THE BUSH FOUNDATION

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
The Bush Foundation:

We have audited the accompanying financial statements of the Bush Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bush Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(j) to the financial statements, in 2018 the Bush Foundation adopted new accounting guidance, ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Minneapolis, Minnesota
July 11, 2019

THE BUSH FOUNDATION

Statements of Financial Position

December 31, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Cash	$	92	21
Investments and cash equivalents, at fair value		956,919	971,633
Program-related investments		4,930	2,038
Dividends and interest receivable		903	501
Unsettled trades receivable		6,230	—
Federal excise and unrelated business income tax receivable		416	185
Furniture, equipment, and leasehold improvements, net of accumulated depreciation of $118 and $104, respectively		32	42
Other assets		121	125
Total assets	$	969,643	974,545
Liabilities and Net Assets			
Accounts payable	$	569	690
Unsettled trades payable		1,316	475
Accrued and other liabilities		410	478
Federal excise and UBIT payable		118	—
Deferred federal excise taxes		5,000	5,600
Grants payable		19,220	7,468
Total liabilities		26,633	14,711
Net assets without donor restriction		943,010	959,834
Total liabilities and net assets	$	969,643	974,545

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Activities

Years ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Revenues:			
Investment return, net	$	40,392	118,920
Other income		2	7
Total revenues		40,394	118,927
Expenses:			
Direct program expenses		53,832	37,438
General administration expenses		2,780	2,422
Federal excise and unrelated business income tax expenses		606	798
Total expenses		57,218	40,658
Change in net assets without donor restriction		(16,824)	78,269
Net assets without donor restriction at beginning of year		959,834	881,565
Net assets without donor restriction at end of year	$	943,010	959,834

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets without donor restriction	$	(16,824)	78,269
Adjustments to reconcile change in net assets without donor restriction to net cash used in operating activities:			
Depreciation		13	27
Realized gains on investment transactions		(69,910)	(40,401)
Net change in unrealized losses (gains) in fair value of investments		34,646	(76,392)
Discount on program-related investments		(29)	962
Changes in assets and liabilities:			
Dividends and interest receivable		(402)	(50)
Other assets		4	(3)
Accounts payable and accrued and other liabilities		(189)	202
Federal excise and unrelated business income tax receivable and UBIT payable		(113)	1,536
Grants payable		11,752	(5,119)
Net cash used in operating activities		(41,052)	(40,969)
Cash flows from investing activities:			
Purchase of furniture and equipment		(3)	(6)
(Increase) decrease in unsettled trades receivable		(6,230)	93
Increase (decrease) in unsettled trades payable		841	(309)
(Decrease) increase in deferred federal excise taxes		(600)	1,600
Proceeds from sale of investments		384,627	236,413
Purchase of investments		(337,962)	(196,097)
Funding of program-related investments		(2,863)	(3,000)
Net cash provided by investing activities		37,810	38,694
Net decrease in cash and cash equivalents		(3,242)	(2,275)
Cash and cash equivalents at beginning of year		8,899	11,174
Cash and cash equivalents at end of year	$	5,657	8,899
Cash and cash equivalents:			
Cash	$	92	21
Cash equivalents in investments		5,565	8,878
	$	5,657	8,899
Supplemental disclosure of cash flow information:			
Cash paid during the year for taxes	$	1,057	378

See accompanying notes to financial statements.

(1) Significant Accounting Policies

(a) Organization

The Bush Foundation (the Foundation) is an exempt private foundation that invests in great ideas and the people who power them. The Foundation serves Minnesota, North Dakota, South Dakota, and the 23 Native nations that share the same geography.

(b) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

(c) Tax-Exempt Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a private foundation as defined in Section 509(a) of the Code. The Foundation is subject to applicable state and federal unrelated business income tax and federal excise tax as discussed in note 5. A provision for unrelated business income tax and federal excise tax has been made and is included in the financial statements.

The Foundation's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Foundation has no uncertain tax positions resulting in an accrual of tax expense or benefit.

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Act), was signed into law on December 22, 2017. The Act contains various provisions affecting both for-profit and not-for-profit entities. Tax-exempt entities are impacted in part by the inclusion of a new excise tax on excess compensation for covered employees, changes to unrelated business income, as well as their ability to advance refund bonds. In addition, tax-exempt entities may be impacted through certain for-profit subsidiaries and/or joint ventures based on the Act's provisions for tax rates, measurement of deferred taxes, as well as other limitations on deductions. The Act's provisions may also impact donor incentives for charitable giving. Management of the Foundation is currently assessing the overall impact of the Act and its impact on the financial statements.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the year. Actual results could differ from those estimates.

(e) Investments and Cash Equivalents

Investments in equity securities that are traded on national or international securities exchanges are carried at fair value, based upon quoted market prices provided by external investment managers and the Foundation's custodian. Corporate debt securities are valued using market quotations obtained from broker-dealers or pricing services and are carried at fair value. Mutual funds and common and collective trusts are recorded at net asset value (NAV), which represents a readily determinable fair value.

Investments held in alternative structures including equity limited partnerships, private equity limited partnerships and related structures, real asset funds, and hedge funds are recorded at NAV as a practical expedient to fair value based on estimates provided by the respective investment managers if quoted market values are not readily determinable. See additional disclosures in note 2.

Purchases and sales of investments are recorded on the trade-date basis. Interest and dividend income are recorded when earned. Realized gains and losses are recorded as the difference between historical cost and the amount of cash proceeds received when sold. Unrealized gains and losses are recorded as the change in fair value of investments during the year.

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

(f) Unsettled Trades Receivable or Payable

The amounts receivable or payable for investments with settlements pending result from the sales or purchases of investments made prior to the end of the fiscal year, but settled after the fiscal year-end.

(g) Fair Value of Financial Instruments

The carrying values of dividends and interest receivable, unsettled trades receivable and payable, accounts payable, and accrued and other liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. Investments are stated at fair value. Program-related investments approximate fair value by discounting loans made at below market interest rates. Grants payable approximate fair value by discounting multi-year grants.

(h) Grants, Net of Cancellations

Grants are recorded as an expense when the Foundation makes an unconditional award. Payment of grants reduces the resulting liability incurred at the time of the award. Cancellations of grants occur principally when the grantees do not meet the grant terms or when terms are adjusted and are reflected as a reduction of grant expense. Cancellations were $229 and $732 in 2018 and 2017, respectively. Grants awarded, net of cancellations, were $44,685 and $29,344 for the years ended December 31, 2018 and 2017, respectively.

(i) Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, on May 9, 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers Narrow-Scope Improvements and Practical Expedients (Topic 606)*. The guidance amends ASU 2014-09 to clarify the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, completed contracts, and contract modifications at transition. This guidance is effective for private entities with fiscal years beginning after December 15, 2018, and early adoption is permitted. The Foundation is currently evaluating the impact of the updated guidance but does not believe the adoption of ASU 2014-09 or ASU 2016-12 will have a significant impact on the Foundation's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The Foundation has not evaluated the impact of the updated guidance on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides guidance on recognizing contributions made and received for not-for-profit entities. The standard is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

(j) Implementation of New Accounting Standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expenses and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. This standard was effective for the Foundation beginning January 1, 2018. The adoption of this standard did not have a material impact on the financial statements other than the additional disclosures required by the standard. Disclosures for the year ended December 31, 2017 have been retrospectively adjusted.

(k) Reclassifications

Certain prior period amounts have been reclassified to conform with the current year presentation.

 (Continued)

(In thousands)

(2) Investments and Cash Equivalents

Investments and cash equivalents at fair value consisted of the following:

		2018	2017
Cash equivalents	$	5,565	8,878
Corporate and debt securities		90,276	70,109
Mutual funds and common and collective trusts:			
Fixed income funds		61,557	64,027
International equity funds		77,934	130,714
Real asset funds		15,230	—
Equity securities:			
U.S. equities		46,531	46,861
International equities		21,385	29,838
Total marketable investments		318,478	350,427
Alternative investments:			
Multistrategy hedge funds		40,097	39,287
Long/short hedge funds		2,982	64,745
Fixed income hedge funds		728	1,205
Real asset funds		56,849	78,168
Equity limited partnerships		111,098	101,585
Private equity limited partnerships and related structures		426,687	336,216
Total alternative investments		638,441	621,206
Total	$	956,919	971,633

The Foundation follows Accounting Standards Codification Topic 820, *Fair Value Measurement* (ASC 820), which establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – quoted prices in active markets for identical securities. Mutual funds, U.S. equities, and international equities traded on securities exchanges are carried at fair value based upon closing market quotations on such exchange on the date of valuation or, in the absence of sales, at values based on the closing bid price or last sale price on the previous trading day. Common and collective trusts are valued using the NAV as a readily determinable fair value. Investments in cash equivalents include money market securities that are valued at closing net asset value.
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.). The current fair values of corporate and debt securities are provided by an

(In thousands)

independent pricing service, but where an active market exists, are valued using market quotations obtained from broker-dealers or quotation systems.

- Level 3 – significant unobservable inputs that are not corroborated by observable market data. The Foundation does not hold any Level 3 investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. There have been no changes in the valuation methodologies used as of December 31, 2018 and 2017.

The summary of inputs used to value the Foundation's investments measured on a recurring basis as of December 31, 2018 is as follows:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 5,565	—	—	5,565
Corporate and debt securities	—	90,276	—	90,276
Mutual funds and common and collective trusts:				
Fixed income funds	61,557	—	—	61,557
International equity funds	77,934	—	—	77,934
Real asset funds	15,230	—	—	15,230
Equity securities:				
U.S. equities	46,531	—	—	46,531
International equities	21,385	—	—	21,385
Investments measured at net asset value as a practical expedient [(1)]:				
Alternative investments:				
Multistrategy hedge funds				40,097
Long/short hedge funds				2,982
Fixed income hedge funds				728
Real asset funds				56,849
Equity limited partnerships				111,098
Private equity limited partnerships and related structures				426,687
Total investments	$ 228,202	90,276	—	956,919

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

(In thousands)

The Foundation did not have any transfers between Levels 1, 2, or 3 during the year ended December 31, 2018.

The summary of inputs used to value the Foundation’s investments measured on a recurring basis as of December 31, 2017 is as follows:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 8,878	—	—	8,878
Corporate and debt securities	—	70,109	—	70,109
Mutual funds and common and collective trusts:				
Fixed income funds	64,027	—	—	64,027
International equity funds	130,714	—	—	130,714
Equity securities:				
U.S. equities	46,861	—	—	46,861
International equities	29,838	—	—	29,838
Investments measured at net asset value as a practical expedient [1]:				
Alternative investments:				
Multistrategy hedge funds				39,287
Long/short hedge funds				64,745
Fixed income hedge funds				1,205
Real asset funds				78,168
Equity limited partnerships				101,585
Private equity limited partnerships and related structures				336,216
Total investments	$ 280,318	70,109	—	971,633

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The Foundation did not have any transfers between Levels 1, 2, or 3 during the year ended December 31, 2017.

(In thousands)

The following is a summary of the investments valued using NAV as a practical expedient and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2018:

		Fair value	Unfunded commitments	Redemption frequency ranges	Redemption notice period
Alternative investments:					
Multistrategy hedge funds (a)	$	40,097	—	none – quarterly	65 days
Long/short hedge funds (b)		2,982	—	biennially	45–90 days
Fixed income hedge funds (c)		728	—	none	none
Real asset funds (d)		56,849	24,056	none	none
Equity limited partnerships (e)		111,098	—	monthly – quarterly	5–60 days
Private equity limited partnerships and related structures (f)		426,687	89,609	none	none
Total	$	638,441	113,665		

The following is a summary of the investments valued using NAV as a practical expedient and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2017:

		Fair value	Unfunded commitments	Redemption frequency ranges	Redemption notice period
Alternative investments:					
Multistrategy hedge funds (a)	$	39,287	—	none – quarterly	65 days
Long/short hedge funds (b)		64,745	—	annually – biennially	45–90 days
Fixed income hedge funds (c)		1,205	—	none	none
Real asset funds (d)		78,168	31,870	none – quarterly	none – 45 days
Equity limited partnerships (e)		101,585	—	quarterly	60 days
Private equity limited partnerships and related structures (f)		336,216	114,224	none	none
Total	$	621,206	146,094		

(Continued)

(a) This category includes direct investments in multistrategy hedge funds that invest in both fixed income and equity instruments. The managers of these funds have the flexibility to adjust their allocations between fixed income and equity investments based on their particular strategy (event-driven, relative value, directional) and view of the market. These funds have various redemption and notice of redemption requirements that generally limit the Foundation's ability to liquidate them in a short period of time.

(b) This category includes direct investments in long/short hedge funds that invest in equity securities by taking either a long position in a company's equity securities, expecting the price will rise, or a short position, expecting the price will decline. The managers of these funds have the flexibility to change their exposure based on their view of particular securities and the overall market. Long/short hedge funds are generally less volatile than long-only equity funds and have higher manager fees. These funds have various redemption and notice of redemption requirements that generally limit the Foundation's ability to liquidate them in a short period of time. The Foundation has requested full redemption of these funds as of December 31, 2018. The balance as of December 31, 2018 represents the 5% hold-back which was distributed in 2019.

(c) This category includes direct investments in a fixed income hedge fund that invested in debt securities, including corporate debt, mortgage debt, and sovereign debt. The Foundation has requested full redemption of this fund as of December 31, 2018 and will continue to receive distributions as the illiquid investments are realized.

(d) This category includes direct investments in real asset funds, generally through limited partnerships, that invest in commercial real estate, infrastructure projects, and natural resources. These investments cannot be redeemed with the funds except for the master limited partnerships fund noted below. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next one to ten years.

This category also includes a fund that invests primarily in publicly and privately traded master limited partnerships (MLPs) that invest primarily in energy infrastructure assets (the MLP Fund). The MLP Fund allows quarter-end withdrawals upon 45 days' prior written notice, subject to performance and balance restrictions that could limit the Foundation's ability to liquidate within the specified time period.

(e) This category includes equity limited partnerships that hold long and short positions primarily in equity securities of companies within the S&P 500 Index and on stock exchanges in emerging market countries. Derivative instruments, such as forward contracts, futures, options, and swaps, may be used to attempt to hedge existing long and short positions in order to maximize returns and reduce risks. The equity limited partnership funds allow month-end and quarter-end withdrawals upon prior written notice, subject to performance and balance restrictions that could limit the Foundation's ability to liquidate within the specified time period.

(f) This category includes private equity limited partnerships and related structures that invest in private companies. These investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next one to ten years, except for the business development corporation noted below.

(Continued)

(In thousands)

This category also includes a related structure called a business development corporation that invests in private debt with middle market companies. This investment cannot be redeemed until a public offering or listing of the shares is completed, which is estimated to occur within the next two years.

The Foundation’s alternative investments in hedge funds (categories (a) and (b) above) are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and based on operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. The Foundation’s alternative investments in real asset funds (except for the MLP Fund noted in (d) above) and private equity limited partnerships (categories (d) and (f) above) cannot be redeemed with the funds. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation’s interests in the funds. The Foundation’s alternative investment in an equity limited partnership (category (e) above) is redeemable with the fund at NAV subject to redemption restrictions noted above.

Components of Investment return, net:

		2018	2017
Dividends	$	3,706	3,429
Interest		3,622	2,313
Other investment income		27	65
Realized gains in investment transactions		69,910	40,401
Net change in unrealized (losses) gains, net of deferred federal excise tax		(34,646)	74,792
		42,619	121,000
Less investment related fees		(2,227)	(2,080)
Investment return, net	$	40,392	118,920

(3) Program-Related Investments

In accordance with Section 4944 of the Internal Revenue Code, the Foundation is permitted to make Program-Related Investments (PRIs) that are related to its philanthropic programs. A PRI is defined as an investment: (i) whose primary purpose is to further the exempt objectives of the foundation, (ii) where the production of income or appreciation in property is not a significant purpose, and (iii) which is not used to lobby or support lobbying. The Foundation’s PRIs consist of low-interest loans with varying repayment terms and a private equity limited partnership interest in a social business seed fund. These PRIs are anticipated to have lower returns or higher risks than the institutional market for these types of investments. In the year of the investment, the Foundation receives a credit toward its IRS distribution requirement. To the extent the investment is recovered by the Foundation, the recovery is recognized as a negative distribution, increasing its distribution requirement in the year that it is received.

(In thousands)

(a) Loan PRIs

The Foundation's loan portfolio includes low interest loans invested in not-for-profit and private sector entities. The loans support its impact investing strategy of making a positive impact on the region it serves and on equity issues in capital markets. Interest payments are due on outstanding loan amounts at 1% interest. Repayment of the outstanding loan amounts is scheduled through 2028. Loan PRIs have been discounted to reflect their below-market interest rates. In the event that a loan PRI is determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as an allowance. No allowances were recorded at December 31, 2018 or 2017. At December 31, 2018 and 2017, there were no past due loan PRIs.

The loans are summarized in the table below for the years ended December 31, 2018 and 2017:

		2018	2017
Loans receivable, gross beginning of year	$	3,000	—
Additional loans		1,000	3,000
Less discount and uncollectible allowance		(933)	(962)
Loans receivable, net end of year	$	3,067	2,038

Principal payments on the loan PRIs are expected to be collected as follows:

		2018	2017
Less than one year	$	—	—
One year to five years		375	—
Greater than five years		3,625	3,000
Present value discount		(933)	(962)
Total	$	3,067	2,038

(b) Equity PRIs

The Foundation's equity portfolio includes a private equity investment in a social business seed fund. The equity investment supports its impact investing strategy of making a positive impact on the region it serves and on equity issues in capital markets. The equity PRI is recorded using the net asset value as a practical expedient to fair value based on estimates provided by the investment manager if quoted market values are not readily determinable. At December 31, 2018, the Foundation had remaining capital commitments on its equity portfolio of $1,350.

(Continued)

(In thousands)

The change in equity investments for the year ended December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Equity investment amount, gross beginning of year	$ —	—
Additional investments	1,650	—
Realized loss and expenses	(59)	—
Equity investment amount, gross end of year	1,591	—
Cumulative valuation adjustments		
Unrealized gain	272	—
Equity investment amount, net end of year	$ 1,863	—

(4) Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. As of December 31, 2018, the Foundation has ample cash, cash equivalents, and investments to cover operating expenses. The following assets could be readily made available within one year of the statement of financial position to meet general expenditures:

Financial assets:	
Cash	$ 92
Investments and cash equivalents	956,919
Investment receivable:	
Dividends and interest receivable	903
Unsettled trades receivable	6,230
Federal excise and unrelated business tax receivable	416
Less investments valued at NAV unavailable within one year	(484,649)
Financial assets available within one year	$ 479,911

The Foundation maintains liquidity guidelines for its investment portfolio to ensure operating cash is available for grants and expenses. The guidelines require at least 5% of assets be maintained in investments that can be liquidated within one month; at least 10% of assets be maintained in investments that can be liquidated within three months; and at least 20% of assets be maintained in investments that can be liquidated within six months.

(5) Federal Taxes and Distribution Requirements

Federal Excise Taxes – The Foundation is subject to a 2% excise tax on its taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible). Tax on net investment income is reduced from 2% to 1% for any taxable year in which the Foundation’s qualifying distributions meet certain requirements prescribed by Internal Revenue Code Section 4940(e). The Foundation met these requirements in both 2018 and 2017, and accordingly, the federal excise tax expense is based upon the reduced 1% tax rate.

Deferred federal excise taxes arise from unrealized gains in the market value of investments, as well as from differences in the recognition of income from certain investments (timing differences). As of December 31, 2018, and 2017, the Foundation had unrealized gains in the market value of investments and has recorded a deferred tax liability of $5,000 and $5,600, respectively.

Distribution Requirements – The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, within one year after the end of each fiscal year, it must distribute 5% of the average market value of its assets as defined in the Code. The investments includible for the 5% distribution requirement are exclusive of those investments deemed to be held for charitable activities (representing 1.5% of the investments). Qualifying distributions are determined on a cash basis and include grant payments and certain other expenses incurred by the Foundation. The Foundation has complied with distribution requirements through December 31, 2018.

Unrelated Business Income Taxes – In accordance with Section 511(a)(1) of the Code, the Foundation is subject to corporate tax rates on net income earned from unrelated business activities. The Foundation’s investments produce varying amounts of unrelated business income depending on the performance of and levels of debt of the underlying investments.

(In thousands)

(6) Functional Expenses

The Foundation's operating costs have been categorized between direct program and general administration expenses in the accompanying statements of activities based on management's judgement and classification of direct program activity. Management analyzes expenses as incurred and charges them to direct program or general administration expenses based on their nature. General administration expenses do not include those which constitute direct conduct or direct supervision of the Foundation's programs. The detail of expenses for the years ended December 31, 2018 and 2017 are as follows:

		Direct program	General administration	2018 Total expenses	2017 Total expenses
Grants, net of cancellations	$	44,685	—	44,685	29,344
Non-grant expenses:					
Salaries and benefits		4,500	1,657	6,157	5,611
Consulting		2,050	24	2,074	1,797
Convening expense		1,526	—	1,526	853
Communication expense		485	1	486	519
Staff travel, expense, and development		334	79	413	405
Rent and utilities		—	332	332	337
Board payments and expense		—	264	264	263
Professional fees		90	103	193	177
Other expense		162	320	482	554
		53,832	2,780	56,612	39,860
Excise and unrelated business income tax expense		—	606	606	798
Total expenses	$	53,832	3,386	57,218	40,658

(7) Retirement Plan

The Foundation has a defined contribution retirement plan managed by Teachers Insurance and Annuity Association of America. In 2018 and 2017, the amount of the employer contribution was 8% of the employee's salary and a 2:1 employer match on employee contributions up to a maximum of 4% of the employee's salary, subject to the maximum includible compensation limit per Section 401(a)(17) of the Code. The expense of the plan for 2018 and 2017 was $532 and $496, respectively.

The Foundation has a nonqualified deferred compensation 457(b) plan for the benefit of certain employees of the Foundation who are eligible to participate in the plan. The Foundation does not make contributions to the plan. There is no expense to the Foundation for this plan.

(In thousands)

(8) Grants Payable

The following table provides the activity within the grants payable account:

		2018	2017
Unpaid grants payable, at beginning of year	$	7,468	12,587
Grants appropriated, net of cancellations		44,685	29,344
Grants paid		(33,010)	(34,586)
Refund of previous years' grants		77	123
Unpaid grants payable, at end of year	$	19,220	7,468

Grants payable in more than one year are stated at their net present value using discount rates established in the year the grant was made with resulting discount rates ranging from 0.9% to 2.7%. The following is a summary of grants authorized and payable at December 31:

		2018	2017
To be paid in less than one year	$	12,784	5,497
To be paid in one to five years		7,207	2,118
		19,991	7,615
Discount		(771)	(147)
	$	19,220	7,468

As of December 31, 2018 and 2017, the Foundation has approximately $4,199 and $500, respectively, of conditional grant obligations.

(9) Lease Commitments

The Foundation has a 145-month (12 years and 1 month) operating lease for office space, which commenced on September 1, 2013 and ends on September 30, 2025. The lease agreement allows for the right to extend the term for two 5-year periods. The Foundation pays base rent per the terms of the agreement and operating costs as incurred for the leased property. Total straight-line rent expense under this lease was $123 for the years ended December 31, 2018 and 2017.

(In thousands)

Future base rent payments at December 31, 2018 are as follows:

		Amount
Year ending December 31:		
2019	$	131
2020		136
2021		142
2022		147
2023		153
Thereafter		280
Total	$	989

(10) Subsequent Events

The Foundation has evaluated subsequent events through July 11, 2019, the date on which the financial statements were available to be issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.