

Mary Reynolds Babcock Foundation, Incorporated

Financial Report
December 31, 2018

Mary Reynolds Babcock Foundation, Incorporated

2018 Directors

LaVeeda Battle
Chad Berry
Ashleigh Gardere
Micah Gilmer
Jerry Gonzalez
Otis Johnson
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James Mitchell
Kara Mountcastle
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Laura Mountcastle
Mary Mountcastle
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2018 Officers

James Mitchell
President

Laura Mountcastle
Vice President

Kenneth Mountcastle, III
Treasurer

Jerry Gonzalez
Secretary

Justin Maxson
Executive Director

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Mary Reynolds Babcock Foundation, Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of Mary Reynolds Babcock Foundation, Incorporated, which comprise the statement of financial position as of December 31, 2018, the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Mary Reynolds Babcock Foundation, Incorporated as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the accompanying financial statements, Mary Reynolds Babcock Foundation, Incorporated adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during 2018. The adoption of the standard resulted in changes to the classification of net assets and additional footnote disclosures. The adoption was retrospectively applied to January 1, 2017, the earliest year presented in the summarized comparative information. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Mary Reynolds Babcock Foundation, Incorporated's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Greensboro, North Carolina
July 8, 2019

Mary Reynolds Babcock Foundation, Incorporated

Statement of Financial Position

December 31, 2018

(With Comparative Totals as of December 31, 2017)

	2018	2017
Assets		
Cash and cash equivalents (Notes 2 and 9)	\$ 8,430,445	\$ 5,843,018
Interest and dividends receivable	244,900	229,628
Contributions receivable (Note 3)	2,274,572	5,080,519
Prepaid expenses and other assets	83,631	71,567
Prepaid federal excise tax	57,065	227,567
Investments (Notes 4, 14 and 16)	163,065,822	184,973,211
Program-related investments (Note 5 and 14)	6,799,436	4,931,700
Beneficial interests in charitable remainder trusts (Notes 7 and 16)	951,996	1,023,635
Property and equipment, net (Notes 6 and 10)	526,455	546,780
	<u>\$ 182,434,322</u>	<u>\$ 202,927,625</u>
Total assets		
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 199,319	\$ 198,037
Unpaid grants	6,874,431	8,729,534
Deferred federal excise tax	221,023	358,930
Note payable (Note 10)	263,018	313,429
	<u>7,557,791</u>	<u>9,599,930</u>
Commitments (Note 14)		
Net assets:		
Without donor restrictions	171,031,900	189,980,499
With donor restrictions (Note 11)	3,844,631	3,347,196
	<u>174,876,531</u>	<u>193,327,695</u>
	<u>\$ 182,434,322</u>	<u>\$ 202,927,625</u>
Total liabilities and net assets		

See notes to financial statements.

Mary Reynolds Babcock Foundation, Incorporated

Statement of Activities

Year Ended December 31, 2018

(With Comparative Totals for Year Ended December 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, gains and losses:				
Uplift America grant revenue	\$ -	\$ 1,627,387	\$ 1,627,387	\$ 2,548,029
Investment return, net	(7,641,041)	-	(7,641,041)	36,411,428
Change in value of charitable remainder trusts (Note 7)	-	(71,639)	(71,639)	126,897
Other	630	-	630	31,608
	(7,640,411)	1,555,748	(6,084,663)	39,117,962
Net assets released from restrictions (Note 11)	1,058,313	(1,058,313)	-	-
Total revenue, gains and losses	(6,582,098)	497,435	(6,084,663)	39,117,962
Expenses:				
Grants awarded	9,140,619	-	9,140,619	7,729,955
Uplift America grants awarded	1,009,528	-	1,009,528	242,064
Grant making expenses	1,680,994	-	1,680,994	1,625,810
Operational support	426,244	-	426,244	412,251
Investment administration	109,116	-	109,116	105,534
Total expenses	12,366,501	-	12,366,501	10,115,614
Change in net assets	(18,948,599)	497,435	(18,451,164)	29,002,348
Net assets:				
Beginning of year	189,980,499	3,347,196	193,327,695	164,325,347
End of year	\$ 171,031,900	\$ 3,844,631	\$ 174,876,531	\$ 193,327,695

See notes to financial statements.

Mary Reynolds Babcock Foundation, Incorporated

Statement of Cash Flows

Year Ended December 31, 2018

(With Comparative Totals for Year Ended December 31, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (18,451,164)	\$ 29,002,348
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	32,629	32,314
Net depreciation (appreciation) in fair value of investments	9,183,531	(35,252,694)
Change in value of charitable remainder trusts	71,639	(126,897)
Deferred federal excise tax (benefit) expense	(137,907)	283,747
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	2,805,947	(448,029)
Interest and dividends receivable	(15,272)	5,950
Prepaid expenses and other assets	(12,064)	3,503
Prepaid federal excise tax	170,502	87,950
Increase (decrease) in:		
Accounts payable and accrued expenses	1,282	(37,858)
Unpaid grants	(1,855,103)	(2,708,120)
Net cash used in operating activities	(8,205,980)	(9,157,786)
Cash flows from investing activities:		
Proceeds from sales of investments	70,360,733	50,693,708
Purchases of investments	(57,646,518)	(42,330,983)
Proceeds from program-related investments	9,643	409,477
Purchases of program-related investments	(1,867,736)	(1,050,000)
Purchases of property and equipment	(12,304)	(52,088)
Net cash provided by investing activities	10,843,818	7,670,114
Cash flows used in financing activities:		
Payments on note payable	(50,411)	(48,643)
Net increase (decrease) in cash and cash equivalents	2,587,427	(1,536,315)
Cash and cash equivalents:		
Beginning	5,843,018	7,379,333
Ending	\$ 8,430,445	\$ 5,843,018

See notes to financial statements.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Mary Reynolds Babcock Foundation, Incorporated (the Foundation) is a nonprofit organization located in Winston-Salem, North Carolina. Its mission is to help people and places to move out of poverty and achieve greater social and economic justice in 11 Southern states. It supports collaborative, multi-strategy, place-based work focused on democracy and civic engagement, economic opportunity and supportive policies and institutions. The Foundation provides grants to nonprofit organizations that advance its mission and invests in program-related investments.

The Foundation helped establish and began managing the Uplift America Fund in 2016. The Uplift America Fund is part of a collaboration between banks, philanthropic organizations, community development organizations and the U.S. Department of Agriculture (USDA) to leverage federal resources, bank financing and private grants to target much-needed capital for community facilities to persistently low-wealth areas. The Uplift America Fund pools funding from philanthropic organizations to provide grants to community development organizations across the U.S. In partnership with the Uplift America Fund, the USDA provides loan funds to the community development organizations and banks provide loan guarantees. Grants from the Uplift America Fund provide an opportunity for experienced community lenders to deploy the USDA loan capital to areas of greatest need while building their capacity to address rural economic challenges. The Foundation manages the Uplift America Fund by receiving awards from other philanthropic organizations and granting those funds to the community development organizations in coordination with USDA and banks. These contributions are made in the form of grants, whereby the other philanthropic organizations, and not the Foundation, will report the contributions as qualifying distributions on their excise tax returns.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The accounts of the Foundation are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Basis of presentation: The Foundation follows the guidance provided by accounting principles generally accepted in the United States of America (U.S. GAAP) for preparation of its financial statements. In accordance with U.S. GAAP, the Foundation classifies its resources for accounting and reporting purposes as either net assets without donor restrictions or net assets with donor restrictions:

Net assets without donor restrictions: Resources of the Foundation that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts and the investment in property and equipment.

Net assets with donor restrictions: Resources that carry a donor-imposed restriction that permits the Foundation to use or expend the donated assets as specified for which the restrictions are satisfied by the passage of time or by actions of the Foundation. As those restrictions are met, the contributions are released from net assets with donor restrictions and are transferred to net assets without donor restrictions.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents: For purposes of the statement of cash flows, the Foundation considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Contributions receivable: Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value, which is measured as the present value of their future cash flows, and are subsequently amortized over the expected payment period. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments: Investments are presented in the financial statements at fair value determined in accordance with Topic 820, Fair Value Measurement, of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB ASC Topic 820 permits reporting entities, as a practical expedient, to estimate the fair value of their investments in certain entities that calculate net asset value (NAV) per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) by using NAV if the NAV per share (or its equivalent) of the investment is calculated in a manner consistent with the measurement principles of FASB ASC Topic 946, Financial Services – Investment Companies, as of the reporting entity's measurement date.

The Foundation elects to use NAV as a practical expedient to estimate the fair value of its equity funds. The investee managers calculate NAV using fair value estimates of the underlying securities and other financial instruments. The estimated fair values of these underlying investments, which may include private placements and other securities for which prices are not readily available, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's equity funds generally represent the amount the Foundation would expect to receive if it were to liquidate its investments, excluding any redemption charges that may apply.

Determining whether an investee fund manager has calculated NAV in a manner consistent with FASB ASC Topic 946 requires the Foundation to independently evaluate the fair value measurement process utilized to calculate the NAV. Such an evaluation is a matter of professional judgment and includes determining that an investee fund manager has an effective process and related internal controls in place to estimate the fair value of its investments that are included in the calculation of NAV. The Foundation's evaluation of the process used by investee fund managers includes initial due diligence, ongoing due diligence and financial reporting controls.

The Foundation's investments include various types of investment securities, which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term could materially affect amounts reported in the financial statements.

Investment transactions are recorded on the trade date. Interest income and expense are recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Notes receivable: Notes receivable, included in program-related investments, are recorded at total unpaid balance, net of allowance for doubtful accounts. The Foundation estimates any allowance for doubtful accounts by individual item based on a combination of factors, including the Foundation's knowledge of the current composition of receivables, historical losses and existing economic conditions. The Foundation considers a note receivable to be past due once a required principal payment has not been received on a timely basis. Receivables that management believes to be ultimately not collectible are written off upon such determination. The Foundation does not recognize interest income on impaired notes to the extent impairment impacts the amount the Foundation believes it will receive from interest income. Any cash receipts from the maker of the note received are recorded against outstanding interest due first and then against the principal of the note. There were no allowances for credit losses related to notes receivable as of December 31, 2018.

The Foundation uses an internal credit risk grade as its primary credit quality indicator for notes receivable. The Foundation assesses changes to its ratings for each note receivable at each reporting date. These ratings are developed based upon management's judgment about the likelihood of loss on a particular instrument.

Property and equipment: The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are expensed when incurred. When items of property or equipment are sold or retired, the cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in the change in net assets.

Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives are 40 years for the buildings, 8-15 years for building improvements and 3-10 years for furniture, fixtures and equipment.

Unpaid grants: Unpaid grants represent all unconditional grants that have been awarded prior to year-end, that remain unpaid as of the statement of financial position date. All grants are payable in one to five years.

Tax status: The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, accordingly, is not subject to federal income tax. However, as a private charitable foundation, it is subject to federal excise tax on its net investment income, including realized gains on securities and investment transactions. Deferred federal excise tax is provided for net unrealized appreciation on investments that have been recognized in the financial statements. Excise taxes are included as direct investment expenses and are presented net of investment return in the statement of activities.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements.

Reclassifications: Certain prior year amounts have been reclassified when necessary for conformity with classifications adopted in the current year. These reclassifications have no effect on the change in net assets or total net assets of prior years.

Subsequent events: The Foundation has evaluated subsequent events (events occurring after December 31, 2018) through July 8, 2019, the date the financial statements were available to be issued.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this Update make several improvements to reporting requirements including changes to net asset classification and requiring additional disclosures related to various not-for-profit issues. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and should be applied retrospectively upon adoption, with certain limited exceptions. The Foundation adopted the provisions of ASU 2016-14 for 2018 and retrospectively applied the changes to the 2017 summary comparative information, where required. Implementation of this guidance resulted in a change in presentation of net assets, investment return and investment expenses and additional disclosures surrounding the Foundation's liquidity and functional expenses.

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*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Foundation is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where the Foundation is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this guidance on its financial statements.

Note 2. Cash and Cash Equivalents

The short-term investment funds on deposit with investment advisors are included in cash and cash equivalents on the statements of financial position. These funds, held for investment purposes only, amounted to \$6,514,191 as of December 31, 2018.

Note 3. Contributions Receivable

Contributions receivable consist of unconditional promises to give in the form of grants from other foundations. As of December 31, 2018, contributions receivable were due as follows:

Receivable in 2019	\$ 1,833,335
Receivable in 2020	500,000
Contributions receivable, gross	<u>2,333,335</u>
Less present value discount (rates from 1.47% – 1.89%)	<u>(58,763)</u>
	<u><u>\$ 2,274,572</u></u>

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 4. Investments

Investments as of December 31, 2018, consist of the following:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Equity securities	\$ 63,583,942	\$ 70,412,319	\$ 6,828,377
Mutual funds	7,410,497	7,877,143	466,646
Fixed income securities	32,482,380	31,816,315	(666,065)
Equity funds:			
Generation IM Global Equity Fund	31,864,643	33,637,909	1,773,266
Generation IM Asia LP	5,477,509	5,280,888	(196,621)
Responsible Global Emerging Market Equity	4,849,248	5,752,800	903,552
DBL Partners III LP	2,613,402	3,847,958	1,234,556
Generation IM Climate Solutions II	2,843,073	3,482,079	639,006
SJF Ventures IV	753,455	828,094	74,639
Illumen Capital	143,535	130,317	(13,218)
	<u>\$ 152,021,684</u>	<u>\$ 163,065,822</u>	<u>\$ 11,044,138</u>

Cost represents the original value at the time of purchase. For equity funds, cost is adjusted for the Foundation's proportionate share of income, expenses, gains and losses reported by the funds as well as any distributions from the funds.

The Foundation invests in a professionally managed portfolio that contains common shares and bonds of publicly-traded companies, U.S. government obligations, private equity or debt securities that are not publicly listed or traded, mutual funds and money market funds. Such investments are exposed to various risks, such as interest rate, market and credit risks. The investment portfolio is regularly reviewed and the extent of its diversification is considered in conjunction with other risk management and performance objectives.

The money managers of underlying investments in which the Foundation invests may utilize derivative instruments with off-balance-sheet risk. The Foundation's exposure to risk is limited to the amount of its investment. Investment management fees range from 0.15% to 2.50% of investment values. Performance fees may also apply when established benchmarks are attained.

Note 5. Mission Investing

The Foundation seeks to align its investments with its values and mission. The Foundation does this in two ways: below-market program-related, or programmatic, investments (PRIs) and market-rate environmental/social/governance (ESG) investments.

PRIs, as defined in IRC 4944(c), have a primary purpose of advancing the mission of the Foundation without a significant purpose of the production of income or the appreciation of property. PRIs are treated as charitable distributions on Internal Revenue Service form 990-PF, the tax and information return filed by private foundations for minimum-distribution requirement purposes. The Foundation's current PRIs consist of below-market certificates of deposit, limited partnership interests in community development venture funds, an uninsured deposit in a credit union, a real estate fund and notes receivable from community development revolving loan funds. PRIs are presented net of \$500,000 of other than temporary impairments as of December 31, 2018. The Foundation expects to hold all PRIs to maturity.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 6. Property and Equipment

Property and equipment is summarized as follows at December 31, 2018:

Land	\$	67,000
Building		610,099
Building improvements		83,306
Furniture, fixtures and equipment		229,362
		<hr/>
		989,767
Less accumulated depreciation		463,312
		<hr/>
	\$	<u>526,455</u>

Note 7. Charitable Remainder Trusts

A charitable remainder trust provides for payments to the grantor or other designated beneficiaries over the trust's term. The terms of the charitable remainder trusts, which name the Foundation as a remainder beneficiary, are the lifetimes of the respective distribution recipients. At the end of the respective trust's term, the remaining assets in which the Foundation has an interest will be distributed to the Foundation.

Upon receipt of a beneficial interest in a charitable remainder trust, the fair value, which is measured at the present value of such interest, is recorded as contribution revenue. The annual change in the fair value of the beneficial interest is recorded as a change in value of charitable remainder trusts in the statement of activities. Such valuations are based on estimated mortality rates and other assumptions that could change in the near term. The discount rate used in the calculation was 2.87% for 2018.

Note 8. Distribution of Income

The minimum amount required to be distributed by the Foundation during the year ended December 31, 2018, computed in accordance with the minimum distribution requirements of the IRC, was approximately \$9,221,000.

At December 31, 2018, the Foundation had excess contributions carryover of approximately \$6,674,000.

Note 9. Concentration of Credit Risk

The Foundation routinely maintains demand deposits and certificates of deposit with financial institutions in amounts that exceed federally insured limits. In addition, the Foundation, from time to time, invests in short-term investment funds issued by commercial banks that are uninsured or exceed federally insured limits. The Foundation has not suffered any credit losses related to such deposits and investments.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 10. Note Payable

Note payable consists of a note payable to bank with payments of principal and interest at 3.25% of \$4,985 due monthly through September 2023 and is collateralized by the Foundation's land and building. Maturities of principal for subsequent years ending December 31 are as follows:

2019	\$	52,064
2020		53,781
2021		55,555
2022		57,388
2023		44,230
	\$	<u>263,018</u>

Note 11. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018, consist of purpose restrictions of \$2,892,635 for the Uplift America Fund and time restrictions of \$951,996 related to the beneficial interests in charitable remainder trusts. Net assets with donor restrictions released from restrictions during 2018 were \$1,058,313 for purpose restrictions satisfied through the Uplift America Fund.

Note 12. Retirement Benefits

The Foundation has a defined contribution retirement plan covering substantially all employees under arrangements with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund, which provides for the purchase of annuities for employees. Retirement plan expense was \$88,193 for the year ended December 31, 2018.

Note 13. Related Party Transactions

The Foundation has a conflict of interest policy that requires any director or member of management to abstain from participating in a decision when that director or member of management has a conflict of interest.

Several of the Foundation's directors and employees are associated with other organizations to which the Foundation makes grants. The total amount awarded to these organizations was \$1,215,000 in 2018. The Foundation had \$750,000 in PRIs as of December 31, 2018, with organizations with which board members were associated. No director receives any direct benefit from the Foundation associated with these transactions.

Note 14. Commitments

At December 31, 2018, the Foundation had approved and committed additional investments of approximately \$12,818,000 in private equity funds and \$882,265 for program-related investments.

In addition to the unpaid grants recorded in the statements of financial position, the Foundation also has approved grants subject to conditions. These conditional grants are not reflected in the financial statements at December 31, 2018. However, when the respective grantees meet the conditions specified in the grant agreements, the Foundation will recognize expense for the grants awarded and a liability for the unpaid grants relative to the conditions that are met. At December 31, 2018, there were 13 conditional grants outstanding totaling \$5,340,247, of which 12 grants totaling \$5,315,247 related to Uplift America funds.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 15. Liquidity

The Foundation regularly monitors liquidity required to meet its operating needs, grants and other commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal including cash, cash equivalents, and marketable debt and equity securities. The Foundation's investment objective is to preserve and enhance the real purchasing power of its investment fund while providing a relatively predictable, stable and constant stream of returns in line with the Foundation's spending requirements. The objective is achieved by employing environmental, social and governance criteria across the entire investment fund. The current spending policy establishes a goal of spending 5.5% of a 12-quarter moving average of the market value of the investment fund. However, the board may adjust the spending percentage at its discretion and the board may approve grants not subject to the spending policy. The board approved a 7.1% spending rate for 2019, including grants awarded outside of spending policy.

The following table summarizes the Foundation's financial assets available for general expenditures within one year after December 31, 2018. General expenditures do not include payments of Uplift America expenses covered by restricted grants received from other foundations.

Financial assets:

Cash and cash equivalents	\$ 8,430,445
Accounts receivable	5,961
Interest and dividends receivable	244,900
Contributions receivable	2,274,572
Investments	163,065,822
Program-related investments	6,799,436
Beneficial interests in charitable remainder trusts	951,996
	<u>181,773,132</u>
Less amounts not available to be used within one year:	
Restricted by donor for availability or purpose	2,892,635
Beneficial interests in charitable remainder trusts	951,996
Investments and program-related investments held for long term	165,338,388
	<u>169,183,019</u>
Financial assets available to meet general expenditures within one year	<u>\$ 12,590,113</u>

Note 16. Fair Value Measurements

The carrying values of cash and cash equivalents, receivables, payables and unpaid grants approximate their estimated fair value due to their short-term maturity or retirement.

The fair value of PRIs approximates the carrying amounts as yields on these investments are not significantly different than market yields for these types of investments. The fair value of the note payable approximates the carrying amount as the interest rate on the obligation is not significantly different than market rates.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 16. Fair Value Measurements (Continued)

FASB ASC 820, Fair Value Measurement, establishes a framework for measuring fair value. That framework provides a 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 the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are 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 asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining fair value, the Foundation uses valuation approaches within the FASB ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Equity securities and mutual funds: Equity securities and mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Fixed income securities: Investments in debt securities include corporate bonds and funds and government and government agency obligation bonds and funds. Certain bond funds are listed on national markets or exchanges and are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. All other fixed income investments are valued using market observable data, such as reported sales of similar securities, broker quotes, yields, bids, offers and reference data, and are classified within Level 2 of the hierarchy.

Beneficial interest in charitable remainder trusts: Fair value is determined using the income approach based on estimated cash flows, mortality and discounts rates.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 16. Fair Value Measurements (Continued)

The following table sets forth, by level within the fair value hierarchy, the Foundation's assets measured at fair value subsequent to initial recognition on a recurring basis at December 31, 2018:

Description	Level 1	Level 2	Level 3	Total
Equity securities:				
Large cap	\$ 56,212,763	\$ -	\$ -	\$ 56,212,763
Small/mid cap	14,199,556	-	-	14,199,556
Mutual funds:				
Global environmental	7,877,143	-	-	7,877,143
Fixed income securities:				
U.S. government	-	14,315,827	-	14,315,827
State and local	-	4,811,750	-	4,811,750
Corporate	-	12,688,738	-	12,688,738
	78,289,462	31,816,315	-	110,105,777
Equity funds (a)				52,960,045
Total investments	78,289,462	31,816,315	-	163,065,822
Beneficial interest in charitable remainder trusts				
	-	-	951,996	951,996
	\$ 78,289,462	\$ 31,816,315	\$ 951,996	\$ 164,017,818

- (a) In accordance with the Fair Value Measurements topic, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified 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 statement of financial position.

The following table sets forth attributes related to the nature and risk of equity funds whose fair value is estimated using NAV per share (or its equivalent) practical expedient as of December 31, 2018:

		Fair Value Estimated Using NAV Per Share				
		Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Notice Period
Generation IM Global Equity	(a)	\$ 33,637,909	\$ -	Quarterly	(a)	30 days
Generation IM Asia LP	(b)	5,280,888	-	Quarterly	(b)	90 days
Responsible Global						
Emerging Market Equity	(c)	5,752,800	-	Monthly	(c)	30 days
DBL Partners III	(d)	3,847,958	2,586,216			
Generation IM Climate						
Solutions II	(e)	3,482,079	2,280,000			
SJF Ventures IV	(f)	828,094	2,100,000			
Illumen Capital	(g)	130,317	851,493			
Generation IM Sustainable						
Solutions III	(h)	-	5,000,000			
		\$ 52,960,045	\$ 12,817,709			

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 16. Fair Value Measurements (Continued)

- (a) The fund's investment objective is to generate long-term capital appreciation by investing in long-only concentrated portfolio of global equity securities. The fund's investment strategy integrates sustainability research within a fundamental equity analysis framework. The fund invests in the securities of U.S. and foreign issuers. The fund will not invest in equity securities not listed on an exchange; however, it may invest up to 5% of its assets in such securities when the securities are expected to be listed on an exchange within 12 months. The fund's investments are fully redeemable only after the first anniversary of the date of initial contribution. Withdrawals can be made on a quarterly basis; however, withdrawals may be limited to 25% of the fund's NAV during any such quarter.
- (b) The fund's investment objective is to generate long-term capital appreciation by investing in long-only concentrated portfolio of equity securities of Asian companies. Asian companies include companies having their registered office in an Asian country, companies listed on a stock exchange or market in an Asian country, companies established and/or listed on a stock exchange outside of an Asian country that generate or are expected to generate a significant proportion of their revenues and/or operating profits from Asian companies. The fund's investments are fully redeemable only after the first anniversary of the date of the initial contribution. The minimum withdrawal is \$500,000 and no partial withdrawal shall reduce the investment to less than \$1 million without prior consent of the fund's general partner.
- (c) The fund's investment objective is to meet or exceed the return of the MSCI Emerging Markets Index over a three to five year time horizon, while seeking to invest in companies that contribute to or benefit from the sustainable economic development of the emerging markets countries. The fund's investments are fully redeemable; however, partial redemptions may be refused if, immediately after the redemption, the value of the remaining investment is less than the minimum holding of \$1 million.
- (d) The private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The partnership's objective is to provide investors the opportunity to realize significant long-term capital appreciation by investing in securities of every kind (including but not limited to stocks, notes, bonds and debentures) in companies that achieve a double bottom line: long-term financial returns as well as positive social, environmental and economic impact. Under the terms of the agreement, the Foundation is required to provide funding, up to the total amount committed by the Foundation, when capital calls are made by the fund manager. The partnership has a stated maturity date, but provides for annual extensions for the purposes of disposing of remaining portfolio and returning capital to the investors. Alternatively, the fund may terminate early in certain circumstances with each investor receiving its share of the investment in accordance with the partnership agreement. While the timing and amount of capital calls and distributions in any particular year are inherently uncertain, the Foundation takes these factors into consideration when allocating to private investments and believes that it has adequate liquidity to meet its obligations.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 16. Fair Value Measurements (Continued)

- (e) The private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The partnership's investment objective is to generate attractive long-term, risk-adjusted returns by investing in small cap investments and private investments. Under the terms of the agreement, the Foundation is required to provide funding, up to the total amount committed by the Foundation, when capital calls are made by the fund manager. The partnership has a stated maturity date, but provides for annual extensions for the purposes of disposing of remaining portfolio and returning capital to the investors. Alternatively, the fund may terminate early in certain circumstances with each investor receiving its share of the investment in accordance with the partnership agreement. While the timing and amount of capital calls and distributions in any particular year are inherently uncertain, the Foundation takes these factors into consideration when allocating to private investments and believes that it has adequate liquidity to meet its obligations.
- (f) The private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The fund is an expansion-stage venture capital fund that seeks superior financial returns by investing in high growth, positive impact companies. Under the terms of the agreement, the Foundation is required to provide funding, up to the total amount committed by the Foundation, when capital calls are made by the fund manager. The partnership has a stated maturity date, but provides for annual extensions for the purposes of disposing of remaining portfolio and returning capital to the investors. While the timing and amount of capital calls and distributions in any particular year are inherently uncertain, the Foundation takes these factors into consideration when allocating to private investments and believes that it has adequate liquidity to meet its obligations.
- (g) The private equity fund of funds is focused on investing in impact-generating private funds including venture, growth, private equity and private debt impact funds. The fund seeks to identify, invest in, and add value to the top fund managers who have demonstrated sound, market-driven impact investment strategies. The fund will invest into a diversified set of private funds targeting managers who invest in companies addressing social challenges including increasingly inequitable healthcare systems, education systems, clean energy systems, financial systems, and markets created by race and gender bias and socioeconomic disparities. The fund will combine its investing activities with a research-based intervention process to help managers of underlying funds mitigate their implicit bias. Under the terms of the agreement, the Foundation is required to provide funding, up to the total amount committed by the Foundation, when capital calls are made by the fund manager. The partnership has a stated maturity date but provides for annual extensions. While the timing and amount of capital calls and distributions in any particular year are inherently uncertain, the Foundation takes these factors into consideration when allocating to private investments and believes it has adequate liquidity to meet its obligations.
- (h) The private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The partnership's investment objective is to generate long-term, risk-adjusted returns by investing in growth-stage businesses focused on sustainability providing goods and services for a low-carbon, prosperous, equitable, healthy and safe society. Under the terms of the agreement, the Foundation is required to provide funding, up to the total amount committed by the Foundation, when capital calls are made by the fund manager. The partnership has a stated maturity date but provides for annual extensions for the purposes of disposing of remaining portfolio and returning capital to the investors. While the timing and amount of capital calls and distributions in any particular year are inherently uncertain, the Foundation takes these factors into consideration when allocating to private investments and believes that it has adequate liquidity to meet its obligations.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 17. Functional Expenses

The Foundation's expenses have been allocated between grant making, operational support and investment administration, based on estimates made by the Foundation's management of time spent by employees and directors on various activities. Grant making expenses pertain to the general grant making activities of the Foundation, such as reviewing proposals and awarding, monitoring and evaluating grants. Operation support expense includes costs related to managing the Foundation. Investment administration includes costs that are not directly attributable to investment strategy or oversight, but needed to support investment functions (for example staff and office costs for investment recordkeeping and financial reporting) and are exclusive of external and direct internal investment expenses presented net of investment return.

The Foundation's functional expenses, displayed by natural expense classification, for the year ended December 31, 2018, were as follows:

	Program		Supporting Services		Total Expenses
	Grants	Grant Making	Operational Support	Investment Administration	
Grants awarded	\$ 9,140,619	\$ -	\$ -	\$ -	\$ 9,140,619
Uplift America grants awarded	1,009,528	-	-	-	1,009,528
Compensation	-	848,208	257,885	52,790	1,158,883
Employee taxes and benefits	-	267,066	80,577	16,520	364,163
Program support, learning and strategy	-	64,201	-	-	64,201
Communications	-	17,959	-	-	17,959
PRI due diligence and monitoring	-	10,994	-	-	10,994
Travel, meetings and conferences	-	261,556	28,624	7,195	297,375
Professional services	-	-	24,206	25,484	49,690
Membership	-	42,279	-	-	42,279
Technology and equipment	-	87,709	11,698	2,398	101,805
Insurance	-	19,230	4,190	821	24,241
Loan interest and bank fees	-	9,473	2,923	599	12,995
Other office expenses	-	28,669	8,845	1,813	39,327
Depreciation	-	23,650	7,296	1,496	32,442
	<u>\$ 10,150,147</u>	<u>\$ 1,680,994</u>	<u>\$ 426,244</u>	<u>\$ 109,116</u>	<u>\$ 12,366,501</u>

Note 18. Supplemental Disclosures of Cash Flow Information

Cash paid for taxes and interest during the year ended December 31, 2018, were \$85,809 and \$9,427, respectively.