LUCILE PACKARD FOUNDATION
FOR CHILDREN'S HEALTH

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Board of Directors
Lucile Packard Foundation for Children's Health:

We have audited the accompanying financial statements of Lucile Packard Foundation for Children's Health, which comprise the statements of financial position 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 Lucile Packard Foundation for Children's Health as of December 31, 2015 and 2014, 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

San Francisco, California
June 7, 2016

LUCILE PACKARD FOUNDATION
FOR CHILDREN'S HEALTH

Statements of Financial Position

December 31, 2015 and 2014

Assets		**2015**	**2014**
Cash and cash equivalents	$	35,765,710	31,853,124
Pledges receivable designated for others		36,801,579	33,906,674
Investments		137,123,767	144,389,351
Note receivable from related party		600,000	600,000
Other assets		3,395,532	1,232,284
Total assets	$	213,686,588	211,981,433
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	12,019,776	10,115,125
Deferred rent		603,001	612,869
Grants payable:			
Foundation program grants		1,441,144	1,032,473
Children's Health Initiative grants		298,439	374,489
Funds designated for others		83,238,787	72,771,823
Total liabilities		97,601,147	84,906,779
Commitments			
Net assets:			
Unrestricted net assets		104,341,360	109,535,044
Temporarily restricted net assets		11,744,081	17,539,610
Total net assets		116,085,441	127,074,654
Total liabilities and net assets	$	213,686,588	211,981,433

See accompanying notes to financial statements.

LUCILE PACKARD FOUNDATION
FOR CHILDREN'S HEALTH

Statements of Activities

Years ended December 31, 2015 and 2014

		2015	2014
Changes in unrestricted net assets:			
Revenue and other support:			
Investment income and (losses) gains, net	$	(917,362)	4,927,255
Reimbursement of development expenses		15,538,228	12,711,177
Other income		408,014	98,581
Net assets released from restrictions		5,571,478	4,074,101
Total unrestricted revenue and other support		20,600,358	21,811,114
Expenses:			
Children's Health Initiative		5,571,478	4,074,101
Development		14,337,645	11,549,635
Foundation programs		3,906,586	4,149,314
Finance and administration		1,978,333	1,660,939
Total expenses		25,794,042	21,433,989
(Decrease) increase in unrestricted net assets		(5,193,684)	377,125
Changes in temporarily restricted net assets:			
Investment income and (losses) gains, net		(224,051)	616,098
Net assets released from restrictions		(5,571,478)	(4,074,101)
Decrease in temporarily restricted net assets		(5,795,529)	(3,458,003)
Decrease in net assets		(10,989,213)	(3,080,878)
Total net assets, beginning of year		127,074,654	130,155,532
Total net assets, end of year	$	116,085,441	127,074,654

See accompanying notes to financial statements.

LUCILE PACKARD FOUNDATION
FOR CHILDREN'S HEALTH

Statements of Cash Flows

Years ended December 31, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Decrease in net assets	$	(10,989,213)	(3,080,878)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Losses (gains) on investments		2,802,087	(3,680,383)
Depreciation expense		275,037	278,748
Change in assets and liabilities:			
Pledges receivable designated for others		(2,894,905)	1,276,616
Sales of donated securities		6,700,338	12,233,036
Other assets		(408,386)	3,321
Accounts payable, accrued expenses, and deferred rent		1,028,112	4,076,453
Grants payable		332,621	(165,303)
Funds designated for others		3,789,600	(7,083,897)
Net cash provided by operating activities		635,291	3,857,713
Cash flows from investing activities:			
Purchases of investments		(19,521,263)	(23,978,433)
Sales of investments		22,945,227	27,823,149
Capital expenditures		(146,669)	(268,749)
Net cash provided by investing activities		3,277,295	3,575,967
Net increase in cash and cash equivalents		3,912,586	7,433,680
Cash and cash equivalents, beginning of the year		31,853,124	24,419,444
Cash and cash equivalents, end of year	$	35,765,710	31,853,124
Supplemental disclosures of noncash activities:			
Donated securities received	$	6,859,998	12,419,583
Donated investments held in trust and (losses) gains on investments		(182,634)	1,371,872
Noncash redemption of investment		911,497	28,267
Net earnings allocated to accounts payable and accrued expenses		(869,793)	—

See accompanying notes to financial statements.

(1) Organization

The Lucile Packard Foundation for Children's Health (the Foundation) is an independent public charity, founded in 1996, whose mission is to elevate the priority of children's health and increase the quality and accessibility of children's health care through leadership and direct investment. The Foundation pursues its mission through two distinct yet complementary programs: (1) fundraising (Development) for Lucile Packard Children's Hospital (LPCH) and the pediatric programs at the Stanford University School of Medicine (SOM) and (2) grant-making and public information and education (Foundation Programs), to promote the health and well-being of children through statewide and local partnerships and to raise awareness about the state of children's health. The Foundation is incorporated as a nonprofit organization under the laws of the State of California.

In connection with its Development work, the Foundation also makes grants to LPCH and SOM in support of the Children's Health Initiative (CHI). The grants are funded by a gift originally given to the Foundation by the David and Lucile Packard Foundation (Packard Foundation). The gift from the Packard Foundation is classified as temporarily restricted net assets, and the related grants paid to SOM and LPCH are classified as Children's Health Initiative expenses in the Foundation's financial statements.

(2) Summary of Significant Accounting Policies

(a) Financial Statements

The financial statements of the Foundation are prepared on the accrual basis of accounting and in conformity with U.S. generally accepted accounting principles (GAAP) applicable to nonprofit organizations.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Significant estimates include the reserve for uncollectible pledges and valuation of alternative investments. Actual results could differ from those estimates.

(c) Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the board of directors or otherwise limited by contractual arrangements with outside parties. Unrestricted net assets at December 31, 2015 and 2014 relate to the Foundation's board-designated endowment funds.

- *Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of the Foundation pursuant to those restrictions and/or that expire with the passage of time. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets at December 31, 2015 and 2014 relate to funds received and to be used for the CHI program. Funds are released from restriction as qualified expenses are accrued.

The Foundation had no permanently restricted net assets at December 31, 2015 and 2014.

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, in which case the revenue is reported as an increase in temporarily restricted net assets. Expenses are reported as decreases in unrestricted net assets. Income, gains, and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of amounts not held for long-term investment and include bank deposits, highly liquid money market accounts, and other short-term investments with maturities of three months or less at time of purchase. The carrying amount approximates fair value due to the short-term nature of those instruments. At December 31, 2015 and 2014, cash and cash equivalents were primarily held at a bank and consisted mainly of year-end donor gifts received in December but not yet transferred to LPCH and SOM. While these deposits exceed federally insured limits, the Foundation does not believe the uninsured amounts are at significant risk, as the December gifts are transferred to LPCH and SOM in January of the following year.

(e) Pledges Receivable Designated for Others

Donor gifts may include unconditional promises to give (pledges). Assets restricted by the donor for a specified unaffiliated beneficiary but not received by the Foundation as of year-end are included in pledges receivable designated for others. Conditional promises to give are recognized in the period in which the condition is substantially met. Pledges receivable designated for others consist of contributions, which are to be transferred to LPCH and SOM when received in cash. Pledges are discounted at an interest rate that reflects the risks inherent in these cash flows.

(f) Investments

The Foundation holds funds invested in money market funds, domestic and global equity funds, fixed-income funds, real asset funds, an absolute return fund, debt securities issued by the U.S. government, Treasury, and agencies, and alternative investments. Marketable investments are carried at fair value. Alternative investments are recorded at net asset value (NAV) under a practical expedient for measuring fair value, described below.

Investment management fees have been included as a reduction of investment income in the statements of activities.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments measured using the NAV practical expedient in the fair value hierarchy table. The Foundation has elected to early adopt the new guidance effective with its 2015 reporting year, which is permitted. Therefore, the Foundation excluded all investments measured using the net asset value practical expedient from the fair value hierarchy in note 4(b) to the financial statements. 2014 balances have been restated to reflect investments, previously classified as Level 2 or Level 3 investments, as measured at NAV.

(g) Investments Held in Trust

Investments held in trust represent gifts for which the Foundation is the trustee and LPCH, the ultimate beneficiary. Beneficiaries sustain a lifetime interest in a portion of the trust income. Investments are carried at fair value and are held with one commercial institution. Investments held in trust totaled $8,444,909 and $9,238,441 as of December 31, 2015 and 2014, respectively. The related liabilities are included in funds designated for others in the statements of financial position and are discounted at 4.5% and 5%, respectively.

(h) Funds Designated for Others

Funds designated for a beneficiary specified by the donor are recorded as an increase to funds designated for others when assets are received and as a decrease to this account when the assets are transferred to the specific beneficiary. Funds designated for others include outstanding donor pledges, interests in investments held in trust, and cash gifts received from donors but not yet transferred to LPCH and SOM. The return on investment of those assets is recognized by the Foundation as unrestricted investment income, except for returns on investments held in trust or unless specifically restricted by the donor.

(i) Reimbursement of Development Expenses

Reimbursement of development expenses represents amounts paid by LPCH and SOM to the Foundation in consideration for the Foundation's fundraising efforts on behalf of LPCH and SOM. These amounts are based on actual development costs incurred, including administration. Amounts received in excess of costs incurred are included in accounts payable and accrued expenses.

(j) Contributions

The Foundation raises funds for LPCH and SOM. Since the Foundation is financially independent from LPCH and SOM, it does not record funds raised as revenue in its statements of activities. Rather, funds raised are recorded as an increase to assets and funds designated for others when assets are received and as a decrease to assets and funds designated for others when the assets are transferred to the specific beneficiary. Donated securities, real property, and contributions in kind are recorded at their fair values at the date contributed.

(k) Functional Expenses

The costs of the Foundation's activities have been summarized on a functional basis in the statements of activities. Payroll and operating expenses related to two or more functions are allocated based on estimated levels of involvement in different activities. Other expenses, including telecommunications, depreciation, and rent, are allocated based on the relative percentage of employee headcount.

(l) Income Taxes

The Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California and, generally, is not subject to state or federal taxes on income. However, the Foundation remains subject to state or federal taxes on any net income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded because net income from unrelated trade or business, if any, in the opinion of management, is not material to the financial statements taken as a whole. Gifts to the Foundation are deductible for income tax purposes under Section 170(b)(1)(A) of the Internal Revenue Code.

The Foundation follows the provision of the FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax provision taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist requiring accrual or disclosure at December 31, 2015 or 2014.

(m) Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Foundation for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. The Foundation is required to adopt ASU 2016-02 on January 1, 2020, but is evaluating whether to early adopt the new standard. The Foundation is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

(3) Pledges Receivable Designated for Others

Pledges receivable designated for others are due as follows as of December 31, 2015 and 2014:

		2015	2014
Less than one year	$	25,936,155	25,133,336
One to five years		7,923,526	9,749,022
Greater than five years		25,084,500	261,926
		58,944,181	35,144,284
Less reserve for uncollectible pledges		(10,125,784)	(552,658)
Less discount at 4.0% to 7.6%		(12,016,818)	(684,952)
Total pledges receivable designated for others	$	36,801,579	33,906,674

In addition, the Foundation received the following conditional promises to give that are not recognized as assets in the statements of financial position.

		2015	2014
Conditional promises to give upon donors' review and acceptance of periodic performance, operating and financial reports and satisfaction with research progress	$	4,000,000	11,000,000
Conditional promise to give upon obtaining an equivalent amount of matching gift funds		—	279,534
Conditional promise to give upon donor raising sufficient funds to meet the pledge goal		—	95,000
Total conditional promises to give	$	4,000,000	11,374,534

(4) Investments

The Foundation holds the following investments at December 31, 2015 and 2014:

	Fair value 2015	Fair value 2014
Money market funds	$ 4,131,919	411,655
Fixed-income funds	13,512,710	15,653,250
Debt securities issued by U.S. government, Treasury, and agencies	4,978,471	4,921,052
Domestic equity funds	12,054,329	14,378,055
Global equity funds	2,615,652	3,220,162
Real asset funds	1,176,661	1,283,720
Absolute return fund	1,246,039	—
Alternative investments:		
Fixed-income funds	4,852,500	7,072,837
Hedge funds	26,388,662	29,431,604
Global equity funds	29,263,844	30,003,027
Private capital funds	19,689,336	19,339,123
Real asset funds	17,213,644	18,674,866
Total investments	$ 137,123,767	144,389,351

The table below summarizes the distribution of the investment balance:

	2015	2014
Foundation assets board-designated as endowment	$ 111,085,965	116,338,427
Children's Health Initiative	12,042,518	17,914,099
Funds designated for others	5,550,375	898,384
Investments held in trust	8,444,909	9,238,441
	$ 137,123,767	144,389,351

The Foundation's investment holdings included the following investments constituting 5% or greater of the total investment balance at December 31, 2015 or 2014:

	2015	2014
Legacy ventures funds	8.2%	7.7%
Pacific Investment Management Company (PIMCO) funds	8.0	9.1
Commonfund capital funds	6.7	6.7
Adamas	5.8	4.8
Silchester	5.1	5.5

The following schedule summarizes the Foundation's total investment income and gains (losses), net for the years ended December 31, 2015 and 2014:

		2015	2014
Interest and dividend income	$	1,887,821	2,090,422
Realized and unrealized (losses) gains, net		(2,802,087)	3,680,383
Investment management expense		(227,147)	(227,452)
Total investment income and gains (losses), net	$	(1,141,413)	5,543,353

(a) Fair Value of Financial Instruments

The fair values of the financial instruments as of December 31, 2015 and 2014 represent management's best estimate of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Cash and cash equivalents, other assets, and accounts payable and accrued expense*s: The carrying amounts at face value approximate fair value because of the short maturity of these instruments.

Marketable investment securities: Marketable securities, including money market funds, fixed-income funds, domestic equity funds, global equity funds, real asset funds and an absolute return fund, are measured using quoted market prices at the reporting date multiplied by the quantity held.

Debt securities: Debt securities issued by the U.S. government, Treasury, and agencies are measured using significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date.

Grants payable, pledges receivable designated for others and funds designated for others: The carrying amounts approximate fair value because of the short-term nature of the instruments as well as the discounting to present value of the estimated future cash flows.

Alternative Investment Securities:

(i) Fixed-income funds include alternative investments in fixed rate, floating rate, and variable interest debt securities. The fair values of debt securities have been estimated using NAV. The investments in this category are redeemable in one day to one month with five to sixty days' notice.

(ii) Hedge funds include alternative investments in marketable equity, convertible, fixed income and debt securities, merger arbitrage, derivatives, credit, options, and certain illiquid securities. The fair values of hedge funds have been estimated using NAV. Hedge funds include both redeemable and nonredeemable investments. Approximately $25.4 million of total hedge funds at December 31, 2015, are redeemable in periods from one month to one year with 33 to 95 days' notice. Nonredeemable assets in this category total approximately $900,000 at December 31, 2015. Included in nonredeemable hedge funds is one fund with an estimated fair value of $100,000, the underlying assets of which are being liquidated and distributed to the Foundation as a result of a request for redemption submitted in February 2009. The Foundation expects this investment to be fully liquidated and distributed within three years.

(iii) Global equity funds include alternative investments primarily in marketable equity and equity-related securities. The fair values of investments in this category have been estimated using NAV. As of December 31, 2015, redeemable investments in this category totaled $27.6 million and are redeemable in periods from one month to one quarter with fifteen to ninety days' notice. Nonredeemable assets in this category total approximately $1.7 million as of December 31, 2015.

(iv) Private capital funds include alternative investments in private equity, leveraged buyouts, and venture capital in a variety of industries. The fair values of investments in this category have been estimated using NAV. These investments are nonredeemable but receive distributions on liquidation of the investee's underlying assets. The Foundation expects underlying assets of approximately 18% of these investments to be liquidated and distributed within the next five years and approximately 82% to be liquidated and distributed in six to ten years.

Unfunded commitments for private capital funds alternative investments totaled approximately $5.4 million and $9.2 million as of December 31, 2015 and 2014, respectively.

(v) Real asset funds include alternative investments in equity, equity-related, and debt securities in commercial and residential real estate and natural resources. The fair values of investments in this category have been estimated using NAV. These investments are nonredeemable but receive distributions on liquidation of the investee's underlying assets. The Foundation expects underlying assets of approximately 32% of the nonredeemable investments in this category to be liquidated and distributed within the next five years and approximately 68% to be liquidated and distributed in six to ten years.

Unfunded commitments for real asset funds alternative investments totaled approximately $4.3 million and $5.9 million as of December 31, 2015 and 2014, respectively.

(b) Fair Value Hierarchy

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Foundation discloses and recognizes fair value of its investments in a hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The guidance provides a consistent definition of fair value, which focuses on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2015 and 2014:

		Fair value measurements at reporting date using		
	Investments measured at NAV	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**December 31, 2015**
Assets:				
Money market funds	$ —	4,131,919	—	4,131,919
Fixed-income funds	—	13,512,710	—	13,512,710
Debt securities issued by the U.S. government, Treasury, and agencies	—	—	4,978,471	4,978,471
Domestic equity funds	—	12,054,329	—	12,054,329
Global equity funds	—	2,615,652	—	2,615,652
Real asset funds	—	1,176,661	—	1,176,661
Absolute return fund	—	1,246,039	—	1,246,039
Alternative investments:				
Fixed-income funds	4,852,500	—	—	4,852,500
Hedge funds	26,388,662	—	—	26,388,662
Global equity funds	29,263,844	—	—	29,263,844
Private capital funds	19,689,336	—	—	19,689,336
Real asset funds	17,213,644	—	—	17,213,644
Total	$ 97,407,986	34,737,310	4,978,471	137,123,767

(Continued)

			Fair value measurements at reporting date using		
		Investments measured at NAV	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**December 31, 2014**
Assets:					
Money market funds	$	—	411,655	—	411,655
Fixed-income funds		—	15,653,250	—	15,653,250
Debt securities issued by the U.S. government, Treasury, and agencies		—	—	4,921,052	4,921,052
Domestic equity funds		—	14,378,055	—	14,378,055
Global equity funds		—	3,220,162	—	3,220,162
Real asset funds		—	1,283,720	—	1,283,720
Alternative investments:					
Fixed-income funds		7,072,837	—	—	7,072,837
Hedge funds		29,431,604	—	—	29,431,604
Global equity funds		30,003,027	—	—	30,003,027
Private capital funds		19,339,123	—	—	19,339,123
Real asset funds		18,674,866	—	—	18,674,866
Total	$	104,521,457	34,946,842	4,921,052	144,389,351

(5) Related-Party Transactions

As of December 31, 2015 and 2014, the Foundation held notes receivable of $600,000 due from its Chief Executive Officer (CEO). This interest-only note matures on August 1, 2027, and bears interest at 2.28%. The note was issued to provide housing assistance as part of the relocation of the CEO and is secured by residential real property.

As of December 31, 2015 and 2014, $734,000 and $680,754, respectively, of pledges receivable designated for others or investments held in trust were provided by members of the board of directors.

(6) Grants Payable – Foundation Program Grants

Foundation program grants payable are due as follows as of December 31, 2015 and 2014:

		2015	2014
Less than one year	$	1,220,779	941,332
One to five years		243,773	95,000
		1,464,552	1,036,332
Less discount at 4.58% to 4.81%		(23,408)	(3,859)
Total Foundation program grants payable	$	1,441,144	1,032,473

(7) Funds Designated for Others

Activity of funds designated for others for the years ended December 31, 2015 and 2014 is as follows:

		2015	2014
Funds designated for others at January 1	$	72,771,823	66,064,265
Funds raised (including interest)		144,775,500	100,137,100
Funds transferred		(106,876,157)	(81,310,598)
Funds paid directly to others		(27,249,745)	(12,558,543)
Fair value adjustment on liabilities for investments held in trust		(182,634)	439,599
Funds designated for others at December 31	$	83,238,787	72,771,823

(8) Operating Leases

Future minimum lease payments at December 31, 2015 are as follows:

2016	$	1,046,843
2017		1,078,248
2018		1,110,595
2019		1,143,913
2020		1,178,231
Thereafter		496,961
Total operating lease future minimum lease payments	$	6,054,791

Rental expense for the years ended December 31, 2015 and 2014 was $1,235,452 and $1,243,224, respectively.

(9) Employee Benefit Plan

The Foundation participates in a defined-contribution plan (the Plan) covering substantially all Foundation employees. The Plan provides for discretionary contributions to be made by both participants and the Foundation. Participants are fully vested in the Foundation's contributions after five years. The Foundation's contributions for the years ended December 31, 2015 and 2014 were $789,537 and $684,207, respectively.

(10) Board Designated Endowment

The Foundation's endowment consists of one fund, which is board designated. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to provide an inflation-adjusted total return, net of investment management fees, at least equal to the contemplated spending rate of 5% over time. Actual returns in any given year may vary from this goal. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year an amount determined annually based on budget needs. The annual distribution is expected to average no more than 5% of the endowment fund's average fair value over the prior twelve quarters. For individual years, it is expected to fall within a target range of 4.75% to 5.25% of the endowment fund's average fair value over the prior twelve quarters. Unspent program budget may be spent in future years subject to certain limits. The board of directors may also appropriate an amount outside this target range. Accordingly, depending on anticipated activity and timing of the grant opportunities, actual spending may fall outside of the range. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate of expected inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through investment return.

Changes in unrestricted endowment net assets for the years ended December 31, 2015 and 2014:

		2015	2014
Endowment net assets, beginning of year	$	109,535,044	109,157,919
Investment return:			
Investment income		1,859,105	1,918,225
Net realized and unrealized (depreciation) appreciation		(2,776,467)	3,009,030
Total investment return		(917,362)	4,927,255
Endowment assets appropriated for expenditure		(4,276,322)	(4,550,130)
Endowment net assets, end of year	$	104,341,360	109,535,044

(11) Contingencies

In the normal course of business, the Foundation receives various threats of litigation. In the opinion of management, the outcome of such litigation will not materially affect operations or the financial position of the Foundation.

(12) Subsequent Events

At its meeting on April 4, 2016, the board of directors of the Foundation and the board of directors of LPCH approved a binding memorandum of understanding pursuant to which LPCH would become the sole member of the Foundation, effective September 1, 2016.

The Foundation has evaluated subsequent events from the balance sheet date through June 7, 2016, the date at which the financial statements were available to be issued.