OWEN J. FLANAGAN & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
60 EAST 42ND STREET, SUITE 1536
NEW YORK, NEW YORK 10165

(212) 682-2783
FACSIMILE (212) 697-5843
WWW.OJFLANAGAN.COM

Independent Auditor's Report

To the Board of Trustees of
Russell Sage Foundation:

We have audited the accompanying financial statements of the Russell Sage Foundation (a nonprofit organization), which comprise the statements of financial position as of August 31, 2015 and the related statements of activities 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 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 audit. We conducted our audit 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 the Russell Sage Foundation as of August 31, 2015 and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Russell Sage Foundation's August 31, 2014 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated January 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Owen J Flanagan + Co.

January 22, 2016
New York, NY

RUSSELL SAGE FOUNDATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR 2014)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 342,555	$ 237,212
Inventory of books, at lower of cost or market	76,658	114,211
Other receivables and prepaid expenses	660,458	472,697
Investments, at fair value (Note 3)	268,452,630	280,115,277
Fixed assets, at cost, net of accumulated depreciation of $10,275,605 in 2015 and $9,858,917 in 2014	11,536,627	11,673,884
Total Assets	$281,068,928	$292,613,281
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 373,347	$ 253,656
Advances for co-funded projects	346,324	37,685
Accrued postretirement benefits obligation	2,730,316	2,552,588
Total Liabilities	3,449,987	2,843,929
NET ASSETS		
Unrestricted-		
Unexpended project appropriations	3,803,348	3,194,137
Net investment in fixed assets	11,536,627	11,673,884
Total Unrestricted	15,339,975	14,868,021
Temporarily restricted	252,278,966	264,901,331
Permanently Restricted	10,000,000	10,000,000
Total Net Assets	277,618,941	289,769,352
Total Liabilities and Net Assets	$281,068,928	$292,613,281

The accompanying notes are an integral part of these statements.

RUSSELL SAGE FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR 2014)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES:					
Interest and dividends	$ -	$ 7,286,393	$ -	$ 7,286,393	$ 6,653,014
Oil and gas lease rights and royalties	-	332,512		332,512	1,902,758
Publication revenues	605,692	-		605,692	619,353
Rental income	-	243,717		243,717	197,526
Net assets released from restrictions	12,896,913	(12,896,913)		-	-
Total revenues	13,502,605	(5,034,291)	-	8,468,314	9,372,651
EXPENSES:					
Program activities					
Visiting Scholars program	3,740,503			3,740,503	4,604,034
Research projects program	4,818,392			4,818,392	4,337,247
Publications	1,024,750			1,024,750	1,264,623
Communications	601,095			601,095	583,215
Total program activities	10,184,740			10,184,740	10,789,119
Management and administration	1,336,196			1,336,196	2,218,290
Investment management	1,509,715			1,509,715	1,342,183
Total expenses	13,030,651			13,030,651	14,349,592
EXCESS OF EXPENSES OVER REVENUES BEFORE NET INVESTMENT GAIN	471,954	(5,034,291)	-	(4,562,337)	(4,976,941)
Net Gain on Sales of Securities and Change in Fair Value of Investments	-	(7,588,074)	-	(7,588,074)	42,905,108
Change in net assets	471,954	(12,622,365)	-	(12,150,411)	37,928,167
NET ASSETS, beginning of year	14,868,021	264,901,331	10,000,000	289,769,352	251,841,185
NET ASSETS, end of year	$15,339,975	$252,278,966	$10,000,000	$277,618,941	$289,769,352

The accompanying notes are an integral part of these statements.

RUSSELL SAGE FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (12,150,411)	$ 37,928,167
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	662,993	646,779
Realized gain on sales of securities	(65,414,321)	(7,722,188)
Unrealized increase in fair value of securities	73,002,396	(35,182,920)
Decrease (Increase) in assets:		
Other receivables and prepaid expenses	(187,761)	84,003
Inventory of books	37,553	113,572
Increase in liabilities:		
Accounts payable and accrued expenses	119,691	27,980
Advances for co-funded projects	308,639	37,685
Accrued postretirement benefits obligation	177,728	1,139,061
Net cash (used) by operating activities	(3,443,493)	(2,927,861)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(443,647)	(168,335)
Proceeds from sale of investments	173,584,217	15,698,042
Purchase of investments	(169,591,734)	(12,859,310)
Net cash provided by investing activities	3,548,836	2,670,397
Net increase (decrease) in cash and cash equivalents	105,343	(257,464)
CASH AND CASH EQUIVALENTS, beginning of year	237,212	494,676
CASH AND CASH EQUIVALENTS, end of year	$ 342,555	$ 237,212

The accompanying notes are an integral part of these statements.

RUSSELL SAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Russell Sage Foundation (the "Foundation") is a nonprofit, private operating foundation. The Foundation was established in 1907 for "the improvement of social and living conditions in the United States" and now dedicates itself exclusively to strengthening the methods, data, and theoretical core of the social sciences as a means of diagnosing social problems and improving social policies.

Programs:

1. A program on Behavioral Economics focused on research that incorporates insights of psychology and other social sciences into the study of economic behavior.

2. A program of research on the Future of Work concerned primarily with examining the causes and consequences of the declining quality of jobs for less - and moderately-educated workers in the U.S. economy and the role of changes in employer practices, the nature of the labor market and public policies on the employment, earnings, and the quality of jobs of American workers.

3. A program of research on Race, Ethnicity, and Immigration concerned with the social, economic, and political effects of the changing racial and ethnic composition of the U.S. population, including the transformation of communities and ideas about what it means to be American.

4. A program of research on Social Inequality focused on whether rising economic inequality has affected social, political, and economic institutions in the U.S., and the extent to which increased inequality has affected equality of opportunity, social mobility, and the intergenerational transmission of advantage.

Working Groups:

(a) The Biology and Social Science Working Group examines how the incorporation of biological concepts, processes and measures in social science research might improve our understanding of a range of social economic outcomes.

(b) The Political Influence of Economic Elites Working Group examines the mechanisms through which economic elites influence politics, and the relationship between money, politics, and inequality.

(c) The Racial Bias in Policing Working Group examines the impact of racial, ethnic, and gender-based attitudes on law enforcement. The group is working with metropolitan police departments across the U.S. to develop policies to reduce racial bias in law enforcement.

(d) The Cultural Contact and Immigration Working Group examines immigrant life outside of customary gateway cities such as New York, Miami, or Los Angeles, with an emphasis on the cultural frictions resulting from the rapid growth of the foreign-born population in the United States at a time of high economic uncertainty and political polarization.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to the activities sponsored under the main programs, the Foundation also supports a new initiative on the social, economic and political effects of health care reform that seeks to support innovative social science research on the effects of the Affordable Care Act.

While the Foundation remains open to initiatives outside its current programs, most external awards are made to projects that are relevant to the Foundation's ongoing objectives. The Foundation is exempt from federal income taxes in accordance with Internal Revenue Code Section 501(c)(3) and is classified as a private operating foundation.

Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to August 31, 2012.

Method of Accounting

The accounts of the Foundation are maintained, and the accompanying financial statements have been prepared, on the accrual basis of accounting.

Basis of Presentation

The net assets of the Foundation are reported as follows:

Unrestricted – includes the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. These net assets represent resources that are available for the support of the Foundation's operations.

Temporarily Restricted – includes the cumulative unappropriated investment earnings and gifts of cash and other assets received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, the purpose restriction is accomplished or the investment earnings are appropriated by the Board, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – includes an endowment with an original principal of $10,000,000 which is required to be maintained in perpetuity in accordance with the wishes of the donor. In accordance with the Foundation's interpretation of current New York law, a continuing resolution has been adopted to maintain the endowment at its original principal balance and to credit future income and gains to temporarily restricted until appropriated for use in support of the Foundation's programs.

1. ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor-Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes.

Investments

The Foundation invests using a total return approach with the primary objective being to preserve and, if possible, enhance its real (inflation-adjusted) value while providing a relatively stable (in real terms) stream of earnings for research projects, Visiting Scholar expenses and operating expenses. The Foundation's current spending policy is to appropriate approximately 5.25% of the five year moving average value of its investment portfolio.

Investments in fixed income mutual funds, commingled fixed income funds, domestic equities fund and the commingled international equity fund are carried at fair value, which is generally based on the closing sales price on the last trading date in each year. The fair value of the interests in the private equity fund ordinarily are the value determined by the fund and agents based upon the valuation reported by the Fund Administrators in accordance with policies established by the funds. As a general matter, the fair value of the Foundation's interests in the private equity funds will represent the amount that the Foundation could reasonably expect to receive from the funds if the Foundation's interests were redeemed at the time of valuation, based upon information reasonably available at the time the valuation was made.

Valuations provided to the Foundation by a fund may be based upon estimated or unaudited reports, and may be subject to later adjustment or revision. Any such adjustment or revision will either increase or decrease the net asset value of the Foundation at the time the Foundation is provided with information regarding the adjustment. The Foundation does not expect to restate its previous net asset values.

The Foundation purchased a Townhouse at 118 E. 64th Street on August 4, 2006 for investment. It is carried at a value estimated by a real estate professional based on comparable sales.

The cost of securities sold is determined using the specific identification method.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets and Depreciation

Fixed assets are capitalized at cost and are included within unrestricted net assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets (building and improvements – 40 years; office furniture and equipment other than computer equipment – 7 years; computer equipment – 3 years).

Research Projects

Full funding of research projects is contingent upon continuing, satisfactory review of the projects by the Foundation. Consequently, research projects are expensed when payments are disbursed.

Funds received in advance on co-funded projects are shown as liabilities until the related expense has been disbursed.

Awards

Awards are recorded as an expense when approved by the Board and any conditions have been met.

Cash

Cash in excess of federally insured limits is potentially exposed to concentrations of credit risk. However, the Foundation only maintains accounts with quality financial institutions with high credit standings, so as a consequence, such risks are limited.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and demand deposits with banks or financial institutions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, costs have been allocated among the programs benefitted.

Use of Estimates

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

2. FIXED ASSETS

Fixed assets at August 31, 2015 and 2014, consisted of the following:

	2015	2014
112 E. 64th Street		
Land	$ 327,550	$ 327,550
Building, including improvements	5,942,560	5,747,789
sub-total	6,270,110	6,075,339
116 E. 64th Street		
Land	1,750,000	1,750,000
Building, including improvements	7,562,898	7,520,698
sub-total	9,312,898	9,270,698
Office Furniture and Equipment	365,084	412,206
Condominiums for Scholars, including improvements and furniture & fixtures	5,864,140	5,774,558
Total	21,812,232	21,532,801
Less: Accumulated Depreciation	10,275,605	9,858,917
	$11,536,627	$11,673,884

3. INVESTMENTS

The net investment gain for the years ended August 31, 2015 and 2014, are summarized as follows:

	2015	2014
Net realized gains on sales of securities	$ 65,414,322	$ 7,722,188
Net change in market value of securities held at year end	(73,002,396)	35,182,920
	$ (7,588,074)	$42,905,108

3. INVESTMENTS (Continued)

Investments are presented in the financial statements at amounts which approximate fair market value. Investments at August 31, 2015 and 2014, consisted of the following:

	Cost	2015 Fair Value	2014 Fair Value
Fixed Income:			
Mutual funds	$ 21,996,489	$ 20,198,043	$ 21,745,563
Real Estate Debt Fund	15,000,000	15,000,000	-
Total Fixed Income	36,996,489	35,198,043	21,745,563
Equities:			
Domestic Equities Fund	139,836,749	131,116,319	153,656,662
Commingled International Equity Trust Funds	76,996,088	81,296,940	88,635,494
Private Equity Partnerships	11,063,292	14,841,328	11,185,058
Total Equities	227,896,129	227,254,587	253,477,214
Townhouse 118 E. 64th Street	4,080,331	6,000,000	4,892,500
Total Investments	$268,972,949	$268,452,630	$280,115,277

The Foundation has committed $35,000,000 to five private equity partnerships of which $14,422,500 has already been invested. The remaining uncalled capital commitments at August 31, 2015 were $20,577,500.

Fair Value of Investments

The Foundation follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based on input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

3. INVESTMENTS

The fair value of some funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance provides for the use of the NAV as a "practical expedient" for estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation's interest in the fund. Its classification within level 2 or 3 is based on the Foundation's ability to redeem its interest in the near term.

3. INVESTMENTS (Continued)

The Foundation has classified its investments as follows:

	Level 1	Level 2	Level 3	Total
Fixed Income:				
Mutual funds	$ -	$ 20,198,043	$ -	$ 20,198,043
Real Estate Debt fund			15,000,000	15,000,000
Equities:				
Domestic Equities Fund	131,116,319			131,116,319
Commingled International Equity Trust Funds		81,296,940		81,296,940
Private Equity Partnerships			14,841,328	14,841,328
Townhouse 118 E. 64th Street			6,000,000	6,000,000
Total	$131,116,319	$101,494,983	$35,841,328	$268,452,630

The change in Level 3 investments for the year was as follows:

	Real Estate Debt	Private Equity	Townhouse	Total
Balance, September 1, 2014	$ -	$11,185,058	$4,892,500	$16,077,558
Capital calls and additions	15,000,000	3,557,500	132,080	18,689,580
Change in value included in income	-	98,770	975,420	1,074,190
Balance, August 31, 2015	$15,000,000	$14,841,328	$6,000,000	$35,841,328
Change in unrealized appreciation included in the change in temporarily restricted net assets for the year	$ -	$ 1,166,705	$1,057,509	$ 2,224,214

The Foundation's real estate debt investment is in a fund targeting loans secured by high-quality commercial real estate assets in the U.S. The fund is an illiquid investment which has a remaining term of six to eight years.

The Foundation's private equity investments are in funds that are long-term in nature and do not provide for liquidity or redemptions until the fund sells its investments. The term could be in excess of ten years.

The investment in the townhouse is subject to real estate conditions in New York City. The townhouse is currently listed for sale.

All of the Foundation's other investments have immediate or near-term liquidity.

4. PENSION PLAN

The Foundation has a non-contributory defined contribution pension plan which covers substantially all of its employees. The contribution rate is 12%. Plan contributions are made for all eligible employees beginning on the first day of the month following the date of employment. However, eligible new hires are not vested until they complete two years of service with the Foundation, at which time they become fully vested. Total pension cost charged to expense increased to $351,302 in fiscal 2015 compared to $330,639 in fiscal 2014. The Foundation's policy is to fund costs as incurred.

5. POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS

The Foundation provides postretirement benefits consisting of major medical and hospitalization to substantially all active employees. Employees are eligible for coverage when they retire at age 60 or over with at least ten years of service. The Plan is unfunded. The Foundation bears the entire cost of the plan.

Effective March 1, 2014, all retirees who qualify for post-retirement benefits receive reimbursement for their basic Medicare Part B and D premiums, and for those whose date of employment was prior to January 1, 2004, the Foundation also reimburses any income-related adjustment to their Medicare Part D premium.

The following table reconciles the plan's status to the accrued postretirement benefits cost as of August 31, 2015 and 2014:

Accumulated postretirement benefits obligation:	**2015**	**2014**
Retirees	$ 621,686	$ 622,047
Other active participants	2,108,630	1,930,541
Accrued postretirement benefits cost	$2,730,316	$2,552,588

Employer payments to provide postretirement benefits were $50,237 and $45,236 in fiscal 2015 and 2014, respectively.

The following assumptions were used in calculating the liability.

	2015	**2014**
Health care cost trend	7.0%	7.0%
Discount rate	4.2%	4.0%

The expected payments to be made over the next ten years are as follows:

2016	$ 38,488
2017	56,477
2018	65,684
2019	68,491
2020	76,488
2021 to 2025	545,438
	$851,066

6. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, the Organization evaluated subsequent events after the statement of financial position date of August 31, 2015 through January 22, 2016 which was the date the financial statements were available to be issued.

7. NEW YORK PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

In September 2010, New York State passed the New York Prudent Management of Institutional Funds Act (NYPMIFA). The Foundation has interpreted this act require the Foundation continue to treat the original $10 million contribution of Mrs. Sage as permanently restricted. The Foundation further believes it is required to treat all earnings on the endowment (which comprises the $10,000,000 in addition to all unspent investment earnings since inception) to be treated as temporarily restricted until appropriated by the Foundation. Accordingly, $170,729,563 was reclassified from unrestricted to temporarily restricted effective September 1, 2010. Since that date, all investment earnings and gains were recorded as temporarily restricted. Amounts expended by the Foundation for carrying out its purpose, including fixed asset additions, have been released from restriction. Also, amounts appropriated but not yet expended for projects have also been released from restriction.

8. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2015, temporarily restricted net assets were as follows:

Cumulative investment earnings available for programs	$252,278,966

During the year ended August 31, 2015, temporarily restricted net assets were released from restriction for the Russell Sage Foundation programs and operations $12,896,913.

9. ENDOWMENT

The Foundation's endowment activity for the year ended August 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, September 1, 2014	$ 5,213,946	$264,901,331	$10,000,000	$280,115,277
Investment return				
Interest and dividends		7,286,393		7,286,393
Rental income		243,717		243,717
Net investment gain (loss)		(7,588,074)		(7,588,074)
Royalties		332,512		332,512
Appropriations		(12,896,913)		(12,896,913)
Transfers	959,718	-		959,718
Balance, August 31, 2015	$6,173,664	$252,278,966	$10,000,000	$268,452,630