

# The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the  
Years Ended December 31, 2020 and 2019, and  
Independent Auditors' Report

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
The Kresge Foundation  
Troy, Michigan

We have audited the accompanying financial statements of The Kresge Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2020 and 2019, 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 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.

### **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 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 Foundation'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 Foundation'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 Foundation as of December 31, 2020 and 2019, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte + Touche LLP*

June 17, 2021

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
CASH	\$ 2,692,899	\$ 2,284,578
INVESTMENTS—At fair market value	4,105,841,667	3,725,280,801
PROGRAM-RELATED INVESTMENTS—Net of allowance of \$7,490,506 and \$5,313,578, respectively	83,048,756	81,721,644
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	64,022	319,597
ACCRUED INTEREST AND DIVIDENDS	743,256	2,711,303
PROPERTY AND EQUIPMENT—Net of accumulated depreciation of \$13,936,268 and \$12,916,708, respectively	17,625,555	18,663,614
OTHER	<u>11,670,896</u>	<u>7,901,562</u>
TOTAL	<u>\$ 4,221,687,051</u>	<u>\$ 3,838,883,099</u>
<b>LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
LIABILITIES:		
Grants payable—net of discount of \$512,847 and \$2,394,523, respectively	\$ 51,738,554	\$ 78,029,775
Accounts payable and other liabilities	5,491,731	4,849,324
Other postemployment benefit liability	10,583,337	9,293,408
Borrowings under revolving line of credit	29,700,000	57,123,526
Payable under securities lending agreement	64,022	319,597
Deferred federal excise taxes	<u>16,120,060</u>	<u>11,797,327</u>
Total liabilities	113,697,704	161,412,957
NET ASSETS	<u>4,107,989,347</u>	<u>3,677,470,142</u>
TOTAL	<u>\$ 4,221,687,051</u>	<u>\$ 3,838,883,099</u>

See notes to financial statements.

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>INCOME AND LOSS:</b>		
Net investment income	\$ 583,449,316	\$ 286,788,752
Program-related investment income	<u>1,370,510</u>	<u>1,743,362</u>
Total income	<u>584,819,826</u>	<u>288,532,114</u>
<b>EXPENSES:</b>		
Grants—net of change in discount of (\$1,881,676) and \$929,246, respectively	122,161,413	172,195,951
Administrative expenses	<u>30,376,658</u>	<u>31,985,523</u>
Total expenses	<u>152,538,071</u>	<u>204,181,474</u>
OTHER POSTEMPLOYMENT ADJUSTMENTS	<u>(1,762,550)</u>	<u>(2,274,686)</u>
CHANGE IN NET ASSETS	430,519,205	82,075,954
<b>NET ASSETS:</b>		
Beginning of year	<u>3,677,470,142</u>	<u>3,595,394,188</u>
End of year	<u>\$ 4,107,989,347</u>	<u>\$ 3,677,470,142</u>

See notes to financial statements.

**THE KRESGE FOUNDATION**  
**(A Michigan Trustee Corporation)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 430,519,205	\$ 82,075,954
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,519,477	1,327,178
Loss on disposals of property and equipment	-	5,807
Increase in program-related investments provision	2,176,928	991,083
Change in value of grants payable	1,881,676	(929,246)
Net realized and unrealized gains on investments	(597,335,104)	(278,771,603)
Net realized and unrealized gains on program related investments	(151,945)	(29,375)
Disbursements on guarantees	-	(230,417)
Changes in assets and liabilities:		
Accrued interest and dividends	1,896,480	(1,565,337)
Other assets	(3,769,334)	379,692
Grants payable	(28,172,897)	22,434,236
Accounts payable and other liabilities	642,407	(659,180)
Other postemployment benefit liability	1,289,929	1,687,317
Deferred federal excise taxes	4,322,733	(1,085,226)
Net cash used in operating activities	<u>(185,180,445)</u>	<u>(174,369,117)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,831,321,039	1,827,477,145
Purchases of investments	(1,614,394,856)	(1,652,350,954)
Returns of principal for program-related investments	7,940,404	8,326,589
Disbursements for program-related investments	(11,372,877)	(17,094,850)
Purchases of property and equipment	(481,418)	(2,130,148)
Net cash provided by investing activities	<u>213,012,292</u>	<u>164,227,782</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving line of credit	177,322,046	57,123,526
Repayments of revolving line of credit	(204,745,572)	(46,465,824)
Net cash (used in) provided by financing activities	<u>(27,423,526)</u>	<u>10,657,702</u>
NET INCREASE IN CASH	408,321	516,367
CASH:		
Beginning of year	<u>2,284,578</u>	<u>1,768,211</u>
End of year	<u>\$ 2,692,899</u>	<u>\$ 2,284,578</u>

See notes to financial statements.

# THE KRESGE FOUNDATION

## (A Michigan Trustee Corporation)

### NOTES TO FINANCIAL STATEMENTS

#### AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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#### 1. ORGANIZATION AND NATURE OF OPERATIONS

The Kresge Foundation (the “Foundation”) is a tax-exempt private foundation that works to expand opportunities in America’s cities through grantmaking and investing in arts and culture, education, environment, health, human services, and community development. The Foundation was established in June 1924 as a Michigan trustee corporation. Its office is in Troy, Michigan.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Financial Presentation**—The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Program-Related Investments (PRIs)**—In accordance with Section 4944 of the Internal Revenue Code (the “Code”), the Foundation is permitted to make investments that further some aspect of its charitable mission. In 2008, the Foundation began making PRIs. These investments are anticipated to have lower-than-market returns on a risk-adjusted basis. Like grants, these investments count toward the Foundation’s payout requirement in the year of distribution. Return of PRI principal affects the annual payout requirement in a similar manner as a grant refund.

**Property and Equipment**—Property and equipment represents primarily land and buildings. Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 45 years. The associated depreciation was \$1,519,477 and \$1,327,178 for the years ended December 31, 2020 and 2019, respectively. The Foundation annually reviews the property and equipment records for impairment of the carrying value and records any adjustments necessary to reflect impacts in the carrying value. No impairments were recorded for the years ended December 31, 2020 and 2019.

Property and equipment as of December 31, 2020 and 2019, consists of the following:

	2020	2019
Building and improvements	\$ 26,263,711	\$ 25,910,363
Furniture and fixtures	2,221,973	2,211,079
Computer and office equipment	<u>2,298,246</u>	<u>2,623,982</u>
	30,783,930	30,745,424
Less accumulated depreciation and amortization	<u>(13,936,268)</u>	<u>(12,916,708)</u>
Subtotal depreciable assets—net	<u>16,847,662</u>	<u>17,828,716</u>
Land	500,000	500,000
Art	277,893	270,361
Construction in progress	<u>-</u>	<u>64,537</u>
Subtotal nondepreciable assets	<u>777,893</u>	<u>834,898</u>
Total property and equipment—net	<u>\$ 17,625,555</u>	<u>\$ 18,663,614</u>

**Grant Expenditures**—Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee substantially meets the terms of the conditions. The Foundation had approximately \$61,600,000 and \$73,100,000 in conditional grants as of December 31, 2020 and 2019, respectively. At December 31, 2020, conditional grants included \$60,000,000 to the Foundation for Detroit’s Future (FDF), payable over a 13 year-period, subject to any terms and conditions of the Foundation FDF Agreement.

**Line of Credit**—The Foundation has an unsecured line of credit totaling \$200,000,000 and \$100,000,000 as of December 31, 2020 and 2019, respectively. The credit line has a three-month LIBOR effective rate of 0.99% and 2.31% and contains a commitment fee on the unused available balance of .25% and .15% as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the outstanding borrowings were \$29,700,000 and \$57,123,526, respectively. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination date August 31, 2021. Interest and related fees payable at year-end are included in accounts payable and other liabilities.

**Net Assets**—The presentation of net assets represents net assets without donor restrictions.

**Tax Status**—The Foundation is an organization exempt from federal income taxation under Section 501(c)(3) and is a private foundation as described in Section 509(a) of the Code. The Foundation is subject to federal excise taxes. It is also subject to federal and state income tax on its unrelated business taxable income. Management believes it is no longer subject to federal tax examinations for years prior to December 31, 2017. The Foundation evaluates uncertain tax positions for more-likely than-not sustainability. The Foundation has concluded that as of December 31, 2020 and 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.



On December 20, 2019, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Taxpayer Certainty and Disaster Tax Relief Act of 2019 (the “Act”). The Act simplifies the private foundation excise tax on investment income by replacing the two-tier system (1% and 2%) with a flat rate of 1.39% for tax years beginning after December 20, 2019. The Foundation has modified its deferred tax positions to reflect the flat tax rate.

**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, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Investment Risks**—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying financial statements.

**Adoption of Accounting Pronouncements**—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU amends the FASB’s guidance on the impairment of financial instruments and adds to U.S. GAAP an impairment model known as the current expected credit loss (CECL) model that is based on expected losses rather than incurred losses. Under the new guidance, an entity will recognize an allowance based on its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. The guidance is effective for the Foundation for years beginning after December 15, 2022. At this time, the Foundation is evaluating the implications of ASU No. 2016-13 and its effects on the financial statements.

### 3. INVESTMENTS AND FAIR VALUE

**Temporary Investments**—The Foundation considers temporary investments to be unsettled trade purchases and sales and cash and cash equivalents held as part of the long-term investment strategy of the Foundation. Cash equivalents are considered to be investments with an original maturity of three months or less. The Foundation records investments as of the trade date. Unsettled trade purchases and sales are reported in the investment category on the statements of financial position. The Foundation had unsettled trade purchases of \$2,689,000 and \$0 as of December 31, 2020 and 2019, respectively. The Foundation had unsettled trade sales of approximately \$11,436,000 and \$11,069,000 as of December 31, 2020 and 2019, respectively.

**Fixed-Income, U.S. Equity, and Foreign Equity Securities**—Fixed-income, U.S. equity, and foreign equity securities include investments in securities as well as commingled funds. The securities have readily determinable fair market values based on quoted prices in active markets. The commingled funds calculate a net asset value per share in accordance with near term guidance.

**Hedge Funds, Natural Resources, Private Equity, and Real Estate**—Hedge funds’ fair values are based on information provided by the administrators of each underlying fund. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method or pricing models that use both observable and unobservable inputs. Gains and losses on investments include equity earnings from limited partnerships.

**Securities Lending**—The Foundation participates in a securities lending program with its custodian bank. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of loaned investments. Securities lending collateral is not subject to a master netting arrangement. Loaned investments consist of equity and exchange traded real estate securities. Securities loaned are fully collateralized. All cash collateral received is invested in approved money market and short-term funds. The Foundation maintains effective control of the loaned investments during the term of the agreement. As of December 31, 2020 and 2019, the Foundation had loaned securities with a total market value of approximately \$260,000 and \$3,030,000, respectively, and received related cash collateral of approximately \$64,000 and \$320,000, respectively. The carrying value of securities lending collateral approximates fair value as recorded collateral is composed of cash and cash equivalents that are received. Income from the program was approximately \$19,000 and \$14,000 for the years ended December 31, 2020 and 2019, respectively.

The changes in security lending collateral of approximately \$(256,000) and \$(2,754,000) as of December 31, 2020 and 2019, respectively, are considered noncash transactions.

**Realized and Unrealized Gains/Losses**—Net realized gains and change in net unrealized market gains are determined by comparing cost to proceeds and fair market value, respectively. Cost is determined on a first-in, first-out basis. The gains or losses on the Foundation’s investment portfolio for the years ended December 31, 2020 and 2019, consist of the following:

	<b>2020</b>	<b>2019</b>
Net realized gains	\$ 286,347,083	\$ 74,170,718
Net unrealized gains	<u>310,988,021</u>	<u>204,600,885</u>
Net realized and unrealized gains on investments	<u>\$ 597,335,104</u>	<u>\$ 278,771,603</u>

**Fair Value Hierarchy**—The Foundation is subject to the provisions of FASB issued ASC 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

**Level 1**—Quoted market prices in active markets for identical assets or liabilities.

**Level 2**—Observable market-based inputs and unobservable inputs that are corroborated by market data.

**Level 3**—Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Foundation’s accounting policies.

Securities that provide a net asset value (NAV) or that are recorded under the equity method of accounting are considered to be recorded at Management's best estimate of fair value. These securities are included in the fair value table on the Investments measured at net asset value line.

In certain instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2020, are as follows:

	<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Temporary investments	\$ 5,874,640	\$ 5,874,640	\$ -	\$ -
Fixed-income securities:				
Credit and other	149,808,821	23,756	144,658,381	5,126,684
U.S. equity securities	18,300,500	18,300,500	-	-
Foreign equity securities	89,041,842	89,041,842	-	-
Derivative contracts:				
Equity	33,547,935	-	33,547,935	-
Foreign exchange	(398,621)	-	(398,621)	-
Commodity	1,304,580	-	1,304,580	-
Private equity	84,797,581	-	-	84,797,581
Real estate	<u>11,439,852</u>	<u>-</u>	<u>-</u>	<u>11,439,852</u>
 Total fair value measurements	 393,717,130	 113,240,738	 179,112,275	 101,364,117
 Investments measured at net asset value	 <u>3,712,124,537</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Total investments	 <u>\$ 4,105,841,667</u>	 <u>\$ 113,240,738</u>	 <u>\$ 179,112,275</u>	 <u>\$ 101,364,117</u>
 Collateral under securities lending agreement	 <u>\$ 64,022</u>	 <u>\$ 64,022</u>	 <u>\$ -</u>	 <u>\$ -</u>

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2019, are as follows:

	2019	Level 1	Level 2	Level 3
Temporary investments	\$ 2,730,880	\$ 2,730,880	\$ -	\$ -
Fixed-income securities:				
Credit and other	81,896,779	29,705	75,284,008	6,583,066
U.S. equity securities	155,365,350	155,365,350	-	-
Foreign equity securities	94,771,675	94,771,675	-	-
Derivative contracts:				
Equity	8,941,807	-	8,941,807	-
Foreign exchange	356,372	-	356,372	-
Other	(349,689)	-	(349,689)	-
Private equity	103,803,145	-	-	103,803,145
Real estate	11,250,464	-	-	11,250,464
	<u>458,766,783</u>	<u>252,897,610</u>	<u>84,232,498</u>	<u>121,636,675</u>
Total fair value measurements				
	458,766,783	252,897,610	84,232,498	121,636,675
Investments measured at net asset value	<u>3,266,514,018</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 3,725,280,801</u>	<u>\$ 252,897,610</u>	<u>\$ 84,232,498</u>	<u>\$ 121,636,675</u>
Collateral under securities lending agreement	<u>\$ 319,597</u>	<u>\$ 319,597</u>	<u>\$ -</u>	<u>\$ -</u>

Level 1 classifications consist of U.S. Treasuries and commercial paper with quoted market prices in active markets. Fixed-income, U.S. equity securities, and foreign equity securities have readily determinable fair market values based on quoted prices in active markets.

Level 2 classifications consist of agency and Federal Home Loan Bank securities and collateralized loan obligation fixed-income securities that are valued based on observable market-based inputs and unobservable inputs that are corroborated by market data. The fair value of the derivative investments is based on market prices from the financial institution that is the counterparty to the derivative.

Level 3 classifications consist of securities that do not have readily determinable market values or are not publicly traded. The valuation process for Level 3 investments involves the use of fair value as reported by third-party administrators, fund investment managers, and general partners and is completed on at least a quarterly basis. All valuations are reviewed by management. Fair value estimates for fixed income securities, equity securities, real estate, and natural resource investments are based on comparable transactions, inputs provided by the general partner, audited financial information, and K-1 capital account balances to determine overall reasonableness of the recorded value. Audited information is only available annually, based on the partnerships' year-ends. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed.

Activity related to the Level 3 investment activity as of December 31, 2020 and 2019, is as follows:

	<b>2020</b>	<b>2019</b>
Additions and purchases	\$ 13,369,200	\$ 26,196,706
Transfers into Level 3	-	-
Transfers out of Level 3	-	-

The Foundation's policy related to fair value measurement hierarchy classification, including any level transfers, occurs as of the end of the reporting period. Realized and unrealized gains or losses related to Level 3 investment activity are included in net investment income on the statements of activities.

As of December 31, 2020 and 2019, the Foundation had the following commitments to contribute additional capital under the terms of various investment agreements over the next 7–10 years.

	<b>2020</b>	<b>2019</b>
US equity	\$ -	\$ 37,199,838
Foreign equity	-	25,335,371
Hedge funds	8,000,000	30,000,000
Natural resources	119,617,185	138,942,344
Private equity	312,888,971	332,422,286
Real estate	<u>169,439,122</u>	<u>165,879,756</u>
<b>Total</b>	<b><u>\$ 609,945,278</u></b>	<b><u>\$ 729,779,595</u></b>

The Foundation's investment in funds that are valued using a NAV (or its equivalent) or that are recorded under the equity method of accounting have a redemption notice period of daily to biannually and primarily consist of the following:

	<b>2020 Redemption Period</b>				<b>Total</b>
	<b>90 Days or Fewer</b>	<b>91 to 180 Days</b>	<b>181 to 365 Days</b>	<b>Greater than 365 Days</b>	
U.S. equity	\$ -	\$ 12,688,886	\$139,780,014	\$ 215,997,979	\$ 368,466,879
Foreign equity	85,478,761	252,954,248	269,519,201	265,101,879	873,054,089
Hedge funds	98,707,597	151,088,224	98,824,741	237,680,235	586,300,797
Natural resources	-	-	-	305,930,607	305,930,607
Private equity	-	-	-	1,326,105,272	1,326,105,272
Real estate	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,266,893</u>	<u>252,266,893</u>
<b>Total</b>	<b><u>\$184,186,358</u></b>	<b><u>\$416,731,358</u></b>	<b><u>\$508,123,956</u></b>	<b><u>\$2,603,082,865</u></b>	<b><u>\$3,712,124,537</u></b>

	2019 Redemption Period				Total
	90 Days or Fewer	91 to 180 Days	181 to 365 Days	Greater than 365 Days	
U.S. equity	\$ -	\$ 17,686,141	\$130,036,378	\$ 155,416,431	\$ 303,138,950
Foreign equity	130,836,765	120,925,761	265,139,126	194,689,137	711,590,789
Hedge funds	141,927,586	121,883,968	117,112,603	227,300,996	608,225,153
Natural resources	-	-	-	324,892,662	324,892,662
Private equity	-	-	-	1,055,367,030	1,055,367,030
Real estate	-	-	-	263,299,434	263,299,434
Total	<u>\$272,764,351</u>	<u>\$260,495,870</u>	<u>\$512,288,107</u>	<u>\$2,220,965,690</u>	<u>\$3,266,514,018</u>

#### 4. DERIVATIVES

The Foundation accounts for derivative financial instruments in accordance with ASC 815, *Derivatives and Hedging*. The Foundation enters into derivative arrangements to manage a variety of market risks and to adjust asset class exposure. The Foundation recognizes all derivatives as either assets or liabilities measured at fair value. The Foundation has netted liability positions against the investment balance. For accounting purposes, the derivatives do not have hedge designation, and all gains and losses are reported in net investment income on the statements of activities.

In connection with its derivative activities, the Foundation enters into master netting agreements and collateral support agreements with its counterparties. These agreements provide the Foundation with the right, in the event of default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty. The master netting agreement is taken into account in the Foundation's risk management practices and application of counterparty credit limits.

To determine the amount of exposure to each counterparty, the Foundation nets the exposure on transactions by individual counterparty against the value of any collateral posted by the counterparty (a) when both parties owe determinable amounts, (b) where a legal right of setoff exists, and (c) when the right to setoff is enforceable by law. The thresholds for collateral postings vary by counterparty.

The aggregate fair value of derivative instruments in asset positions on December 31, 2020 and 2019, is approximately \$83,530,000 and \$28,702,000, respectively. The exposure to counterparty credit risk on December 31, 2020, is reduced by \$24,177,000 of collateral held and approximately \$45,763,000 of liabilities included in netting arrangements with those counterparties. The exposure to counterparty credit risk on December 31, 2019, is reduced by \$8,000,000 of collateral held and approximately \$16,627,000 of liabilities included in netting arrangements with those counterparties. The Foundation has never failed to access collateral when required. The Foundation has posted collateral of \$0 to counterparties as of December 31, 2020 and 2019.

The fair value of derivative instruments are included in Investments in the statements of financial position and information about the offsetting of derivative instruments and related collateral amounts as of December 31, 2020 and 2019, are as follows:

	<b>2020</b>		
	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Assets Presented in the Statements of Financial Position</b>
Equity contracts	\$ 81,663,630	\$ 68,073,658	\$ 13,589,972
Commodity contracts	1,866,447	1,866,447	-
Foreign exchange contracts	<u>-</u>	<u>-</u>	<u>-</u>
Total derivative instruments	<u>\$ 83,530,077</u>	<u>\$ 69,940,105</u>	<u>\$ 13,589,972</u>

	<b>2020</b>		
	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Liabilities Presented in the Statements of Financial Position</b>
Equity contracts	\$ 48,115,695	\$ 44,802,690	\$ 3,313,005
Commodity contracts	561,867	561,867	-
Foreign exchange contracts	<u>398,621</u>	<u>398,621</u>	<u>-</u>
Total derivative instruments	<u>\$ 49,076,183</u>	<u>\$ 45,763,178</u>	<u>\$ 3,313,005</u>

	<b>2019</b>		
	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Assets Presented in the Statements of Financial Position</b>
Equity contracts	\$ 28,345,610	\$ 24,276,900	\$ 4,068,710
Fixed income contracts	356,372	-	356,372
Foreign exchange contracts	<u>-</u>	<u>349,689</u>	<u>(349,689)</u>
Total derivative instruments	<u>\$ 28,701,982</u>	<u>\$ 24,626,589</u>	<u>\$ 4,075,393</u>

	<b>2019</b>		
	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Statements of Financial Position</b>	<b>Net Amounts of Liabilities Presented in the Statements of Financial Position</b>
Equity contracts	\$ 19,403,803	\$ 16,276,900	\$ 3,126,903
Fixed income contracts	-	-	-
Foreign exchange contracts	<u>349,689</u>	<u>349,689</u>	<u>-</u>
Total derivative instruments	<u>\$ 19,753,492</u>	<u>\$ 16,626,589</u>	<u>\$ 3,126,903</u>

The Foundation does not have any gross amounts of financial instruments or cash collateral received or pledged not offset in the statements of financial position, except for \$1,273,000 held related to one counterparty as of December 31, 2020.

The effect of derivative instruments on the statements of activities is included in net investment income for the years ended of December 31, 2020 and 2019, as follows:

	<b>Gain (Loss) Recognized on Derivatives</b>	
	<b>2020</b>	<b>2019</b>
Equity contracts	\$ 13,477,907	\$(1,077,228)
Commodity contracts	1,153,320	-
Foreign exchange contracts	(48,932)	1,164,133
Fixed income contracts	1,923,262	18,281
Other contracts	<u>-</u>	<u>1,170,757</u>
 Total derivative instruments	 <u>\$ 16,505,557</u>	 <u>\$ 1,275,943</u>

The Foundation is not credit rated, and therefore, no credit rating contingent provisions are required by counterparties.

Counterparty credit risk is the risk that counterparties to derivative contracts will fail to perform according to the terms of the agreements. Nationally recognized statistical rating organizations, such as Standard & Poor's (S&P) and Moody's, assign credit ratings to security issuers that indicate a measure of potential credit risk to investors. The Foundation manages credit risk by reviewing the credit standing of each counterparty and limits exposure to credit risk by requiring that the minimum acceptable credit rating of the counterparty be BBB- and Baa3 for S&P and Moody's, respectively.

## **5. PROGRAM-RELATED INVESTMENTS**

PRIs in the statements of financial position represent various below-market-rate loans and equity investments with outstanding principal totaling \$90,539,262 and \$87,035,222 as of December 31, 2020 and 2019, respectively. Interest rates range from 0% to 8% at December 31, 2020. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. There was \$7,940,404 and \$8,326,589 received as return of principal for the years ended December 31, 2020 and 2019, respectively. The Foundation has PRI commitments of approximately \$9,747,151 and \$14,143,416 as of December 31, 2020 and 2019, respectively.



PRIs are scheduled for collection as of December 31, 2020, as follows:

**Years Ending  
December 31,**

2021	\$ 8,530,487
2022	14,627,781
2023	7,199,576
2024	4,852,791
2025	12,111,139
2026 and beyond	<u>43,217,488</u>
	90,539,262
Less allowance	<u>(7,490,506)</u>
Net	<u>\$ 83,048,756</u>

Management has reviewed the collectability of all PRIs and has recorded an allowance of \$7,490,506 and \$5,313,578 as of December 31, 2020 and 2019, respectively. The Foundation establishes a loan loss allowance in accordance with the risk rating assigned to the PRI. The risk rating is based on a combination of financial and organizational factors and is evaluated annually unless more frequent monitoring is required.

The Foundation has entered into 24 third-party loan guarantee agreements totaling \$110,624,000 and \$69,298,000, of which loss exposure related to the guarantees is \$37,062,000 and \$17,697,000 as of December 31, 2020 and 2019, respectively. Losses incurred on guarantee agreements were \$0 and \$230,417 for the years ended December 31, 2020 and 2019, respectively. The Foundation has recorded a contingent liability at the larger of the net present value of the guarantees or the minimum amount of probable loss. The Foundation recorded a contingency of \$2,094,103 and \$950,486 as of December 31, 2020 and 2019, respectively.

**6. GRANTS PAYABLE**

Grants payable represent the present value of grants using a 0.67% and 2.28% discount rate, as of December 31, 2020 and 2019, respectively. The discount rate is based on the present value of discounted cash flows using the three-month U.S. Treasury rate. The Foundation made grant payments of approximately \$161,400,000 and \$165,200,000 in 2020 and 2019, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years as of December 31, 2020, are as follows:

<b>Years Ending December 31,</b>	
2021	\$ 35,668,401
2022	12,488,000
2023	2,625,000
2024	840,000
2025	-
2026 and beyond	<u>630,000</u>
	52,251,401
Discount	<u>(512,847)</u>
Net	<u>\$ 51,738,554</u>

## **7. EXCISE TAX REQUIREMENTS**

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code, but is subject to a 1.39% federal excise tax on net investment income, including realized gains, as defined in the Code. The current excise tax is provided at 1.39% and 1% for 2020 and 2019, respectively. The deferred excise tax provision is calculated assuming a 1.39% rate and is based on projected gains that assume complete liquidation of all assets. The current and deferred portions of the excise tax provision for 2020 were approximately \$1,970,000 and \$4,323,000, respectively. The current and deferred portions of the excise tax provision for 2019 were approximately \$754,000 and \$(1,085,000), respectively. Cash payments for federal excise taxes were \$0 for the years ended December 31, 2020 and 2019. The prepaid federal excise taxes were \$776,000 and \$3,342,000 as of December 31, 2020 and 2019, respectively. The unrelated business income tax expense for 2020 and 2019 was \$1,096,000 and \$0, respectively. The prepaid unrelated business taxes were \$1,512,000 and \$1,053,000 as of December 31, 2020 and 2019, respectively. The Foundation recorded a deferred tax asset of \$645,000 and \$1,217,000 related to unrelated business income net operating loss and alternative minimum tax credit carry forwards as of December 31, 2020 and 2019, respectively.

## **8. OTHER POSTEMPLOYMENT BENEFITS**

The Foundation is subject to the provisions of FASB-issued ASC 715, *Compensation—Retirement Benefits*, which requires recognition of the overfunded or underfunded status of the other postemployment benefit plan as an asset or liability in the statements of financial position and recognition of changes in the funded status in the year in which the changes occur. The funded status of the plan is measured as the difference between the fair value of plan assets and the benefit obligation.

The Foundation provides certain health care and life insurance benefits for retired employees. The Foundation's employees may become eligible for these postemployment employee benefits. Actuarial assumptions and participant data changes are reported in other postemployment adjustments in the statement of activities.

The other postemployment benefit plan-funded status and amounts recognized in the Foundation's statements of financial position and statements of activities as of and for the years ended December 31, 2020 and 2019, are as follows:

	<b>Postemployment Employee Benefits</b>	
	<u>2020</u>	<u>2019</u>
Fair value of plan assets	\$ -	\$ -
Benefit obligation	<u>(10,583,337)</u>	<u>(9,293,408)</u>
Funded status of the plan	<u><u>\$(10,583,337)</u></u>	<u><u>\$(9,293,408)</u></u>
Accrued benefit liability recognized in the statement of financial position—January 1	<u><u>\$ (9,293,408)</u></u>	<u><u>\$(7,606,091)</u></u>
Service cost	\$ 231,460	\$ 177,008
Interest cost	284,380	318,750
Prior-service cost amortization	(771,681)	(781,494)
Net amortization gain	<u>-</u>	<u>(103,139)</u>
Benefit cost recognized in the statements of activities	<u><u>\$ (255,841)</u></u>	<u><u>\$ (388,875)</u></u>
Actuarial loss recognized in the statements of activities	<u><u>\$ 1,762,550</u></u>	<u><u>\$ 2,274,686</u></u>
Employer contributions	<u><u>\$ 216,780</u></u>	<u><u>\$ 198,494</u></u>
Benefits paid	<u><u>\$ (216,780)</u></u>	<u><u>\$ (198,494)</u></u>
Benefit obligation—December 31	<u><u>\$(10,583,337)</u></u>	<u><u>\$(9,293,408)</u></u>

The actuarial loss of approximately \$1,800,000 for December 31, 2020 can be attributed to a \$1,200,000 loss due to the change in the discount rate from 4.15% at December 31, 2019 to 3.12% at December 31, 2020, losses of \$780,000 due to amortization of prior service costs, \$30,000 of accrued health retirement account balances, offset by gains of \$140,000 due to changes in the benefit accrual and \$70,000 due to mortality assumptions.

The actuarial loss of approximately \$2,300,000 for December 31, 2019 can be attributed to a \$1,340,000 loss due to the change in the discount rate from 4.15% at December 31, 2018 to 3.12% at December 31, 2019, losses of \$800,000 due to amortization of prior service costs, \$250,000 of changes in census data, and \$100,000 amortization of gains, offset by gains of \$140,000 due to changes in the benefit accrual and \$50,000 due to mortality assumptions.

<b>Assumptions and Dates Used for Liability</b>	<b>Postemployment Employee Benefits</b>	
	<b>2020</b>	<b>2019</b>
Discount rate	2.37 %	3.12 %
Compensation increase rate	4.00	4.00
Measurement date	December 31	
<b>Assumptions Used to Determine Expense</b>		
Discount rate	3.12 %	4.15 %
Compensation increase rate	4.00	4.00
Health care cost trend rate assumptions:		
Initial trend rate: pre/post Medicare	N/A	N/A
Ultimate trend rate: pre/post Medicare	N/A	N/A
Year ultimate trend is reached: pre/post Medicare	N/A	N/A

A one-percentage-point change in assumed health care cost trends rates as of December 31, 2020, would not have any effect on postemployment benefit obligations.

Expected amortization during 2021 for amortization of net prior service credit and amortization of net loss are \$771,681 and \$0, respectively.

#### **Future Expected Benefit Payments**

2021	\$ 407,708
2022	365,238
2023	364,472
2024	379,660
2025	391,676
2026–2030	2,154,810

## **9. ANALYSIS OF EXPENSES**

The Foundation's grant and administrative expenses have been allocated between program and supporting activities. Grantmaking activities of the Foundation involving reviewing proposals, awarding, monitoring and evaluating grants as well as the actual payment of grants have been allocated to the program function. All other administrative expenses related to managing the operations of the foundation have been allocated to the supporting activities function. Certain categories of expenses that are incurred for the Foundation as a whole and are attributable to one or more functions are allocated based on either management estimates of time and effort or building occupancy square footage.

The Foundation's functional expenses, displayed by natural expense classification, for the year ended December 31, 2020 and 2019 are as follows:

	<b>2020— Allocation of Expenses</b>		
	<b>Program Activities</b>	<b>Supporting Activities</b>	<b>Total Expenses</b>
Grants—net	\$ 122,161,413	\$ -	\$ 122,161,413
Salary, benefits and payroll taxes	13,740,737	5,530,607	19,271,344
Professional service fees	2,806,958	499,616	3,306,574
Travel, conferences and meetings	371,619	45,764	417,383
Sponsored convenings	410,177	7,103	417,280
Depreciation	917,272	602,205	1,519,477
Occupancy	604,043	208,613	812,656
Legal, accounting and tax fees	169,252	177,711	346,963
PRI loan loss allowance	2,176,928	-	2,176,928
Other expenses	<u>1,056,203</u>	<u>1,051,850</u>	<u>2,108,053</u>
	<u>\$ 144,414,602</u>	<u>\$ 8,123,469</u>	<u>\$ 152,538,071</u>

  

	<b>2019— Allocation of Expenses</b>		
	<b>Program Activities</b>	<b>Supporting Activities</b>	<b>Total Expenses</b>
Grants—net	\$ 172,195,951	\$ -	\$ 172,195,951
Salary, benefits and payroll taxes	13,826,358	5,267,666	19,094,024
Professional service fees	2,912,527	341,220	3,253,747
Travel, conferences and meetings	1,691,950	284,294	1,976,244
Sponsored convenings	1,674,871	59,665	1,734,536
Depreciation	792,530	534,648	1,327,178
Occupancy	643,520	256,756	900,276
Legal, accounting and tax fees	158,723	189,151	347,874
PRI loan loss allowance	991,083	-	991,083
Other expenses	<u>1,283,727</u>	<u>1,076,834</u>	<u>2,360,561</u>
	<u>\$ 196,171,240</u>	<u>\$ 8,010,234</u>	<u>\$ 204,181,474</u>

#### 10. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets that are readily available within one year of December 31, 2020 to meet general expenditures include:

Cash	\$ 2,692,899
Actively traded investments	113,240,738
Investments measured at NAV	<u>1,109,041,672</u>
Total financial assets	<u>\$1,224,975,309</u>

The Foundation must annually pay out a minimum amount of 5% of the average fair value of its investment assets for the preceding year for charitable and administrative purposes in accordance with private foundation Internal Revenue Code requirements. The Foundation structures its financial assets to manage liquidity in a manner to meet this distribution requirement. The Foundation invests in

various short-term investments, securities and alternatives which are available and liquid within one year. Additionally, as more fully described in Note 2, the Foundation has a line of credit available for immediate or unanticipated liquidity needs.

**11. SUBSEQUENT EVENTS**

Subsequent events have been evaluated by the Foundation through June 17, 2021, the date these financial statements were available to be issued and determined that there are no subsequent events requiring adjustment to, or disclosure in, the financial statements.

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