The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the
Years Ended December 31, 2019 and 2018, and
Independent Auditors' Report

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

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Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243-1313
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

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, 2019 and 2018, 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, 2019 and 2018, 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 3, 2020

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CASH	$ 2,284,578	$ 1,768,211
INVESTMENTS—At fair market value	3,725,280,801	3,621,635,389
PROGRAM-RELATED INVESTMENTS—Net of allowance of $5,313,578 and $4,322,495, respectively	81,721,644	73,915,091
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	319,597	3,073,895
ACCRUED INTEREST AND DIVIDENDS	2,711,303	1,145,966
PROPERTY AND EQUIPMENT—Net of accumulated depreciation of $12,916,708 and $11,860,423, respectively	18,663,614	17,866,451
OTHER	7,901,562	8,281,254
TOTAL	$3,838,883,099	$3,727,686,257
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS		
LIABILITIES:		
Grants payable—net of discount of $2,394,523 and $1,465,277, respectively	$ 78,029,775	$ 56,755,202
Accounts payable and other liabilities	4,849,324	5,508,504
Other postemployment benefit liability	9,293,408	7,606,091
Borrowings under revolving line of credit	57,123,526	46,465,824
Payable under securities lending agreement	319,597	3,073,895
Deferred federal excise taxes	11,797,327	12,882,553
Total liabilities	161,412,957	132,292,069
NET ASSETS	3,677,470,142	3,595,394,188
TOTAL	$3,838,883,099	$3,727,686,257

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INCOME AND LOSS:		
Net investment income (loss)	$ 286,788,752	$ (62,992,883)
Program-related investment income	1,743,362	1,351,228
Total income (loss)	288,532,114	(61,641,655)
EXPENSES:		
Grants—net of change in discount of $929,246 and $467,545, respectively	172,195,951	114,829,604
Administrative expenses	31,985,523	31,083,794
Total expenses	204,181,474	145,913,398
OTHER POSTEMPLOYMENT ADJUSTMENTS	(2,274,686)	779,542
CHANGE IN NET ASSETS	82,075,954	(206,775,511)
NET ASSETS:		
Beginning of year	3,595,394,188	3,802,169,699
End of year	$3,677,470,142	$3,595,394,188

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 82,075,954	$ (206,775,511)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,327,178	1,649,245
Loss on disposals of property and equipment	5,807	8,718
Increase (decrease) in program-related investments provision	991,083	(65,048)
Change in value of grants payable	(929,246)	(467,545)
Net realized and unrealized (gains) losseson investments	(278,771,603)	69,866,094
Net realized and unrealized gains	-	
on program related investments	(29,375)	-
Disbursements on guarantees	(230,417)	-
Changes in assets and liabilities:		
Accrued interest and dividends	(1,565,337)	356,915
Other assets	379,692	(2,196,416)
Grants payable	22,434,236	(32,530,832)
Accounts payable and other liabilities	(659,180)	(728,756)
Other postemployment benefit liability	1,687,317	(1,171,105)
Deferred federal excise taxes	(1,085,226)	(6,134,129)
Net cash used in operating activities	(174,369,117)	(178,188,370)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,827,477,145	1,575,581,517
Purchases of investments	(1,652,350,954)	(1,406,176,633)
Returns of principal for program-related investments	8,326,589	6,316,497
Disbursements for program-related investments	(17,094,850)	(17,795,573)
Purchases of property and equipment	(2,130,148)	(423,245)
Net cash provided by investing activities	164,227,782	157,502,563
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving line of credit	57,123,526	61,465,824
Repayments of revolving line of credit	(46,465,824)	(40,776,663)
Net cash provided by financing activities	10,657,702	20,689,161
NET INCREASE IN CASH	516,367	3,354
CASH:		
Beginning of year	1,768,211	1,764,857
End of year	$ 2,284,578	$ 1,768,211

See notes to financial statements.

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 $1,327,178 and $1,649,245 as of December 31, 2019 and 2018, 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, 2019 and 2018, respectively.

Property and equipment as of December 31, 2019 and 2018, consists of the following:

	2019	2018
Building and improvements	$ 25,910,363	$ 24,298,520
Furniture and fixtures	2,211,079	2,004,799
Computer and office equipment	2,623,982	2,624,353
	30,745,424	28,927,672
Less accumulated depreciation and amortization	(12,916,708)	(11,860,423)
Subtotal depreciable assets—net	17,828,716	17,067,249
Land	500,000	500,000
Art	270,361	149,786
Construction in progress	64,537	149,416
Subtotal nondepreciable assets	834,898	799,202
Total property and equipment—net	$ 18,663,614	$ 17,866,451

Grant Expenditures—Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant 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 $73,100,000 and $77,800,000 in conditional grants as of December 31, 2019 and 2018, respectively. At December 31, 2019, conditional grants included $70,000,000 to the Foundation for Detroit's Future (FDF), payable in equal installments over a 14 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 $100,000,000 as of December 31, 2019 and 2018. The line of credit has been recorded at carrying value, which approximates fair value. The credit line has a three-month LIBOR effective rate of 2.31% and 3.26% and contains a commitment fee on the unused available balance of .15% and .17% as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the outstanding borrowings were $57,123,526 and $46,465,824, respectively. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination date August 31, 2020. 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, 2016. The

Foundation evaluates uncertain tax positions for more-likely than-not sustainability. The Foundation has concluded that as of December 31, 2019 and 2018, 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 January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2016-01, *Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in this ASU supersede the guidance to classify equity securities with readily determinable fair values into different categories such as trading or available-for-sale and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments also require enhanced disclosures about those investments and simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. The ASU removes the requirement to disclose the fair value of financial instruments measured at amortized costs for entities that are not public business entities. This guidance has been adopted as of January 1, 2019. The adoption of this guidance had no impact on how the Foundation is accounting for or disclosing its investments in equity securities.

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, 2020. At this time, the Foundation is evaluating the implications of ASU No. 2016-13 and its effects on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The new guidance clarifies the definitions of reciprocal and non-reciprocal transactions and modifies the criteria used to evaluate conditional vs. unconditional contributions. In addition, the new guidance defines that a conditional contribution exists when the agreement contains both a right of return of the contributed asset and a barrier that must be overcome. The guidance is effective for the Foundation for years beginning after December 15, 2019. The Foundation early adopted this guidance on January 1, 2019. The adoption of this guidance had no impact on how the Foundation accounts for its grantmaking activities.

In March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments*. The guidance improves a variety of current accounting standards by correcting for unintended applications. The applicable sections of this guidance are effective for the Foundation for years beginning after December 15, 2019. At this time, the Foundation is evaluating the implications of ASU No. 2020-03 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 no unsettled trade purchases as of December 31, 2019 and 2018. The Foundation had unsettled trade sales of approximately $11,069,000 and $89,044,000 as of December 31, 2019 and 2018, 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 securities and U.S. treasury bills. 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, 2019 and 2018, the Foundation had loaned securities with a total market value of approximately $3,030,000 and $5,093,000, respectively, and received related cash collateral of approximately $320,000 and $3,074,000, 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 $14,000 and $21,000 for the years ended December 31, 2019 and 2018, respectively.

The changes in security lending collateral of approximately $(2,754,000) and $168,000 as of December 31, 2019 and 2018, 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, 2019 and 2018, consist of the following:

	2019	**2018**
Net realized gains	$ 74,170,718	$ 236,840,345
Net unrealized (losses) gains	204,600,885	(306,706,439)
Net realized and unrealized (losses) gains on investments	$278,771,603	$ (69,866,094)

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.

The carrying amounts reported in the statements of financial position for cash, accrued interest and dividends, accounts payable and other liabilities, borrowings under revolving line of credit, and deferred federal excise taxes approximate fair value because of their short-term nature.

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, 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
Total fair value measurements	458,766,783	252,897,610	84,232,498	121,636,675
Investments measured at net asset value	3,266,514,018	-	-	-
Total investments	$3,725,280,801	$252,897,610	$84,232,498	$121,636,675
Collateral under securities lending agreement	$ 319,597	$ 319,597	$ -	$ -

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of December 31, 2018, are as follows:

	2018	Level 1	Level 2	Level 3
Temporary investments	$ (160,740)	$ (160,740)	$ -	$ -
Fixed-income securities:				
U.S. treasury securities	12,930,760	12,930,760	-	-
Credit and other	91,865,244	5,888,964	77,381,895	8,594,385
U.S. equity securities	120,547,244	120,547,244	-	-
Foreign equity securities	109,716,485	109,716,485	-	-
Derivative contracts:				
Equity	25,186,069	-	25,186,069	-
Foreign exchange	(1,513,822)	-	(1,513,822)	-
Other	(873,543)	-	(873,543)	-
Private equity	82,701,718	-	-	82,701,718
Real estate	10,955,265	-	-	10,955,265
Total fair value measurements	451,354,680	248,922,713	100,180,599	102,251,368
Investments measured at net asset value	3,170,280,709	-	-	-
Total investments	$3,621,635,389	$248,922,713	$100,180,599	$102,251,368
Collateral under securities lending agreement	$ 3,073,895	$ 3,073,895	$ -	$ -

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-end. 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, 2019 and 2018, is as follows:

	2019	2018
Additions and purchases	$26,196,706	$ 25,699,350
Transfers into Level 3	-	-
Transfers out of Level 3	-	(84,693,701)

The Foundation's policy related to fair value measurement hierarchy classification, including any level transfers, occurs as of the end of the reporting period. Transfers out of Level 3 during 2018 were the result of changes in the valuation of securities that do not require disclosure in the fair value hierarchy. 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, 2019 and 2018, the Foundation had commitments to contribute approximately $729,780,000 and $806,383,000, respectively, in additional capital under the terms of various investment agreements over the next 7–10 years.

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:

	2019 Redemption Period				
	90 Days or Fewer	91 to 180 Days	181 to 365 Days	Greater than 365 Days	Total
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	$272,764,351	$260,495,870	$512,288,107	$2,220,965,690	$3,266,514,018

	2018 Redemption Period				
	90 Days or Fewer	91 to 180 Days	181 to 365 Days	Greater than 365 Days	Total
Fixed-income	$ -	$ 15,232,425	$ 29,897,644	$ 64,682,724	$ 109,812,793
U.S. equity	-	18,727,516	113,351,988	156,841,342	288,920,846
Foreign equity	72,189,713	114,961,648	239,951,404	181,351,135	608,453,900
Hedge funds	144,553,215	133,680,912	44,571,623	210,998,158	533,803,908
Natural resources	-	-	-	356,488,901	356,488,901
Private equity	-	-	-	1,023,883,982	1,023,883,982
Real estate	-	-	-	248,916,379	248,916,379
Total	$216,742,928	$282,602,501	$427,772,659	$2,243,162,621	$3,170,280,709

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 the net realized and unrealized gains on investments 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, 2019 and 2018, is approximately $28,702,000 and $44,391,000, respectively. 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 exposure to counterparty credit risk on December 31, 2018, is reduced by $16,706,000 of collateral held and approximately $14,643,000 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 and $1,400,000 to counterparties as of December 31, 2019 and 2018, respectively.

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, 2019 and 2018, are as follows:

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

	2018		
	Gross Amounts of Recognized Liabilities	**Gross Amounts Offset in the Statements of Financial Position**	**Net Amounts of Liabilities Presented in the Statements of Financial Position**
Equity contracts	$19,403,803	$16,276,900	$3,126,903
Fixed income contracts	-	-	-
Foreign exchange contracts	349,689	349,689	-
Total derivative instruments	$19,753,492	$16,626,589	$3,126,903

	2019		
	Gross Amounts of Recognized Assets	**Gross Amounts Offset in the Statements of Financial Position**	**Net Amounts of Assets Presented in the Statements of Financial Position**
Equity contracts	$44,391,282	$31,225,266	$13,166,016
Foreign exchange contracts	-	-	-
Other contracts	-	123,717	(123,717)
Total derivative instruments	$44,391,282	$31,348,983	$13,042,299

	2018		
	Gross Amounts of Recognized Liabilities	**Gross Amounts Offset in the Statements of Financial Position**	**Net Amounts of Liabilities Presented in the Statements of Financial Position**
Equity contracts	$19,205,213	$15,919,474	$3,285,739
Foreign exchange contracts	1,513,822	-	1,513,822
Other contracts	873,543	123,717	749,826
Total derivative instruments	$21,592,578	$16,043,191	$5,549,387

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 as of December 31, 2019.

The effect of derivative instruments on the statements of activities is included in Net investment income (loss) as of December 31, 2019 and 2018, as follows:

	Gain (Loss) Recognized on Derivatives	
	2019	**2018**
Equity contracts	$(1,077,228)	$33,103,685
Foreign exchange contracts	1,164,133	2,071,801
Fixed income contracts	18,281	-
Other contracts	1,170,757	(2,225,015)
Total derivative instruments	$ 1,275,943	$32,950,471

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 $87,035,222 and $78,237,586 as of December 31, 2019 and 2018, respectively. Interest rates range from 1% to 4% at December 31, 2019. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. Net realizable value approximates fair value. There was $8,326,589 and $6,316,497 received as return of principal for the years ended December 31, 2019 and 2018, respectively. The Foundation has PRI commitments of approximately $14,143,416 and $21,707,966 as of December 31, 2019 and 2018, respectively.

PRIs are scheduled for collection as of December 31, 2019, as follows:

Years Ending December 31,	
2020	$10,017,375
2021	8,280,487
2022	11,977,781
2023	2,449,576
2024	3,520,548
2025 and beyond	50,789,455
	87,035,222
Less allowance	(5,313,578)
Net	$81,721,644

Management has reviewed the collectability of all PRIs and has recorded an allowance of $5,313,578 and $4,322,495 as of December 31, 2019 and 2018, 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 20 third-party loan guarantee agreements totaling $69,298,000 and $55,988,000, of which loss exposure related to the guarantees is $17,697,000 and $19,655,000 as of December 31, 2019 and 2018, respectively. Losses incurred on guarantee agreements were $230,417 and $0 for the years ended December 31, 2019 and 2018, 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 $950,486 and $737,764 as of December 31, 2019 and 2018, respectively.

6. GRANTS PAYABLE

Grants payable represent the present value of grants using a 2.28% and 1.87% discount rate, as of December 31, 2019 and 2018, 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 $165,200,000 and $163,300,000 in 2019 and 2018, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years as of December 31, 2019, are as follows:

Years Ending December 31,	
2020	$60,675,070
2021	16,294,228
2022	1,925,000
2023	300,000
2024	810,000
2025 and beyond	420,000
	80,424,298
Discount	(2,394,523)
Net	$78,029,775

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 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined in the Code. The current excise tax is provided at 1% for both 2019 and 2018. 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 2019 were approximately $754,000 and $(1,085,000), respectively. The current and deferred portions of the excise tax provision for 2018 were approximately $1,949,000 and $(6,134,000), respectively. Cash payments for federal excise taxes were $0 and $4,900,000 for the years ended December 31, 2019 and 2018, respectively. Federal excise taxes payable were $0 as of December 31, 2019 and 2018. The unrelated business income tax expense for 2019 and 2018 was $0 for the years ended December 31, 2019 and 2018. The prepaid unrelated business taxes were $1,053,000 and $595,000 as of December 31, 2019 and 2018, respectively. The Foundation recorded a deferred tax asset of $1,217,000 and $1,431,000 related to unrelated business income net operating loss and alternative minimum tax credit carry forwards as of December 31, 2019 and 2018, 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, 2019 and 2018, are as follows:

	Postemployment Employee Benefits	
	2019	**2018**
Fair value of plan assets	$ -	$ -
Benefit obligation	(9,293,408)	(7,606,091)
Funded status of the plan	$(9,293,408)	$(7,606,091)
Accrued benefit liability recognized in the statement of financial position—January 1	$(7,606,091)	$(8,777,196)
Service cost	$ 177,008	$ 392,776
Interest cost	318,750	307,716
Prior-service cost amortization	(781,494)	(899,207)
Net amortization gain	(103,139)	-
Benefit cost recognized in the statements of activities	$ (388,875)	$ (198,715)
Actuarial loss (gain) recognized in the statements of activities	$ 2,274,686	$ (779,542)
Employer contributions	$ 198,494	$ 192,848
Benefits paid	$ (198,494)	$ (192,848)
Benefit obligation—December 31	$(9,293,408)	$(7,606,091)

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.

The actuarial gain of approximately $800,000 for December 31, 2018 can be attributed to a $1,100,000 gain due to a change in the assumptions used to calculate life insurance benefits, a $700,000 gain due to the change in the discount rate from 3.56% at December 31, 2017 to 4.15% at December 31, 2018, a gain of $20,000 due to mortality assumptions, and a gain of $80,000 due to changes in the benefit accrual offset by losses of $900,000 due to amortization of prior service costs and $200,000 of life insurance administrative costs.

	Postemployment Employee Benefits	
Assumptions and Dates Used for Liability	**2019**	**2018**
Discount rate	3.12 %	4.15 %
Compensation increase rate	4.00	4.00
Measurement date	December 31	
Assumptions Used to Determine Expense		
Discount rate	4.15 %	3.56 %
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, 2019, would not have any effect on postemployment benefit obligations.

Expected amortization during 2020 for amortization of net prior service credit and amortization of net loss are $771,681 and $0, respectively.

Future Expected Benefit Payments

2020	$ 360,071
2021	374,536
2022	365,235
2023	364,486
2024	379,675
2025–2029	2,091,045

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, 2019 and 2018 are as follows:

	2019—Allocation of Expenses		
	Program Activities	**Supporting Activities**	**Total Expenses**
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	1,283,727	1,076,834	2,360,561
	$ 196,171,240	$ 8,010,234	$ 204,181,474

	2018—Allocation of Expenses		
	Program Activities	**Supporting Activities**	**Total Expenses**
Grants—net	$ 114,829,604	$ -	$ 114,829,604
Salary, benefits and payroll taxes	13,957,303	4,528,576	18,485,879
Professional service fees	3,223,888	367,180	3,591,068
Travel, conferences and meetings	1,848,076	279,450	2,127,526
Sponsored convenings	1,724,725	24,532	1,749,257
Depreciation	984,853	664,392	1,649,245
Occupancy	552,097	277,460	829,557
Legal, accounting and tax fees	394,055	187,100	581,155
PRI loan loss allowance	(65,049)	-	(65,049)
Other expenses	1,134,409	1,000,747	2,135,156
	$ 138,583,961	$ 7,329,437	$ 145,913,398

10. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets that are readily available within one year of December 31, 2019 to meet general expenditures include:

	2019
Cash	$ 2,284,578
Actively traded investments	252,897,610
Investments measured at NAV	1,045,548,328
Total financial assets	$1,300,730,516

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 3, 2020, 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 except for the matter related to the pandemic event. On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic. Management continues to evaluate the potential negative economic impacts resulting from the global COVID-19 pandemic. Given the uncertainty of these circumstances, the related impact on the Foundation's operations cannot be reasonably estimated at this time.

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