MAYER AND MORRIS KAPLAN FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Mayer and Morris Kaplan Foundation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in unrestricted net assets and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements 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 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Lipschultz, Levin & Gray
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mayer and Morris Kaplan Foundation as of December 31, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2016 financial statements were reviewed by us, and our report thereon, dated October 26, 2017, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Lipschultz, Levin & Gray, L.L.C.

Lipschultz, Levin & Gray, LLC
Northbrook, Illinois
October 17, 2018

MAYER AND MORRIS KAPLAN FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	Reviewed 2016
ASSETS		
CASH	$ 618,908	$ 178,601
INVESTMENTS:		
Cash Management Funds	1,460,335	1,024,697
Bond Mutual Funds	1,496,085	1,431,684
Common Stocks and Mutual Funds	16,064,305	14,835,970
Limited Partnerships	7,535,159	6,541,077
Offshore Hedge Funds	2,758,020	2,648,721
TOTAL INVESTMENTS	29,313,904	26,482,149
FURNITURE AND EQUIPMENT:		
Office Equipment and Furnishings	105,425	105,425
Less: Accumulated Depreciation	(105,425)	(105,425)
FURNITURE AND EQUIPMENT, NET	0	0
OTHER ASSETS -		
Other Receivables	3,897	
TOTAL ASSETS	$ 29,936,709	$ 26,660,750
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Current and Deferred Income and Excise Taxes Payable	$ 152,007	$ 119,068
Grants Payable	687,000	687,000
Accrued Expense		80
TOTAL LIABILITIES	839,007	806,148
UNRESTRICTED NET ASSETS	29,097,702	25,854,602
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	$ 29,936,709	$ 26,660,750

See Independent Auditors Report and Accompanying Notes to Financial Statements

MAYER AND MORRIS KAPLAN FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	Reviewed 2016
REVENUES AND OTHER INCOME:		
Contributions	$ 317,766	$ 998,874
Interest	40,220	39,123
Dividends	495,270	416,378
Realized Gains, Net	1,924,124	1,470,454
Other Income, Net	317,027	82,953
TOTAL REVENUES AND OTHER INCOME	3,094,407	3,007,782
GRANTS AND EXPENSES:		
Grant Expenditures	1,847,595	1,893,485
Investment Expenses	366,840	233,464
Investment Interest Expense	44,397	40,689
Professional Fees	14,159	27,112
Investment Advisor Fees	124,176	110,578
Office Expenses	60,902	54,641
Travel and Meetings	26,949	22,832
Meals and Entertainment	6,501	9,331
Salaries and Payroll Taxes	238,979	212,476
Consulting and Other Expenses	29,120	13,276
TOTAL GRANTS AND EXPENSES	2,759,618	2,617,884
INCREASE IN UNRESTRICTED NET ASSETS BEFORE UNREALIZED GAINS ON INVESTMENTS, NET AND INCOME AND EXCISE TAXES EXPENSE	334,789	389,898
UNREALIZED GAINS ON INVESTMENTS, NET	3,010,736	127,566
INCREASE IN UNRESTRICTED NET ASSETS BEFORE INCOME AND EXCISE TAXES EXPENSE	3,345,525	517,464
INCOME AND EXCISE TAXES EXPENSE	(102,425)	(73,881)
INCREASE IN UNRESTRICTED NET ASSETS	3,243,100	443,583
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	25,854,602	25,411,019
UNRESTRICTED NET ASSETS - END OF YEAR	$ 29,097,702	$ 25,854,602

See Independent Auditors Report and Accompanying Notes to Financial Statements

MAYER AND MORRIS KAPLAN FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	Reviewed 2016
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase in Unrestricted Net Assets	$ 3,243,100	$ 443,583
Adjustments to Reconcile Increase (Decrease) in Unrestricted Net Assets to Net Cash Flows From Operating Activities:		
Unrealized Gains on Investments, Net	(3,010,736)	(127,566)
(Increase) Decrease in:		
Current and Deferred Income and Excise Taxes, Net	32,939	2,179
(Increase) Decrease in:		
Grants Payable		(263,000)
NET CASH FLOWS FROM OPERATING ACTIVITIES	265,303	55,196
CASH FLOWS FROM (USED BY) INVESTING ACTIVITY -		
Sales of Investments and Partnership Distributions, Net of Additional Investments	175,004	48,754
NET INCREASE IN CASH	440,307	103,950
CASH - BEGINNING OF YEAR	178,601	74,651
CASH - END OF YEAR	$ 618,908	$ 178,601
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for:		
Income and Excise Taxes	$ 38,000	$ 45,000
Investment Interest Expense	$ 44,397	$ 40,689

ORGANIZATION AND NATURE OF ACTIVITIES

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

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

Investments:

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

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

Net Assets:

The Foundation reports information regarding its financial position and activities in three classes of net assets, unrestricted net assets, temporarily restricted net asset and permanently restricted net assets. As of December 31, 2017 and 2016, and for the years then ended, the Foundation only has unrestricted net assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Furniture and Equipment:

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

Contributions:

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

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

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

Grant Expenditures:

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to substantial future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. As of December 31, 2017 and 2016, the Foundation had approved but unpaid grants amounting to $687,000 (see the *Grants Payable* footnote).

Income and Excise Taxes:

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except for unrelated business income taxes. In 2017 and 2016, the Foundation incurred taxes on unrelated business income passed through from partnership investments.

In addition, according to the applicable provisions of the Code, the Foundation is subject to an excise tax (1% or 2%) on net investment income, including realized gains, as defined in the Code. In addition, the Code requires certain minimum distributions be made in accordance with a specified formula. At December 31, 2017 and 2016, the Foundation had distributed more than the required minimum.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income and Excise Taxes (Continued):

The Foundation's federal tax returns have not been examined by the tax authorities for the last three years, which remain as the years generally still subject to examination. Management realizes there may be differences of opinion relating to interpretations taken by taxing authorities and certain tax jurisdictions may require filings that have not been made. However, through October 17, 2018, there have not been any material claims made by any taxing authorities that have not been appropriately defended or provided for in the financial statements, nor is management aware of any specific uncertain tax positions that currently exist.

Deferred Income Taxes:

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

Use of Estimates:

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

CASH AND CASH MANAGEMENT FUNDS

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

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

CASH AND CASH MANAGEMENT FUNDS (Continued):

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

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

FAIR VALUE OF INVESTMENTS

The Foundation's investments at cost/equity basis and fair value is summarized below as of December 31, 2017:

	Cost/Equity Basis	Fair Value
Cash Management Funds	$ 1,460,335	$ 1,460,335
Bond Mutual Funds	1,521,103	1,496,085
Common Stocks and Mutual Funds	6,615,209	16,064,305
Limited Partnerships	7,535,159	7,535,159
Offshore Hedge Funds	3,297,545	2,758,020
Total Investments	$ 20,429,351	$ 29,313,904

The Foundation's investments at cost/equity basis and fair value is summarized below as of December 31, 2016:

	Cost/Equity Basis	Fair Value
Cash Management Funds	$ 1,024,697	$ 1,024,697
Bond Mutual Funds	1,472,950	1,431,684
Common Stocks and Mutual Funds	7,223,543	14,835,970
Limited Partnerships	6,541,077	6,541,077
Offshore Hedge Funds	3,302,490	2,648,721
Total Investments	$ 19,564,757	$ 26,482,149

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

FAIR VALUE OF INVESTMENTS (Continued):

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

See the *Summary of Significant Accounting Policies* note for description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

The valuation methods described in the *Summary of Significant Accounting Policies* note may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FAIR VALUE OF INVESTMENTS (Continued):

The following table sets forth, by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2017:

Description	Level 1	Level 2	Level 3	Total
Cash Management Funds		$1,460,335		$1,460,335
Bond Mutual Funds	$1,496,085			1,496,085
Common Stocks and Mutual Funds	16,064,305			16,064,305
Limited Partnerships			$7,535,159	7,535,159
Offshore Hedge Funds			2,758,020	2,758,020
Total	17,543,110	1,460,335	10,293,179	29,313,904

The following table sets forth, by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2016:

Description	Level 1	Level 2	Level 3	Total
Cash Management Funds		$1,024,697		$1,024,697
Bond Mutual Funds	$1,431,684			1,431,684
Common Stocks and Mutual Funds	14,835,970			14,835,970
Limited Partnerships			$6,541,077	6,541,077
Offshore Hedge Funds			2,648,721	$2,648,721
Total	$16,267,654	$1,024,697	$9,189,798	$26,482,149

FAIR VALUE OF INVESTMENTS (Continued):

The following table provides a summary of changes in fair value of the Foundation's Level 3 investments in limited partnerships, as well as the portion of gains or losses included in income attributable to unrealized gains or losses that relate to those investments held at December 31, 2017 and 2016:

	2017	2016
Balance, Beginning of Year	$ 6,541,077	$ 5,644,766
Investment Income, Net	1,351,096	769,668
Purchases, Issuances and Settlements, Net	(357,014)	126,643
Balance, End of Year	$ 7,535,159	$ 6,541,077
Portion of Investment Income, Net Relating to Those Assets Still Held	$ 1,352,585	$ 769,668

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

GRANTS PAYABLE

Grants payable totaling $687,000 at December 31, 2017 and 2016 consisted of approved grant commitments. As of December 31, 2017, based on the specific grant agreements, amounts payable are expected to be paid in the following years:

2018	$ 587,000
2019	100,000
Total Grants Payable	$ 687,000

INVESTMENT RETURN

The following schedule summarizes the investment return for the years ended December 31, 2017 and 2016:

	2017	2016
Interest	$ 40,220	$ 39,123
Dividends	495,270	416,378
Realized Gains, Net	1,924,124	1,470,454
Unrealized Gains (Losses), Net	3,010,736	127,566
Other Income, Net	317,027	82,953
Investment Expenses	(366,840)	(233,464)
Investment Interest Expense	(44,397)	(40,689)
Investment Advisor Fees	(124,176)	(110,578)
Investment Income, Net	$ 5,251,964	$ 1,751,743

RELATED PARTY TRANSACTIONS

During 2017 and 2016 the Foundation incurred expenses related to investment advisor, personnel and other services from Kaplan Family Investments (KFI), an affiliate of the trustees, in the amount of $401,645 and $357,103, respectively.

RISKS AND UNCERTAINTIES

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

COMMITMENT

As of December 31, 2017 and 2016, the Foundation was committed to future capital calls on its investments amounting to approximately $216,431 and $265,850, respectively.

GRANT EXPENDITURES

On February 26, 2014, the Foundation entered into a Fund Division Agreement with Dolores Kohl Kaplan, a former trustee of the Foundation, and the Dolores Kohl Education Foundation ("Kohl Foundation"). The agreement requires the Foundation to make grants to the Kohl Foundation. The grants to the Kohl Foundation for the years ended December 31, 2017 and December 31, 2016 amounted to $4,005 and $24,965, respectively. De minimus amounts remain to be transferred upon certain hedge liquidations and other transactions. The remaining transfers do not have an agreed upon end date.

SUBSEQUENT EVENTS

The Foundation management has evaluated subsequent events through October 17, 2018, the date that financial statements were available for issue.