Note 3. Disclosures About Fair Value of Assets (Continued)

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position—modified cash basis measured at fair value on a recurring basis and level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

	2015				
		Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value
Treasury inflation-protected securities	$ 51,268,706	$ 51,268,706	$ -	$ -	$ -
Mortgage-backed debt	9,298,528	-	9,298,528	-	-
Asset-backed debt	-	-	-	-	-
Mutual funds:					
Bonds	54,662,262	54,662,262	-	-	-
Stocks:					
U.S. equities	1,223,421	1,223,421	-	-	-
Non-U.S. equities	38,634,382	38,634,382	-	-	-
Total stocks	39,857,803	39,857,803	-	-	-
Real estate investment trusts	21,202,225	21,202,225	-	-	-
Common trust funds:					
Non-U.S. equities	52,070,446	-	-	-	52,070,446
Real asset category	7,137,936	-	-	-	7,137,936
Total common trust funds	59,208,382	-	-	-	59,208,382
Limited partnerships and limited liability companies (Note 2):					
Marketable:					
U.S. equities	154,853,403	-	-	-	154,853,403
Non-U.S. equities	61,975,682	-	-	-	61,975,682
Real asset category	34,350,626	-	-	-	34,350,626
Global long/short equities	72,692,013	-	-	-	72,692,013
Absolute return strategies	99,874,399	-	-	-	99,874,399
Nonmarketable alternatives	159,455,262	-	-	-	159,455,262
Total limited partnerships and limited liability companies	583,201,385	-	-	-	583,201,385
	$ 818,699,291	$ 166,990,996	$ 9,298,528	$ -	$ 642,409,767

Note 3. Disclosures About Fair Value of Assets (Continued)

	2014				
		Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value
Treasury inflation-protected securities	$ 51,534,477	$ 51,534,477	$ -	$ -	$ -
Mortgage-backed debt	6,407,846	-	6,407,846	-	-
Asset-backed debt	355,418	-	355,418	-	-
Mutual funds:					
Bonds	55,790,457	55,790,457	-	-	-
Non-U.S. equities	22,451,532	22,451,532	-	-	-
Total mutual funds	78,241,989	78,241,989	-	-	-
Stocks:					
U.S. equities	4,094,309	4,094,309	-	-	-
Non-U.S. equities	41,010,282	41,010,282	-	-	-
Total stocks	45,104,591	45,104,591	-	-	-
Real estate investment trusts	21,111,342	21,111,342	-	-	-
Common trust funds:					
Non-U.S equities	51,111,155	-	-	-	51,111,155
Real asset category	13,539,412	-	-	-	13,539,412
Total common trust funds	64,650,567	-	-	-	64,650,567
Limited partnerships and limited liability companies (Note 2):					
Marketable:					
U.S. equities	179,069,502	-	-	-	179,069,502
Non-U.S. equities	48,096,391	-	-	-	48,096,391
Real asset category	45,804,804	-	-	-	45,804,804
Global long/short equities	76,618,305	-	-	-	76,618,305
Absolute return strategies	106,511,309	-	-	-	106,511,309
Nonmarketable alternatives	149,507,475	-	-	-	149,507,475
Total limited partnerships and limited liability companies	605,607,786	-	-	-	605,607,786
	$ 873,014,016	$ 195,992,399	$ 6,763,264	$ -	$ 670,258,353

Note 4. Contribution Commitments

As of December 31, 2015, the Foundation's Board of Directors has authorized contributions to be paid in varying amounts and at various dates in future years of $71,562,061, excluding commitments discussed in Note 5.

During 2015 and 2014, the Foundation donated a portion of the photography collection totaling $3,019,723 and $1,016,150, respectively, to the Nelson-Atkins Museum of Art. These donations are reflected at cost and are classified as contributions on the statements of activities and changes in net assets—modified cash basis.

Note 5. Donation Agreement With the Nelson Gallery Foundation

In April 2004, the Hall Family Foundation entered into a donation agreement with the Nelson Gallery Foundation (Donee). Under the agreement, the Foundation is responsible for the payment of principal and interest on the $60,000,000 Missouri Development Finance Board Cultural Facilities Revenue, Series 2004A Bonds (the Bonds), through periodic charitable donations to the Donee's agent. The primary use of the proceeds of the Bonds is to finance the costs of the Donee's Campus Enhancement Project (the Project). The Bonds are the third series of bonds issued by the Missouri Development Finance Board for purposes of financing the Project. The 2004A series is the only series under which the Foundation has any direct or indirect obligation for payment.

Any amendment (including termination) of the Bonds, the loan agreement or the bank agreement is subject to prior written consent of the Foundation. The Donee shall not cause or permit any of the Bonds to be called for redemption (other than a scheduled, mandatory sinking fund redemption or a special mandatory redemption, if any) without the prior written consent of the Foundation. In addition, the Donee must obtain prior written consent of the Foundation prior to changing the interest rate mode or replacing the remarketing agent on the Bonds.

No voluntary principal payments were made in 2015 or 2014.

The Bonds bear interest at a variable rate that is based on the BMA Daily Index, payable monthly. The Foundation's obligation to pay donations to fund principal on the Bonds is subject to a mandatory sinking fund redemption. The payment schedule for the remaining principal is as follows:

	Principal Amount
2029	$ 8,200,000
2030	11,600,000
2031	12,000,000
2032	12,400,000
2033 final maturity	12,800,000
	$ 57,000,000

Note 5. Donation Agreement With the Nelson Gallery Foundation (Continued)

In connection with the donation agreement, the Foundation entered into a 10-year interest rate swap agreement in April 2004 which, in effect, fixed the interest on $25,000,000 of the $60,000,000 obligation at the rate of 3.88 percent per annum. In December 2011, the Foundation renewed the swap contract for 15 years at a rate of 2.426 percent per annum. The semiannual payments under the swap agreement are due January 1 and July 1 of each year. The swap agreement expires in 2027. The fair value of the swap contract (unaudited) due J.P. Morgan as of December 31, 2015 and 2014, was $(1,960,138) and $(1,288,546), respectively.

All payments by the Foundation that are required under the donation and interest rate swap agreements will be reported for tax purposes as qualifying distributions. In the event the interest rate swap agreement causes payments to be received by the Foundation, these payments will result in adjustments to qualifying distributions for tax reporting purposes.

Note 6. Related-Party Transactions

Historically, a department of Hallmark Cards, Inc. (Hallmark) provided personnel and rent-free space for the Foundation’s operations. The administrative expenses associated with the personnel provided included salaries, benefits and other personnel costs. These expenses were reimbursed by the Foundation directly to Hallmark. During 1999, this department of Hallmark was incorporated as Chinquapin Trust Company (Chinquapin). Since the incorporation of Chinquapin, it has provided the rent-free space and personnel needed to carry out the Foundation’s charitable purposes. The administrative expenses are reimbursed, at actual cost, quarterly by the Foundation to Chinquapin, which in turn reimburses Hallmark. Expenses related to administrative services paid to Chinquapin for the years ended December 31, 2015 and 2014, were $1,249,246 and $1,198,356, respectively.

Note 7. Concentration of Contributions

The Foundation awards grants primarily to organizations in the greater Kansas City area that focus on children, youth and families, education, the arts, community development and additional interests. During the years ended December 31, 2015 and 2014, the Foundation contributed $19,793,600 and $10,627,200, respectively, to one organization, which represents approximately 47 percent and 28 percent, respectively, of total contribution expenditures.