

THE MCKNIGHT FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022



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INDEPENDENT AUDITORS' REPORT

Finance and Audit Committee
The McKnight Foundation
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The McKnight Foundation, which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The McKnight Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The McKnight Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 McKnight Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The McKnight Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 19, 2024

THE MCKNIGHT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
ASSETS		
Cash	\$ 876	\$ 1,601
Investments	2,612,373	2,477,134
Program-Related Investments	24,211	14,564
Investment Collateral	-	38,009
Net Due from Fiscal Agents for Securities with Settlements Pending	20,659	31,241
Accrued Interest and Dividends Receivable	1,893	1,497
Refundable Unrelated Business Income Tax	8	356
Operating Right-of-Use Asset	674	1,282
Other Assets	750	667
Total Assets	\$ 2,661,444	\$ 2,566,351
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable, Accrued Expenses, and Other Liabilities	\$ 2,379	\$ 2,233
Lease Liability - Operating	720	1,361
Unpaid Grants (Net)	85,376	79,545
Payable Under Investment Loan Agreement	-	38,009
Federal Excise Tax	8,081	8,428
Total Liabilities	96,556	129,576
NET ASSETS		
Without Donor Restrictions:		
Undesignated	2,548,325	2,421,951
Board-Designated	16,563	14,824
Total Net Assets	2,564,888	2,436,775
Total Liabilities and Net Assets	\$ 2,661,444	\$ 2,566,351

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND GAINS		
Investment Income (Loss), Net of Fees and Direct Expenses	\$ 269,372	\$ (429,373)
Miscellaneous Income	111	208
Total Revenue and Gains (Losses)	269,483	(429,165)
EXPENSES		
Program	129,714	167,204
Management and General	11,656	3,684
Total Expenses	141,370	170,888
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	128,113	(600,053)
Net Assets - Beginning of Year	2,436,775	3,036,828
NET ASSETS - END OF YEAR	\$ 2,564,888	\$ 2,436,775

See accompanying Notes to Financial Statements.

**THE MCKNIGHT FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)**

	2023		
	Program	Management and General	Total
Grants	\$ 115,585	\$ -	\$ 115,585
Salaries, Wages, and Benefits	7,298	5,000	12,298
Services and Professional Fees	4,616	2,238	6,854
Meetings and Travel	800	521	1,321
Facility and Occupancy	371	312	683
Other Operating Costs	622	844	1,466
Depreciation and Amortization	422	355	777
Taxes	-	2,386	2,386
	<u>\$ 129,714</u>	<u>\$ 11,656</u>	<u>\$ 141,370</u>
Total Expenses by Function	<u>\$ 129,714</u>	<u>\$ 11,656</u>	<u>\$ 141,370</u>

	2022		
	Program	Management and General	Total
Grants	\$ 155,473	\$ -	\$ 155,473
Salaries, Wages, and Benefits	6,135	4,488	10,623
Services and Professional Fees	3,622	3,544	7,166
Meetings and Travel	566	395	961
Facility and Occupancy	419	375	794
Other Operating Costs	591	678	1,269
Depreciation and Amortization	398	357	755
Taxes	-	(6,153)	(6,153)
	<u>\$ 167,204</u>	<u>\$ 3,684</u>	<u>\$ 170,888</u>
Total Expenses by Function	<u>\$ 167,204</u>	<u>\$ 3,684</u>	<u>\$ 170,888</u>

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 128,113	\$ (600,053)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
(Gain) Loss on Investments	(255,200)	432,825
Lease Transition Adjustment	-	79
Discount on Program-Related Investments	489	47
Change in Discount on Unpaid Grants	991	(4,961)
Deferred Tax Provision (Benefit)	322	(7,811)
Changes in Operating Assets and Liabilities:		
Accrued Interest and Dividends Receivable	(396)	(105)
Net Due from Fiscal Agents for Securities with Settlements Pending	10,582	(31,241)
Program Related Investments Receivable	(7,950)	200
Refundable Unrelated Business Income Tax	348	(176)
Other Assets	(83)	(48)
Accounts Payable, Accrued Expenses, and Other Liabilities	146	38
Lease Liability	(33)	-
Unpaid Grants	4,840	40,656
Federal Excise Tax	(669)	(838)
Net Cash Used by Operating Activities	(118,500)	(171,388)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Purchased	(1,170,251)	(923,659)
Investment Sales and Maturities	1,288,026	1,096,335
Net Cash Provided by Investing Activities	117,775	172,676
NET INCREASE (DECREASE) IN CASH	(725)	1,288
Cash - Beginning of Year	1,601	313
CASH - END OF YEAR	\$ 876	\$ 1,601
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Federal Excise Taxes Paid	\$ 1,569	\$ 1,500
Unrelated Business Income Taxes Paid	\$ 350	\$ 9

See accompanying Notes to Financial Statements.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

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 acts as a funder, convener, thought leader, and as an employer, economic entity, and institutional investor. It uses all its resources and leverages all forms of capital, including social investment and philanthropic risk capital to realize its mission. It leverages a robust toolkit that includes grantmaking, collaboration, policy reform, research, strategic communications, and investments. The Foundation's grantmaking priorities include Vibrant & Equitable Communities, Midwest Climate & Energy, Arts & Culture, Global Collaboration for Resilient Food Systems, and Neuroscience.

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 5% 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. The Foundation had no restricted net assets at December 31, 2023 and 2022.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

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, including those held at the equity method, 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.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

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, 2023 and 2022, 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.

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.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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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.

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.

Leases

The Foundation leases office space and equipment and determines if an arrangement is a lease at inception. Operating leases are included in operating right-of-use (ROU) assets and lease liability – operating on the statements of financial position.

ROU assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less, or with an aggregate lease amount of less than \$5,000 as expense as incurred and these leases are not included as lease liabilities or ROU assets on the statements of financial position.

The lease contract does not provide information about the discount rate implicit in the lease. Therefore, the Foundation has elected to use an incremental borrowing rate which is the rate at which the Foundation would pay to borrow on a collateralized basis over a similar term to purchase the leased asset.

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

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

Adoption of New Accounting Standard

The Foundation has adopted Financial Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Foundation adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on The Foundation’s financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

The Foundation has evaluated events and transactions for potential recognition or disclosure in these financial statements through August 19, 2024, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS

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

	2023	2022
Investments:		
Cash and Short-Term Investments	\$ 19,277	\$ 36,203
Equity Securities	1,045,160	979,395
Corporate Debt Securities	132,834	107,735
Commingled Fund	100,628	-
Government Securities	56,930	96,122
Absolute Return	91,938	169,210
Securities Loaned to Broker	-	37,043
Private Investments	1,050,214	944,541
Hedge Fund	115,392	106,885
Total Investments	\$ 2,612,373	\$ 2,477,134

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

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, 2023 and 2022, 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.

<u>December 31, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity Securities:				
Domestic	\$ 276,196	\$ -	\$ -	\$ 276,196
Corporate Debt Securities	-	127,729	-	127,729
Government Securities	-	56,930	-	56,930
Absolute Return	-	-	-	-
Investment Subtotal	<u>\$ 276,196</u>	<u>\$ 184,659</u>	<u>\$ -</u>	460,855
Cash and Short-Term Investments				19,277
Investments Measured at Net Asset Value or its Equivalent				1,896,654
Investments at Equity Method				233,014
Direct Investments Held at Cost				2,573
Total Investments				<u>\$ 2,612,373</u>
Investment Collateral	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity Securities:				
Domestic	\$ 276,960	\$ -	\$ -	\$ 276,960
Corporate Debt Securities	9,425	93,422	-	102,847
Government Securities	278	95,844	-	96,122
Securities Loaned to Brokers	-	37,043	-	37,043
Absolute Return	91,190	-	-	91,190
Investment Subtotal	<u>\$ 377,853</u>	<u>\$ 226,309</u>	<u>\$ -</u>	604,162
Cash and Short-Term Investments				36,203
Investments Measured at Net Asset Value or its Equivalent				1,700,755
Investments at Equity Method				133,441
Direct Investments Held at Cost				2,573
Total Investments				<u>\$ 2,477,134</u>
Investment Collateral	<u>\$ -</u>	<u>\$ 38,009</u>	<u>\$ -</u>	<u>\$ 38,009</u>

THE MCKNIGHT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Inputs (Continued)

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:

<u>December 31, 2023</u>	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Securities	\$ 627,888	\$ -	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Corporate Debt Securities	5,105	-	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Commingled Fund	100,628	-	Quarterly	Two Days Prior to Opening Date
Private Investments	1,047,641	485,881	N/A	N/A
Hedge Fund	115,392	-	Quarterly	45-95 Days Prior to Opening Date
Total	<u>\$ 1,896,654</u>	<u>\$ 485,881</u>		

<u>December 31, 2022</u>	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Securities	\$ 647,014	\$ -	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Corporate Debt Securities	4,888	-	Ranges from Weekly to Quarterly	Two Days Prior to Opening Date
Private Investments	941,968	551,424	N/A	N/A
Hedge Fund	106,885	-	Quarterly	45-95 Days Prior to Opening Date
Total	<u>\$ 1,700,755</u>	<u>\$ 551,424</u>		

In addition to the unfunded commitments noted above, the Foundation has entered into investment commitments of \$63 million since December 31, 2023. \$5.1 million has been called on these funds since December 31, 2023.

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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Inputs (Continued)

Commingled fund includes a common trust fund that invests in a broadly diversified portfolio of credit instruments primarily in high-yielding credit sectors; including high yield corporate bonds, bank loans, emerging markets debt, securitized debt, investment grade credit, convertible bonds, and high-yielding structured finance debt. They value their investments daily but impose certain liquidity restrictions on investors through quarterly fund openings. Investing in commingled funds provides diversification, dividend income, and growth potential to the overall portfolio.

Private investments includes private equity 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.

In addition, private investments also includes other alternative investments including limited partnerships in real assets funds (natural resources, real estate, etc.), and private debt funds. 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.

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.

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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 losses of approximately \$278 and \$2,963 were recognized for the years ended December 31, 2023 and 2022, 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 67 and 204 contracts outstanding and contract exposure amounts of \$9,250 and \$27,196 as of December 31, 2023 and 2022, respectively. The net fair value of the contract position is included in the Foundation's investment portfolio.

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 securities lending agreement was terminated during the year ending December 31, 2023.

The fair market value of securities on loan was \$-0- and \$37,043 as of December 31, 2023 and 2022, respectively. The Foundation reflects the collateral received for securities on loan as an asset on its statements of financial position and its obligation to return the collateral as a liability on its statements of financial position. An asset of approximately \$-0- and \$38,009, and the related liability representing the obligation to return collateral received of \$-0- and \$38,009 are reflected on the statements of financial position as of December 31, 2023 and 2022, respectively. Net investment earnings for the securities lending activity was \$52 and \$126 for the years ended December 31, 2023 and 2022, respectively.

**THE MCKNIGHT FOUNDATION
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NOTE 6 PROGRAM-RELATED INVESTMENTS

Loan 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. The allowance for credit losses is a valuation account that is deducted from the program-related investment balance to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan program-related investment is confirmed. The allowance for credit losses represents management's estimate of lifetime credit losses inherent in program-related investments as of the statements of financial position date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Foundation measures expected credit losses for program-related investments on an individual basis. Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations and trends in underlying collateral.

An allowance for program related investments is established based on an annual review by the Foundation of the status of all program-related investments. If the Foundation determines that a specific program-related investment should have an allowance the Investment Committee is informed. No allowances were recorded at December 31, 2023 and 2022. Total loans outstanding at December 31, 2023 and 2022 were \$22,025 and \$14,564, respectively, none of which were past due.

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

	<u>2023</u>	<u>2022</u>
Less than One Year	\$ -	\$ -
One Year to Five Years	4,500	-
Greater than Five Years	20,189	16,739
Present Value Discount	(2,664)	(2,175)
Total	<u>\$ 22,025</u>	<u>\$ 14,564</u>

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NOTE 6 PROGRAM-RELATED INVESTMENTS (CONTINUED)

Loan Program-Related Investments (Continued)

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

	2023	2022
Program Related Investments	\$ 24,689	\$ 16,739
Less Discounts:		
Beginning of Year	(2,175)	(2,128)
(Increases) Decreases	(489)	(47)
End of Year	(2,664)	(2,175)
Total Program-Related Investments, Net	\$ 22,025	\$ 14,564

Equity Interest Program-Related Investments

The Foundation has a total equity interest of \$2,186 and \$345 in three and one for-profit organizations at December 31, 2023 and 2022, respectively. The purpose of these equity interests is to fund projects that fulfill the charitable purposes of the Foundation. All equity interests are carried at cost and no impairment loss has been recognized during the year ended December 31, 2023.

At December 31, 2023 and 2022, there were \$8,397 and \$10,761, respectively, in approved program-related investments that were not yet drawn upon.

Subsequent to year-end, the Foundation has entered into two new program-related investment commitments that total \$3.6 million of which \$2.2 million has been advanced.

NOTE 7 FEDERAL TAXES AND DISTRIBUTION REQUIREMENTS

Federal Excise Taxes

The Foundation is subject to a 1.39% excise tax on its taxable investment income, which includes income from investments plus net realized capital gains (net capital losses, however, are not deductible).

Deferred federal excise taxes are based on a rate of 1.39% and 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 tax liabilities and expense is as follows for the years ended December 31:

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NOTE 7 FEDERAL TAXES AND DISTRIBUTION REQUIREMENTS (CONTINUED)

	2023	2022
Provision:		
Current	\$ 2,064	\$ 1,658
Deferred	322	(7,811)
Total	\$ 2,386	\$ (6,153)
Receivable (Liability):		
Current	\$ 178	\$ (490)
Deferred	(8,259)	(7,938)
Total	\$ (8,081)	\$ (8,428)

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 \$350 and \$9 in 2023 and 2022, respectively.

NOTE 8 GRANTS – PAID AND PAYABLE

Grant commitments are recognized in the year authorized by the Foundation's board of directors unless conditions imposed on the grantee have not yet been fulfilled. Such conditional grants are recorded when the conditions have been substantially met. Unconditional unpaid grants at December 31, 2023 and 2022, represent the present value of multi-year grants that are payable from 2023 to 2032. Present value is determined using a discount rate of 5.75% in 2023 and 3.00% in 2022. Total amount of grant funding was \$108,648 and \$119,367 in 2023 and 2022, respectively.

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

	2023	2022
Less than One Year	\$ 44,099	\$ 36,299
One Year to Five Years	33,069	30,736
Greater than Five Years	12,504	17,797
Present Value Discount	(4,296)	(5,287)
Total	\$ 85,376	\$ 79,545

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NOTE 9 RELATED PARTIES

The Foundation has agreed to provide grants to The McKnight Endowment Fund for Neuroscience (the Fund) annually through 2032, for the purpose of funding and administering neuroscience awards. The Foundation, which the Fund relies upon for grant funding, has the ability to appoint three of the eleven members of the Fund's board of directors. During 2023 and 2022, \$3,801 and \$3,766 of grants were paid to the Fund, respectively. Grants to be paid to the Fund are included in Note 8 and are as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Less than One Year	\$ 3,801	\$ 3,801
One Year to Five Years	16,403	16,403
Greater than Five Years	13,996	17,797
Present Value Discount	(3,458)	(4,613)
Total	<u>\$ 30,742</u>	<u>\$ 33,388</u>

Pursuant to an administrative agreement, the Fund reimbursed the Foundation \$100 for each of the years ended December 31, 2023 and 2022, 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.

NOTE 10 LIQUIDITY AND AVAILABILITY

In accordance with the IRS 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.

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NOTE 10 LIQUIDITY AND AVAILABILITY (CONTINUED)

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, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Cash	\$ 876	\$ 1,601
Investments	460,855	642,171
Investments - Cash and Short-Term Investments	19,277	36,203
Net Due from Fiscal Agents for Securities with Settlements Pending	20,659	31,241
Accrued Interest and Dividends Receivable	1,893	1,497
Total	<u>\$ 503,560</u>	<u>\$ 712,713</u>

NOTE 11 LEASES

The Foundation has an operating lease for space that has incremental payments between \$54 and \$56 and an expiration date of June 2025. The lease also includes additional costs for common area maintenance costs. For the years ended December 31, 2023 and 2022, total rent expense was \$1,002 and \$1,081, respectively.

The following table provides quantitative information relating to the Foundation's lease for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Lease Cost:		
Operating Lease Costs	<u>\$ 657</u>	<u>\$ 657</u>
Total	<u>\$ 657</u>	<u>\$ 657</u>
Other Information:		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Operating Leases	\$ 662	\$ 652
Weighted Average Remaining Lease Term:		
Operating Leases	1.1 Years	2.1 Years
Weighted Average Discount Rate:		
Operating Leases	2.00%	2.00%

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NOTE 11 LEASES (CONTINUED)

A maturity analysis of annual discounted cash flows for lease liabilities as of December 31 is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2024	\$ 671
2025	56
Total Lease Payments	<u>727</u>
Less: Imputed Interest	<u>(7)</u>
Present Value of Lease Liabilities	<u><u>\$ 720</u></u>

During the year ended December 31, 2023, the Foundation signed a new lease agreement for a new office space with a commencement date of February 1, 2025 and an expiration of January 31, 2045. No lease payments are required to be made until February 1, 2026. The lease has incremental payments due between \$84 and \$144 with total lease payments of \$25,443 through maturity.

NOTE 12 LINE OF CREDIT

During the year ended December 31, 2023, the Foundation entered into a line of credit with borrowing capacity of up to \$100 million and matures on November 1, 2028. The interest rate on the line of credit is equal to the secured overnight financing rate plus 1.25% plus 0.10%. The Foundation has no balance outstanding on the line of credit at December 31, 2023.



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