THE BUSH FOUNDATION

Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013, 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, 2014 and 2013, and the change 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 15, 2015

THE BUSH FOUNDATION

Statements of Financial Position

December 31, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents (note 1)	$	55	39
Investments and cash equivalents, at fair value (notes 1 and 2)		921,614	888,131
Dividends and interest receivable		378	252
Federal excise and unrelated business income tax receivable		348	220
Furniture, equipment, and leasehold improvements net of accumulated depreciation of $88 and $79, respectively		88	96
Other assets		109	139
Total assets	$	922,592	888,877
Liabilities and Net Assets			
Accounts payable	$	587	545
Unsettled trades payable (note 1)		7,883	189
Accrued and other liabilities		356	264
Federal excise and unrelated business income tax payable		1,465	—
Deferred federal excise taxes (note 3)		4,660	4,800
Grants payable (note 6)		5,079	9,376
Total liabilities		20,030	15,174
Unrestricted net assets		902,562	873,703
Total liabilities and net assets	$	922,592	888,877

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Activities

Years ended December 31, 2014 and 2013

(In thousands)

		2014	2013
Revenues and gains:			
Dividends	$	4,173	3,074
Interest		699	604
Realized gains on investment transactions		79,579	57,129
Net unrealized (losses) gains in fair value of investments, net of deferred federal excise tax (benefit) expense of ($140) in 2014 and $1,900 in 2013		(16,080)	84,467
Other income		235	330
Net revenues and gains		68,606	145,604
Expenses:			
Program:			
Grants, net of cancellations (note 1)		25,797	24,556
Program management expenses (note 4)		6,500	6,874
Investment and administrative:			
Investment expenses (note 4)		2,474	2,355
Administrative expenses (note 4)		1,914	2,710
Federal excise and unrelated business income tax expense – current (note 3)		3,062	743
Total expenses		39,747	37,238
Change in unrestricted net assets		28,859	108,366
Unrestricted net assets at beginning of year		873,703	765,337
Unrestricted net assets at end of year	$	902,562	873,703

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in unrestricted net assets	$	28,859	108,366
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:			
Depreciation		21	16
Realized (gains) on investment transactions		(79,579)	(57,129)
Unrealized losses (gains) in fair value of investments		16,220	(86,367)
Changes in assets and liabilities:			
Dividends and interest receivable		(126)	(70)
Other assets		30	28
Accounts payable and accrued and other liabilities		133	(399)
Federal excise and unrelated business income tax payable/receivable		1,337	(122)
Grants payable		(4,297)	(3,909)
Net cash used in operating activities		(37,402)	(39,586)
Cash flows from investing activities:			
Purchase of furniture and equipment		(13)	(94)
Decrease in unsettled trades receivable		—	16,441
Increase (decrease) in unsettled trades payable		7,694	(31)
(Decrease) increase in deferred federal excise taxes		(140)	1,900
Proceeds from sale of investments		234,444	217,822
Purchase of investments		(202,898)	(194,401)
Net cash provided by investing activities		39,087	41,637
Net increase in cash and cash equivalents		1,685	2,051
Cash and cash equivalents at beginning of year		11,361	9,310
Cash and cash equivalents at end of year	$	13,046	11,361
Cash and cash equivalents:			
Cash and interest-bearing deposits	$	55	39
Cash equivalents in investments		12,991	11,322
	$	13,046	11,361
Supplemental disclosure of cash flow information:			
Cash paid during the year for taxes	$	1,807	1,364

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 in 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) Cash Equivalents

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

(f) Investments

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.

Investments held in alternative structures including equity limited partnerships, private equity limited partnerships, real asset funds, hedge funds, and common and collective trusts are recorded at net asset value 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.

(Continued)

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 fair value when an investment is sold. Unrealized gains and losses are recorded as the change in fair value of investments.

(g) 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.

(h) 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.

(i) 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 $5,557 and $2,572 in 2014 and 2013, respectively. Grants awarded, net of cancellations, were $25,797 and $24,556 for the years ended December 31, 2014 and 2013, respectively.

(j) Reclassifications

Certain 2013 balances have been reclassified to conform to the 2014 presentation.

(k) Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07 (ASU 2015-07), Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share (or its Equivalent). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient. The Foundation has elected to early adopt ASU 2015-07 as permitted, and the presentation in note 2 has been applied retrospectively.

(In thousands)

(2) Investments

Investments at fair value consisted of the following:

		2014	2013
Cash equivalents	$	12,991	11,322
Corporate and debt securities		72,113	26,487
Equity securities:			
U.S. equities		61,617	79,893
International equities		95,084	86,047
Common and collective trusts in international equities and debt securities		95,017	86,165
Total marketable investments		336,822	289,914
Alternative investments:			
Multistrategy hedge funds		74,705	76,114
Long/short hedge funds		74,077	69,395
Fixed income hedge funds		38,457	81,179
Real asset funds		88,361	84,073
Equity limited partnership		74,564	57,988
Private equity limited partnerships		234,628	229,468
Total alternative investments		584,792	598,217
Total	$	921,614	888,131

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. Corporate and debt securities, 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. Investments in cash equivalents include money-market securities that are valued at closing net asset value.
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.). The current fair values of international equities and 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.

(In thousands)

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, 2014 and 2013.

The summary of inputs used to value the Foundation's investments measured on a recurring basis as of December 31, 2014 is as follows:

		Level 1	Level 2	Level 3	Total
Cash equivalents	$	12,991	—	—	12,991
Corporate and debt securities		39,175	32,938	—	72,113
Equity securities:					
U.S. equities		61,617	—	—	61,617
International equities		95,084	—	—	95,084
Investments measured at net asset value (1)					
Common and collective trusts in international equities and debt securities					95,017
Alternative investments:					
Multistrategy hedge funds					74,705
Long/short hedge funds					74,077
Fixed income hedge funds					38,457
Real asset funds					88,361
Equity limited partnership					74,564
Private equity limited partnerships					234,628
Total investments	$	208,867	32,938	—	921,614

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) 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 statement of financial position.

For the year ended December 31, 2014, there were no transfers between levels. Transfers between levels are recorded at the end of the reporting period.

(In thousands)

The summary of inputs used to value the Foundation's investments measured on a recurring basis as of December 31, 2013 is as follows:

		Level 1	Level 2	Level 3	Total
Cash equivalents	$	11,322	—	—	11,322
Corporate and debt securities		11,056	15,431	—	26,487
Equity securities:					
U.S. equities		79,893	—	—	79,893
International equities		86,047	—	—	86,047
Investments measured at net asset value (1)					
Common and collective trusts in international equities and debt securities					86,165
Alternative investments:					
Multistrategy hedge funds					76,114
Long/short hedge funds					69,395
Fixed income hedge funds					81,179
Real asset funds					84,073
Equity limited partnership					57,988
Private equity limited partnerships					229,468
Total investments	$	188,318	15,431	—	888,131

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) 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 statement of financial position.

For the year ended December 31, 2013, there were no transfers between levels. Transfers between levels are recorded at the end of the reporting period.

(In thousands)

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2014:

		Fair value	Unfunded commitments	Redemption frequency ranges	Redemption notice period
Common and collective trusts in international equities and debt securities (a)	$	95,017	—	monthly	1–30 days
Alternative investments:					
Multistrategy hedge funds (b)		74,705	—	daily – quarterly	1–90 days
Long/short hedge funds (c)		74,077	—	annually – biennially	45–90 days
Fixed income hedge funds (d)		38,457	—	monthly – annually	7–90 days
Real asset funds (e)		88,361	40,698	none – quarterly	none – 45 days
Equity limited partnership (f)		74,564	—	quarterly	60 days
Private equity limited partnerships (g)		234,628	95,293	None	None
Total	$	679,809	135,991		

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2013:

		Fair value	Unfunded commitments	Redemption frequency ranges	Redemption notice period
Common and collective trusts in international equities and debt securities (a)	$	86,165	—	monthly	1–30 days
Alternative investments:					
Multistrategy hedge funds (b)		76,114	—	daily – quarterly	1–90 days
Long/short hedge funds (c)		69,395	—	annually – biennially	45–90 days
Fixed income hedge funds (d)		81,179	—	monthly – annually	7–90 days
Real asset funds (e)		84,073	24,332	none – quarterly	none – 45 days
Equity limited partnership (f)		57,988	—	quarterly	60 days
Private equity limited partnerships (g)		229,468	66,756	None	None
Total	$	684,382	91,088		

(a) This category includes common and collective trusts in international equities and debt securities that hold equity and debt securities of companies located primarily in countries other than the United States. The fair value of these investments has been estimated using the percentage share of the Foundation’s ownership interest in partner’s capital.

 (Continued)

(b) 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. The fair value of these investments has been estimated using the net asset value per share of the investments.

(c) 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. The fair value of these investments has been estimated using the net asset value per share of the investments.

(d) This category includes direct investments in fixed income hedge funds that invest in debt securities, including corporate debt, mortgage debt, and country debt. 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. The fair value of these investments has been estimated using the net asset value per share of the investments.

(e) This category includes direct investments in real asset funds, generally through limited partnerships, that invest in commercial real estate, infrastructure projects, and natural resources. The fair value of these investments has been estimated using the percentage share of the Foundation's ownership interest in partner's capital. 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.

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 fair value of the MLP Fund has been estimated using the percentage share of the Foundation's ownership interest in total fund capital. 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.

(f) 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 fair value of this investment has been estimated using the percentage share of the Foundation's ownership interest in partner's capital.

(g) This category includes private equity limited partnerships that invest in private companies. The fair value of these investments has been estimated using the percentage share of the Foundation's ownership interest in partner's capital. 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.

The Foundation's alternative investments in hedge funds (categories (b), (c), and (d) above) are redeemable with the fund at net asset value 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 (e) above) and private equity limited partnerships (categories (e) and (g) 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 net asset value 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 (f) above) is redeemable with the fund at fair value 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 did not meet these requirements in 2014, and accordingly, the 2014 federal excise tax expense is based upon the 2% tax rate. The Foundation met these requirements in 2013, and accordingly, the 2013 federal excise tax expense is based upon the 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, 2014 and 2013, the Foundation had unrealized gains in the market value of investments and has recorded a deferred tax liability of $4,660 and $4,800, 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, 2014.

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.

(In thousands)

(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.

(5) Retirement Plan

The Foundation has a defined contribution retirement plan managed by Teachers Insurance and Annuity Association of America and College Retirement Equities Fund are purchased for all qualified employees. In 2014 and 2013, 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 2014 and 2013 was $433 and $419, respectively.

In May 2014 the Foundation established 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:

		2014	2013
Unpaid grants at beginning of year	$	9,376	13,285
Grants appropriated, net of cancellations		25,797	24,556
Grants paid		(30,469)	(28,609)
Refund of previous years' grants		375	144
Unpaid grants at end of year	$	5,079	9,376

(In thousands)

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:

		2014	2013
To be paid in less than one year	$	3,886	6,631
To be paid in one to five years		1,213	2,854
More than five years		—	—
		5,099	9,485
Discount		(20)	(109)
	$	5,079	9,376

As of December 31, 2014 and 2013, the Foundation has approximately $1,488 and $7,250, respectively, of conditional grant obligations.

(7) Lease Commitments

In November 2012, the Foundation entered into a 145 month (12 years and 1 month) operating lease for office space, which commenced on September 1, 2013 and ends September 30, 2025. The lease agreement allows for the right to extend the term for two (2) five (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 year ended December 31, 2014 and $41 for the year ended December 31, 2013.

Future base rent payments at December 31, 2014 are as follows:

		Amount
Year ending December 31:		
2015	$	108
2016		114
2017		119
2018		125
2019		131
Thereafter		857
Total	$	1,454

(8) Subsequent Events

The Foundation has evaluated subsequent events through July 15, 2015, 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.