THE MCKNIGHT FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

THE MCKNIGHT FOUNDATION
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YEARS ENDED DECEMBER 31, 2018 AND 2017

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The McKnight Foundation
Minneapolis, Minnesota

We have audited the accompanying financial statements of The McKnight Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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 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.

Board of Directors
The McKnight Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The McKnight 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 accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 20, 2019

THE MCKNIGHT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
ASSETS		
Cash	$ 6,146	$ 6,095
Investments	2,175,442	2,352,803
Program Related Investments	23,290	21,943
Investment Collateral	42,191	5,108
Net Due from Fiscal Agents for Securities with Settlements Pending	-	12,979
Accrued Interest and Dividends Receivable	1,944	1,777
Grant Receivable (Net)	-	4,779
Refundable Unrelated Business Income Tax	262	309
Other Assets	1,393	1,649
Total Assets	$ 2,250,668	$ 2,407,442
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable, Accrued Expenses, and Other Liabilities	$ 2,490	$ 2,107
Unpaid Grants (Net)	66,193	63,876
Payable Under Investment Loan Agreement	42,191	5,108
Federal Excise Tax	4,121	8,531
Total Liabilities	114,995	79,622
NET ASSETS		
Without Donor Restrictions:		
Undesignated	2,120,007	2,306,656
Board-Designated	14,002	15,401
Total Without Donor Restrictions	2,134,009	2,322,057
With Donor Restrictions:		
Purpose Restrictions	1,664	5,763
Total Net Assets	2,135,673	2,327,820
Total Liabilities and Net Assets	$ 2,250,668	$ 2,407,442

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND GAINS		
Investment Income:		
Interest	$ 11,235	$ 9,251
Dividends	26,446	21,955
(Loss) Gain on Investments	(106,046)	335,858
Other Investment Income, Net of Fees and Direct Expenses	(17,638)	(14,245)
Miscellaneous Income	248	233
Net Assets Released from Restriction	4,107	4,951
Total Revenue and Gains	(81,648)	358,003
EXPENSES		
Program	102,297	68,592
Management and General	4,103	11,513
Total Expenses	106,400	80,105
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(188,048)	277,898
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Grant Income	8	2
Change in Discount and Allowance	-	240
Release from Restriction	(4,107)	(4,950)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(4,099)	(4,708)
CHANGE IN NET ASSETS	(192,147)	273,190
Net Assets - Beginning of Year	2,327,820	2,054,630
NET ASSETS - END OF YEAR	$ 2,135,673	$ 2,327,820

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018		
	Program	Management and General	Total
Grants	$ 91,892	$ -	$ 91,892
Salaries, Wages, and Benefits	4,051	3,246	7,297
Services and Professional Fees	4,072	679	4,751
Meetings and Travel	1,235	295	1,530
Facility and Occupancy	667	521	1,188
Other Operating Costs	295	330	625
Depreciation and Amortization	85	66	151
Taxes	-	(1,034)	(1,034)
Total Expenses by Function	$ 102,297	$ 4,103	$ 106,400

	2017		
	Program	Management and General	Total
Grants	$ 59,182	$ -	$ 59,182
Salaries, Wages, and Benefits	3,688	2,809	6,497
Services and Professional Fees	3,554	641	4,195
Meetings and Travel	1,149	270	1,419
Facility and Occupancy	656	496	1,152
Other Operating Costs	290	451	741
Depreciation and Amortization	73	54	127
Taxes	-	6,792	6,792
Total Expenses by Function	$ 68,592	$ 11,513	$ 80,105

See accompanying Notes to Financial Statements.

THE MCKNIGHT 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	$ (192,147)	$ 273,190
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Loss (Gain) on Investments	123,684	(321,613)
Discount on Program-Related Investments	59	132
Discount on Grants Receivable	-	(240)
Discount on Unpaid Grants	223	1,678
Changes in Operating Assets and Liabilities:		
Accrued Interest and Dividends Receivable	(167)	(11)
Program Related Investments Receivable	(1,406)	(1,049)
Grants Receivable	4,779	4,879
Refundable Federal Excise Tax	-	100
Refundable Unrelated Business Income Tax	47	50
Other Assets	659	119
Accounts Payable, Accrued Expenses, and Other Liabilities	383	(337)
Unpaid Grants	2,094	(33,794)
Federal Excise Tax	(4,410)	3,347
Net Cash Used by Operating Activities	(66,202)	(73,549)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(403)	(43)
Investments Purchased	(521,068)	(459,297)
Investment Sales and Maturities	587,724	532,756
Net Cash Provided by Investing Activities	66,253	73,416
NET INCREASE (DECREASE) IN CASH	51	(133)
Cash - Beginning of Year	6,095	6,228
CASH - END OF YEAR	$ 6,146	$ 6,095
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Federal Excise Taxes Paid	$ 3,200	$ 3,150
Unrelated Business Income Taxes Paid	$ 107	$ 7

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Foundation

The McKnight Foundation (the Foundation), a family foundation based in Minnesota, advances a more just, creative, and abundant future where people and planet thrive. The Foundation uses all its resources in pursuit of this mission. The Foundation's grant making priorities include regional economic and community development, Minnesota's arts and artists, education equity, youth engagement, Midwest climate and energy, Mississippi River water quality, neuroscience research, international crop research, and rural livelihoods. The Foundation's primary geographic focus is the state of Minnesota, with significant support also directed to strategies throughout the U.S. and in Africa, Southeast Asia, and Latin America.

Financial Statement Presentation

Net asset, revenues, and gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for board directed grant making.

Board-Designated Net Assets

Board-designated net assets consist of amounts designated for board-directed grant making and are presented as net assets without donor restrictions on the statements of financial position. These funds were established in 2003 from unrestricted gifts of $5 million from James Binger and $5 million from Virginia Binger's estate. Designated as branch funds by the Foundation's board, the funds allow certain board membership classes to make grants specific to their interests. Each class, after basic due diligence by Foundation staff, approves grants to 501(c)(3) nonprofit organizations. Grants are ratified by the Foundation's board of directors. While not a requirement, the branch funds have historically budgeted five percent of branch fund assets to be paid out as grants each year.

Net Assets With Donor Restrictions – Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions consist of grant receivable amounts from Bill and Melinda Gates Foundation as well as amounts received from this foundation that have not been used as of year-end. The Foundation had no perpetual restricted net assets at December 31, 2018 and 2017.

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status

The Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC) and the applicable Minnesota Statutes. The Foundation is a private foundation under Section 509(a) of the Code and pays federal excise taxes on taxable investment income and income tax on any unrelated business income as defined by the Internal Revenue Service (IRS).

The Foundation adopted the accounting standards for uncertain tax positions and files as a tax-exempt organization. No liability has been recognized by the Foundation as a result of the implementation of this standard. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions. These affect assets and liabilities as reported, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For cash flow statement reporting purposes, the Foundation considers all bank demand accounts to be cash.

Concentrations and Credit Risk

The Foundation maintains its cash in bank deposit accounts, which frequently exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

The Foundation invests in various securities, including U.S. government securities and domestic and foreign corporate debt and equity securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the value of investments.

Investments

Investments are stated at fair value. The fair value of publicly traded securities is based upon quoted market prices and net asset values. For other securities, for which no such quotations or valuations are readily available, fair value is estimated using values provided by external investment managers. These can consist of private equity investments, limited partnerships, mutual funds, fund of funds and hedge funds, and are recorded at approximate fair value as determined and approved by the managers or valuation committees of the alternative investments based upon judgments, which include, among other factors, restrictions affecting marketability and operating results.

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Foundation may also be invested in fixed income securities that are not actively traded and as such quoted market prices may not be available. These investments are priced using the estimates provided by investment managers. The Foundation believes that these valuations are a reasonable estimate of fair value as of December 31, 2018 and 2017, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Receivables with settlements pending arise out of the ordinary course of buys and sells within the Foundation's investment portfolio. These items are short-term in nature and are settled in the next year.

Changes in fair value are recorded as unrealized gains or losses in the period of change. Realized gains and losses on sales of securities are generally determined using the specific identification method.

The Foundation accounts for derivative instruments in accordance with accounting standards that require that all derivative instruments directly owned by the Foundation be recognized in the statements of financial position at fair value. The fair value adjustment is recorded directly to the invested asset and recognized as an unrealized gain or loss in the statements of activities. The Foundation uses derivative instruments principally to manage equity price risk in the Foundation's investment holdings.

Fair Value Measurements

The Foundation follows accounting standards that define fair value, establish a framework for measuring fair value in accordance with existing accounting principles generally accepted in the United States of America, and expand disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes inputs according to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level inputs are defined as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

The assets denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues are translated using the actual rate on the day of the transaction. Revenues from private equity funds denominated in a foreign currency are translated using the weighted average actual rate during the quarterly reporting period.

Net Due from Fiscal Agents for Securities with Settlements Pending

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

Functional Allocation of Expense

Grants are considered program expenses. The Foundation's grants and administrative expenses have been allocated between program activities and management and general. Grant making 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 activities function. All other administrative expenses related to managing the operations of the Foundation have been allocated to the management and general function. Certain categories of expenses that are incurred for the Foundation as a whole are attributable to one or more functions are allocated based on either management estimates of time and effort or building occupancy square footage.

Adoption of New Accounting Pronouncements

The below accounting pronouncements have impacted the presentation of the Foundation's financial statements:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how nonprofit organizations report and present certain items in their financial statements. The new guidance was adopted by the Foundation for the year ending December 31, 2018 and was applied retrospectively. The significant changes are:

- Simplification of net asset presentation – net assets are presented in two classes, "Net assets with donor restrictions" and "Net assets without donor restrictions."
- Investment return is reported net of direct external and internal investment management expenses.
- Requirement to present expenses in their natural classification and by function.
- Enhanced disclosure requirements related to presenting liquidity information.

(IN THOUSANDS)

NOTE 1 NATURE OF FOUNDATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The Foundation has evaluated events and transactions for potential recognition or disclosure in these financial statements through August 20, 2019, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS

Investments consist of the following for the years ended December 31:

	2018	2017
Investments:		
Cash and Short-Term Investments	$ 153,283	$ 251,104
Equity Securities	1,124,240	1,263,538
Corporate Debt Securities	111,425	102,938
Asset-Backed Securities	56,803	57,392
Government Securities	65,437	75,012
Absolute Return	59,169	61,347
Securities Loaned to Broker	41,345	4,942
Private Equity	385,291	360,394
Hedge Fund	113,576	116,803
Other Alternative	64,873	59,333
Total Investments	$ 2,175,442	$ 2,352,803

Gains and losses on investments for the years ended December 31 consist of the following:

	2018	2017
Realized Gain on Sale of Securities	$ 144,428	$ 176,646
Unrealized Gain (Loss)	(250,474)	159,212
Fund Gain Loss, Net of Fees	(17,638)	(14,245)
Total	$ (123,684)	$ 321,613

(IN THOUSANDS)

NOTE 2 INVESTMENTS (CONTINUED)

The gains and losses on investments are presented on the statements of activities for the years ended December 31 as follows:

	2018	2017
(Loss) Gain on Investments	$ (106,046)	$ 335,858
Other Investment Income, Net of Fees and Direct Expenses	(17,638)	(14,245)
Total	$ (123,684)	$ 321,613

NOTE 3 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities, refer to Note 1 – Nature of Foundation and Significant Accounting Policies.

Valuation Inputs

The following tables set forth the Foundation's assets that are measured and recognized at fair value on a recurring basis as of December 31, 2018 and 2017, under the appropriate level of the fair value hierarchy. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

December 31, 2018	Level 1	Level 2	Level 3	Total
Investments:				
Equity Securities:				
Domestic	$ 328,123	$ -	$ -	$ 328,123
Global	111,419	-	-	111,419
Corporate Debt Securities	-	106,793	-	106,793
Asset-Backed Securities	10,251	46,552	-	56,803
Government Securities	369	56,063	-	56,432
Securities Loaned to Brokers	-	41,345	-	41,345
Absolute Return	59,169	-	-	59,169
Investment Subtotal	$ 509,331	$ 250,753	$ -	760,084
Cash and Short-Term Investments				153,283
Investments Measured at Net Asset Value or its Equivalent				1,252,570
Direct Investments Held at Cost				9,505
Total Investments				$ 2,175,442
Investment Collateral	$ -	$ 42,191	$ -	$ 42,191

(IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Inputs (Continued)

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments:				
Equity Securities:				
Domestic	$ 447,709	$ -	$ -	$ 447,709
Global	92,581	-	-	92,581
Corporate Debt Securities	-	90,632	-	90,632
Asset-Backed Securities	9,555	47,837	-	57,392
Government Securities	413	60,443	-	60,856
Securities Loaned to Brokers	-	4,942	-	4,942
Absolute Return	61,347	-	-	61,347
Investment Subtotal	$ 611,605	$ 203,854	$ -	815,459
Cash and Short-Term Investments				
Investments Measured at Net Asset				251,104
Value or its Equivalent				1,271,067
Direct Investments Held at Cost				15,173
Total Investments				$ 2,352,803
Investment Collateral	$ -	$ 5,108	$ -	$ 5,108

The Foundation invests primarily in investment funds, limited partnerships, or non-U.S. corporations referred to collectively for this purpose as investment funds. Investment funds are presented in the accompanying financial statements at fair value as determined under standards for fair value measurements and disclosures. In situations where the investment fund does not have a readily determinable fair value and meets other eligibility criteria, the Foundation measures fair value based on net asset value per share or its equivalent. The adoption of authoritative guidance on fair value measurements and disclosure did not have a material impact on the accompanying financial statements.

The following tables list investments in investment funds by major category as of December 31:

December 31, 2018	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Securities	$ 684,698	$ -	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Corporate Debt Securities	4,632	-	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Government Securities	9,005	-	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Private Equity	375,786	277,025	N/A	N/A
Hedge Fund	113,576	-	Quarterly	45-95 Days Prior to Opening Date
Other Alternatives	64,873	79,538	N/A	N/A
Total	$ 1,252,570	$ 356,563		

(IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Inputs (Continued)

December 31, 2017	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Securities	$ 723,248	$ -	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Corporate Debt Securities	4,633	327	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Government Securities	14,156	-	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Private Equity	352,894	216,371	N/A	N/A
Hedge Fund	116,803	-	Quarterly	45-95 Days Prior to Opening Date
Other Alternatives	59,333	4,526	N/A	N/A
Total	$ 1,271,067	$ 221,224		

In addition to the unfunded commitments noted above, the Foundation has entered into investment commitments of $49.4 million since December 31, 2018. $62.0 million has been called on these funds since December 31, 2018.

Equity securities include commingled funds containing investments in domestic or foreign stocks that value their investments daily but impose certain liquidity restrictions on investors through periodic fund openings ranging from weekly to quarterly. Investing in equity securities provides diversification, dividend income, and growth potential to the overall portfolio.

Corporate debt securities include commingled funds containing investments in corporate bonds that value their investments daily but impose certain liquidity restrictions on investors through periodic fund openings ranging from weekly to quarterly. Investing in corporate debt securities provides diversification, interest income, and growth potential to the overall portfolio.

Government securities include commingled funds containing investments in government bonds that value their underlying investments daily but impose certain liquidity restrictions on investors that have periodic fund openings ranging from weekly to quarterly. Investing in government debt securities provides diversification, interest income, low risk, and stability to the overall portfolio.

Private equity includes investments in funds of funds holding underlying positions in funds owning private assets. The unobservable inputs used to determine the fair value of the private equity investments have been estimated based on the capital account balances reported by underlying partnerships subject to the funds' management review and judgment. Underlying investments are valued quarterly and have restrictive liquidity provisions. Investing in private equity provides diversification, growth potential, and wider market access to the overall portfolio.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Inputs (Continued)

Hedge funds include the position held by a trust in which the Foundation invests as part of an overall tactical asset allocation strategy. Hedge funds also include funds held as a strategy to reduce portfolio volatility. The unobservable inputs used to determine the fair value of the hedge fund investments have been estimated based on the capital account balances reported by underlying funds subject to the funds' management review and judgment. Underlying assets are valued by the manager at a maximum quarterly. Liquidity restrictions are imposed on investors through quarterly fund openings. Investing in this hedge fund strategy provides diversification, growth potential, and risk reduction to the overall portfolio.

Other alternative investments include limited partnerships in natural resources and distressed debt, and an investment in a real estate investment trust (REIT). The unobservable inputs used to determine the fair value of the other alternative investments have been estimated based on the capital account balances reported by underlying funds subject to the funds' management review and judgment. In this category units are priced daily but the fund managers impose certain liquidity restrictions on participants. Investments in such alternative assets provide diversification and growth potential to the overall portfolio.

NOTE 4 DERIVATIVES

The Foundation uses derivative instruments principally to manage risk in the Foundation's investment holdings. The following is a summary of the Foundation's risk management strategy and the effect on the financial statements:

> The Foundation manages an investment portfolio. As part of the Foundation's strategy to manage the risk inherent in the portfolio, the Foundation may enter into hedging transactions, using derivatives, to protect the fair value of investments in the portfolio or the anticipated future cash flows associated with the forecasted purchases or sales of certain investments.
>
> Derivative instruments owned are recorded at fair value in the accompanying statements of financial position, and the related gains and losses are immediately recognized in the statements of activities. Net realized and unrealized gains and losses of approximately ($41) and $7,490 were recognized for the years ended December 31, 2018 and 2017, respectively.
>
> The Foundation manages its risk on a cash collateral pool included in the investment portfolio through the use of futures. Possible risk arises from movement of securities' values and interest rates and the resultant inability of counterparties to meet the terms of the contracts. The Foundation had 591 and 364 contracts outstanding and contract exposure amounts of $46,089 and $46,432 as of December 31, 2018 and 2017, respectively. The net fair value of the contract position is included in the Foundation's investment portfolio.

(IN THOUSANDS)

NOTE 5 SECURITIES LENDING

Under a securities lending agreement, the Foundation has authorized the lending agent to manage and administer a securities lending program. The lending agent has the responsibility for negotiating the terms of each loan and for collecting the required collateral, including any accrued interest. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of securities lent.

The fair market value of securities on loan was $41,345 and $4,942 as of December 31, 2018 and 2017, respectively. The Foundation reflects the collateral received for securities on loan as an asset on its statement of financial position and its obligation to return the collateral as a liability on its statement of financial position. An asset of approximately $42,191 and $5,108, and the related liability representing the obligation to return collateral received of $42,191 and $5,108 are reflected on the statements of financial position as of December 31, 2018 and 2017, respectively. Net investment earnings for the securities lending activity was $106 and $46 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6 PROGRAM RELATED INVESTMENTS

The Foundation made loans to various local nonprofit organizations to fund projects that fulfill the charitable purposes of the Foundation. Interest rates on the loans range from 1%-2%. The Foundation discounted loans that were made at below-market-rate interest rates. In the event that a program investment loan is determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as an allowance. An allowance for program related investments is established based on annual review by the Foundation's Investment Committee of the status of all program related investments. If the Investment Committee determines that a specific program related investment should have an allowance established the Investment Committee recommends to the board of directors who approves the allowance. No allowances were recorded at December 31, 2018 and 2017. Total loans outstanding at December 31, 2018 and 2017 were $23,290 and $21,943, respectively, none of which were past due.

Principal payments on the program-related investments are expected to be collected as follows:

	2018	2017
Less than One Year	$ 5,000	$ 1,500
One Year to Five Years	15,500	18,700
Greater than Five Years	4,155	3,049
Present Value Discount	(1,365)	(1,306)
Total	$ 23,290	$ 21,943

(IN THOUSANDS)

NOTE 6 PROGRAM RELATED INVESTMENTS (CONTINUED)

At December 31, the program related investments consisted of the following:

	2018	2017
Program Related Investments	$ 24,655	$ 23,249
Less Discounts:		
Beginning of Year	(1,306)	(1,174)
(Increases) Decreases	(59)	(132)
End of Year	(1,365)	(1,306)
Total Program Related Investments, Net	$ 23,290	$ 21,943

At December 31, 2018 and 2017, there were $2.3 million and $4.3 million, respectively, in approved program related investments that were not yet drawn upon.

NOTE 7 GRANT RECEIVABLE

In October 2008, the Foundation was awarded a project support grant from the Bill and Melinda Gates Foundation (BMGF) totaling $26,749. This grant is intended to assist the Foundation's Collaborative Crop Research Program in identifying, supporting, and facilitating the success of crop research projects designed to overcome constraints to food and nutritional security in sub-Saharan Africa.

The original terms of the agreement allowed the Foundation to receive funds in semi-annual installments of up to $2,500 for five years after the initial disbursement of $1,749. In 2009, the agreement was amended in which the total grant award will be reduced by the difference between the $5,000 expected to be received each year per the payment schedule below and the amount actually disbursed. As a result of the change in terms, the amount of the change in the total grant award was ($743) in 2009. The remaining balance was received in 2013, leaving no ending balance of the original grant at December 31, 2013.

In October 2013, the Foundation was awarded a renewal grant from the BMGF totaling $24,961, payable over five years. This grant is intended to assist the Foundation's Collaborative Crop Research Program in continuing the work identified in the original grant. The grant receivable has been discounted using a rate of 3.25% in 2018 and 2017, which is based on what the Foundation would expect to earn on investments with a similar term. No allowance was recorded as of December 31, 2018 and 2017.

At December 31, 2017, there was $4,779 outstanding on this grant. During 2018, the Foundation received the final payment under the renewal grant, leaving a zero balance in grants receivable at December 31, 2018. Also during 2018, the BMGF granted a no-cost extension until June 30, 2019, at which time any remaining unspent funds of the renewal grant must be returned to the BMGF. The Foundation expects to fully-expend all renewal grant funds, and any income thereon, prior to June 30, 2019.

(IN THOUSANDS)

NOTE 8 FEDERAL TAXES AND DISTRIBUTION REQUIREMENTS

Federal Excise Taxes

The Foundation is subject to a 2% excise tax on its taxable investment income, which 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)(1).

Deferred federal excise taxes based on the 2% rate are computed on the differences between the carrying value and tax basis of the Foundation's investments, as well as temporary differences in income recognition.

The composition of federal excise tax is as follows for the years ended December 31:

	2018	2017
Provision:		
Current	$ 3,109	$ 4,047
Deferred	(4,143)	2,745
Total	$ (1,034)	$ 6,792
Receivable (Liability):		
Current	$ (335)	$ (601)
Deferred	(3,786)	(7,930)
Total	$ (4,121)	$ (8,531)

Distribution Requirements

The Foundation is subject to distribution requirements of the IRC. Accordingly, it must distribute, within one year after the end of each fiscal year, 5% of the fair market value of its investment assets, as defined. The investments includable for the 5% distribution requirement are exclusive of those investments deemed to be held for charitable activities (representing 1.5% of the investments) or other program related investments. Qualifying distributions are determined on a cash basis and include grant payments and certain other expenses incurred by the Foundation.

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 minimal amounts of unrelated business income. The payments made for income taxes relating to unrelated business income was $107 and $7 in 2018 and 2017, respectively.

(IN THOUSANDS)

NOTE 9 GRANTS – PAID AND PAYABLE

Grant commitments are recognized in the year authorized by the Foundation's board of directors. Unpaid grants at December 31, 2018 and 2017, represent the present value of multi-year grants that are payable from 2018 to 2023. Present value is determined using a discount rate of 5.0% in 2018 and 4.1% in 2017. Total amount of grant funding was $89,151 and $90,858 in 2018 and 2017, respectively.

The timing of unpaid grants is as follows as of December 31:

	2018	2017
Less than One Year	$ 44,655	$ 40,712
One Year to Five Years	23,268	25,117
Present Value Discount	(1,730)	(1,953)
Total	$ 66,193	$ 63,876

NOTE 10 RELATED PARTIES

The Foundation has agreed to provide grants to The McKnight Endowment Fund for Neuroscience (the Fund) annually through 2023, for the purpose of funding and administering neuroscience awards. The Foundation, which the Fund relies upon for grant funding, has the ability to appoint two of the ten members of the Fund's board of directors. During 2018 and 2017, $3,699 and $3,718 of grants were paid to the Fund, respectively. Grants to be paid to the Fund are included in Note 9 and are as follows as of December 31:

	2018	2017
Less than One Year	$ 3,875	$ 3,875
One Year to Five Years	12,156	15,855
Present Value Discount	(946)	(1,457)
Total	$ 15,085	$ 18,273

Pursuant to an administrative agreement, the Fund reimbursed the Foundation $100 for each of the years ended December 31, 2018 and 2017, for administrative services provided by the Foundation.

During the year, grants have been approved and disbursed to organizations in which some of the board members may be involved. It is the Foundation's policy to have each board member disclose any potential conflict of interest. These board members are prohibited from voting on grants to these organizations in those instances.

During the year, payments have been made to board members for their services as board members.

(IN THOUSANDS)

NOTE 11 LIQUIDITY AND AVAILABILITY

In accordance with the Internal Revenue Service requirements for private foundations, the Foundation must annually payout a minimum of 5% of the average fair value of its investment assets for the preceding year for charitable and administrative purposes. The Foundation meets this requirement by providing operating income through investments while safeguarding principal.

The Foundation structures its financial assets to provide sufficient liquidity to pay its grants, general expenditures, liabilities, and other obligations as they come due. The Foundation's investment policy stipulates that asset allocation must allow for fixed income or cash investments that limit volatility and provide liquidity for the Foundation’s spending needs. It further stipulates that a manager’s liquidity profile will be understood upon hire. To achieve this, the organization forecasts its future cash flows annually and monitors its liquidity on a weekly basis. Aside from maintaining a majority of the endowment assets in investments having liquidity of less than 30 days, the Foundation targets a 12% allocation to highly liquid fixed income and cash investments to be used as a source of liquidity if needed. Also as part of its liquidity management, the Foundation invests cash balances in excess of daily requirements with a manager that overlays idle cash with potentially higher returning instruments having daily liquidity. In addition, liquidity of each asset class within the current overall asset allocation is reported quarterly by its investment consultant.

The following table summarizes the Foundation's financial assets available for general expenditure and grant obligations within one year after December 31, 2018.

Cash and Cash Equivalents	$	6,146
Investments		802,275
Investments - Cash and Short-Term Investments		153,283
Program Related Investments, Less than One Year		5,000
Accrued Interest and Dividends Receivable		1,944
Total	$	968,648