

Mary Reynolds Babcock Foundation, Incorporated

Financial Report
December 31, 2021

Mary Reynolds Babcock Foundation, Incorporated

2021 Directors

LaVeeda Battle
Chad Berry
Ashleigh Gardere
Jerry Gonzalez
Zachary Lassiter
James Mitchell
Kathy Mountcastle

Kara Mountcastle
Holt Mountcastle
Kenneth Mountcastle, III
Laura Mountcastle
Mary Mountcastle
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2021 Officers

Jerry Gonzalez
President

Ashleigh Gardere
Vice President

Kenneth Mountcastle, III
Treasurer

Kara Mountcastle
Secretary

Micah Gilmer
Interim Chief Executive Officer

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Independent Auditor's Report

Board of Directors
Mary Reynolds Babcock Foundation, Incorporated

Opinion

We have audited the financial statements of Mary Reynolds Babcock Foundation, Incorporated (the Foundation), which comprise the statement of financial position as of December 31, 2021, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, 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.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's 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 auditor's 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 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 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.

Report on Summarized Comparative Information

We have previously audited Mary Reynolds Babcock Foundation, Incorporated's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Greensboro, North Carolina
July 19, 2022

Mary Reynolds Babcock Foundation, Incorporated

Statement of Financial Position

December 31, 2021

(With Comparative Totals as of December 31, 2020)

	2021	2020
Assets		
Cash and cash equivalents	\$ 5,652,890	\$ 8,698,753
Interest and dividends receivable	161,755	183,804
Contributions receivable	8,917,953	-
Prepaid expenses and other assets	57,835	109,212
Investments	231,058,414	195,795,921
Program-related investments	6,863,743	7,128,937
Beneficial interests in charitable remainder trust	673,436	660,802
Property and equipment, net	446,593	474,316
	<u>446,593</u>	<u>474,316</u>
Total assets	<u>\$ 253,832,619</u>	<u>\$ 213,051,745</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 260,583	\$ 250,080
Unpaid grants	29,998	74,998
Federal excise tax payable	101,073	82,336
Deferred federal excise tax	1,140,150	870,433
Note payable	101,955	157,420
	<u>1,633,759</u>	<u>1,435,267</u>
Commitments (Note 11)		
Net assets:		
Without donor restrictions	241,807,520	210,850,304
With donor restrictions	10,391,340	766,174
	<u>252,198,860</u>	<u>211,616,478</u>
Total liabilities and net assets	<u>\$ 253,832,619</u>	<u>\$ 213,051,745</u>

See notes to financial statements.

Mary Reynolds Babcock Foundation, Incorporated

Statement of Activities

Year Ended December 31, 2021

(With Comparative Totals for Year Ended December 31, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, gains and losses:				
Grant revenue	\$ -	\$ 9,717,953	\$ 9,717,953	\$ 5,600,000
Investment return, net	41,560,638	-	41,560,638	35,484,793
Change in value of charitable remainder trust	-	12,634	12,634	(147,936)
Other	79	-	79	732
	41,560,717	9,730,587	51,291,304	40,937,589
Net assets released from restrictions	105,421	(105,421)	-	-
Total revenue, gains and losses	41,666,138	9,625,166	51,291,304	40,937,589
Expenses:				
Grants awarded	7,231,250	-	7,231,250	22,969,122
Uplift America grants awarded	1,100,000	-	1,100,000	300,000
Grant making expenses	1,464,549	-	1,464,549	1,431,557
Operational support	812,132	-	812,132	523,362
Investment administration	100,991	-	100,991	106,001
Total expenses	10,708,922	-	10,708,922	25,330,042
Change in net assets	30,957,216	9,625,166	40,582,382	15,607,547
Net assets:				
Beginning of year	210,850,304	766,174	211,616,478	196,008,931
End of year	\$ 241,807,520	\$ 10,391,340	\$ 252,198,860	\$ 211,616,478

See notes to financial statements.

Mary Reynolds Babcock Foundation, Incorporated

Statement of Cash Flows

Year Ended December 31, 2021

(With Comparative Totals for Year Ended December 31, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 40,582,382	\$ 15,607,547
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	34,158	35,685
Net appreciation in fair value of investments	(41,611,994)	(34,965,617)
Change in value of charitable remainder trust	(12,634)	147,936
Change in discount of program-related investments	(85,073)	159,299
Deferred federal excise tax expense	269,717	81,266
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	(8,917,953)	500,000
Interest and dividends receivable	22,049	103,436
Prepaid expenses and other assets	51,377	(2,869)
Prepaid federal excise tax	-	57,065
Increase (decrease) in:		
Accounts payable and accrued expenses	10,503	(55,963)
Unpaid grants	(45,000)	(8,570,020)
Accrued federal excise tax	18,737	82,336
Net cash used in operating activities	(9,683,731)	(26,819,899)
Cash flows from investing activities:		
Proceeds from sales of investments	43,216,890	73,587,424
Purchases of investments	(37,034,414)	(47,128,334)
Proceeds from program-related investments	517,292	836,857
Purchases of program-related investments	-	(380,010)
Purchases of property and equipment	(8,110)	(7,832)
Proceeds from property and equipment	1,675	-
Proceeds from charitable remainder trust	-	543,970
Net cash provided by investing activities	6,693,333	27,452,075
Cash flows used in financing activities:		
Payments on note payable	(55,465)	(53,654)
Net (decrease) increase in cash and cash equivalents	(3,045,863)	578,522
Cash and cash equivalents:		
Beginning	8,698,753	8,120,231
Ending	\$ 5,652,890	\$ 8,698,753
Supplemental disclosures of cash flow information:		
Cash payments for Federal excise taxes, including interest 2021 \$3,913; 2020 \$6,013	\$ 325,827	\$ 156,108

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 (UAF) in 2016. The UAF was 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 UAF pooled funding from philanthropic organizations to provide grants to community development organizations across the U.S. In partnership with the UAF, the USDA provided loan funds to the community development organizations and banks provided loan guarantees. Grants from the UAF provided 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 managed the UAF by receiving awards from other philanthropic organizations and granting those funds to the community development organizations in coordination with USDA and banks. These contributions were made in the form of grants, whereby the other philanthropic organizations, and not the Foundation, reported the contributions as qualifying distributions on their excise tax returns. The final grant under the UAF program was made in 2021.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. 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 an allowance for doubtful accounts. The Foundation estimates any allowance for doubtful accounts by individual loan 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 ultimately receive from interest income. Any cash receipts from the maker of the note receivable are recorded first against outstanding interest due and then against the principal of the note. There were no allowances for credit losses related to notes receivable as of December 31, 2021.

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 to 15 years for building improvements and 3 to 10 years for furniture, fixtures and equipment.

Unpaid grants: Grants from the Foundation may include preconditions to be met before the recipient organization can qualify for the award. Grants are not reflected in the financial statements until grantees satisfy all conditions specified in their respective grant agreements. Unconditional grants are recognized as grants awarded in the statement of activities and unpaid grants in the statement of financial position. 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 less than one year.

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.

Subsequent events: The Foundation has evaluated subsequent events (events occurring after December 31, 2021) through July 19, 2022, 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 pronouncement pending: In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, financial guarantees, net investment in leases and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance sheet credit exposures will be recognized through a liability. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense. ASU 2016-13 is effective for the Foundation as of January 1, 2023. The Foundation is currently evaluating the impact of adopting this new 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 statement of financial position. These funds, held for investment purposes only, amounted to \$4,588,860 as of December 31, 2021.

Note 3. 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, 2021. The Foundation expects to hold all PRIs to maturity.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 4. Investments

Investments as of December 31, 2021, consist of the following:

	Cost	Fair Value	Accumulated Appreciation (Depreciation)
Equity securities	\$ 53,650,242	\$ 95,878,985	\$ 42,228,743
Mutual funds	11,332,318	20,007,745	8,675,427
Fixed income securities	23,133,124	23,332,860	199,736
Fixed income private	500,000	500,000	-
Equity funds:			
Generation IM Global Equity Fund	41,091,608	53,475,940	12,384,332
Generation IM Asia LP	1,551,111	1,940,689	389,578
Responsible Global Emerging Market	2,876,303	4,318,531	1,442,228
DBL Partners III LP	4,153,144	8,820,112	4,666,968
DBL Partners IV LP	1,469,804	2,294,941	825,137
Generation IM Climate Solutions II	448,960	7,503,487	7,054,527
Generation IM Sustainable Solutions III	3,389,892	5,583,518	2,193,626
SJF Ventures IV	2,193,324	3,521,455	1,328,131
SJF Ventures V	468,734	462,583	(6,151)
Alkeon Innovation Fund II, LP	868,000	898,844	30,844
Collab Capital	294,097	294,429	332
Apis & Heritage	232,277	225,346	(6,931)
Illumen Capital	474,205	558,946	84,741
Illumen Capital II	145,995	137,071	(8,924)
Kapor III	54,052	53,347	(705)
Impact America Fund II	355,873	562,046	206,173
MacVentures	350,155	687,539	337,384
	<u>\$ 149,033,218</u>	<u>\$ 231,058,414</u>	<u>\$ 82,025,196</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.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment is summarized as follows at December 31, 2021:

Land	\$	67,000
Building		610,099
Building improvements		88,276
Furniture, fixtures and equipment		217,890
		<u>983,265</u>
Less accumulated depreciation		536,672
	\$	<u>446,593</u>

Note 6. Charitable Remainder Trust

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 trust, 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 trust 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 rates used in the calculation was 3.94% for 2021.

Note 7. Distribution of Income

The minimum amount required to be distributed by the Foundation during the year ended December 31, 2021, computed in accordance with the minimum distribution requirements of the IRC, was approximately \$10,900,000.

At December 31, 2021, the Foundation had excess contributions carryover of approximately \$26,200,000.

Note 8. 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.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2021, consist of time and purpose restrictions of \$9,717,904 for a strategic grantmaking program and time restrictions of \$673,436 related to the beneficial interests in charitable remainder trust. Net assets with donor restrictions released from restrictions during 2021 were \$105,421 for grants.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 10. 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 \$1,212,021 in 2021. The Foundation had \$1,300,000 in PRIs as of December 31, 2021, with organizations with which board members were associated. No director receives any direct benefit from the Foundation associated with these transactions.

Note 11. Commitments

At December 31, 2021, the Foundation had approved and committed additional investments of approximately \$15,100,000 in private equity funds and \$495,000 for PRIs.

At December 31, 2021, there were no conditional grants outstanding and all approved grants were recorded as unpaid grants.

Note 12. 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, 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 following table summarizes the Foundation's financial assets available for general expenditures within one year after December 31, 2021, including grants awarded and minimum distributions required by the IRC.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 12. Liquidity (Continued)

Financial assets:

Cash and cash equivalents	\$ 5,652,890
Accounts receivable	3,341
Interest and dividends receivable	161,755
Contribution receivable	8,917,953
Investments	231,058,414
Program-related investments	6,863,743
Beneficial interests in charitable remainder trust	673,436
	<u>253,331,532</u>
Less amounts not available to be used within one year:	
Cash and receivables restricted by donor	9,717,904
Beneficial interests in charitable remainder trust	673,436
Investments with liquidity horizons greater than one year	32,103,666
Program-related investments with maturities greater than one year	6,863,743
	<u>49,358,749</u>
Financial assets available to meet general expenditures within one year	<u>\$ 203,972,783</u>

The Foundation expects to spend 8% of the amount available for general expenditures within one year and hold the remaining amount for long-term investment purposes.

Note 13. 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.

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.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

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 trust: Fair value is determined using the income approach based on estimated cash flows, mortality and discounts rates. Such beneficial interests are classified within Level 3 of the valuation hierarchy.

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, 2021:

Description	Level 1	Level 2	Level 3	Total
Equity securities:				
Large cap	\$ 72,664,854	\$ -	\$ -	\$ 72,664,854
Small/mid cap	23,214,131	-	-	23,214,131
Mutual funds:				
Global environmental	15,547,632	-	-	15,547,632
International equities	4,460,113	-	-	4,460,113
Fixed income securities:				
U.S. government	-	11,049,885	-	11,049,885
State and local	-	3,152,946	-	3,152,946
Corporate	-	9,130,029	-	9,130,029
Fixed income private	-	500,000	-	500,000
	<u>115,886,730</u>	<u>23,832,860</u>	<u>-</u>	<u>139,719,590</u>
Equity funds (a)	-	-	-	91,338,824
Total investments	<u>115,886,730</u>	<u>23,832,860</u>	<u>-</u>	<u>231,058,414</u>
Beneficial interest in charitable remainder trust	-	-	673,436	673,436
	<u>\$ 115,886,730</u>	<u>\$ 23,832,860</u>	<u>\$ 673,436</u>	<u>\$ 231,731,850</u>

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

(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 presents changes in the beneficial interest in charitable remainder trust measured at fair value on a recurring basis using significant unobservable inputs (Level 3 assets) attributable to changes in fair value and the amounts of any transfers into or out of Level 3 of the fair value hierarchy for the year ended December 31, 2021:

Balance at January 1, 2021	\$ 660,802
Transfer out of Level 3	-
Decrease in fair value	12,634
Balance at December 31, 2021	<u>\$ 673,436</u>

The following table sets forth attributes related to the nature and risk of equity funds whose fair value is estimated using the NAV per share (or its equivalent) practical expedient as of December 31, 2021:

		Fair Value Estimated Using NAV Per Share				
		Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Notice Period
Generation IM Global Equity	(a)	\$ 53,475,940	\$ -	Quarterly	(a)	30 days
Generation IM Asia LP	(b)	1,940,689	-	Quarterly	(b)	90 days
Responsible Global						
Emerging Market Equity	(c)	4,318,531	-	Monthly	(c)	30 days
DBL Partners III LP	(d)	8,820,112	195,452			
DBL Partners IV LP	(d)	2,294,941	3,352,500			
Generation IM Climate						
Solutions II	(e)	7,503,487	2,043,322			
Generation IM Sustainable						
Solutions II	(f)	5,583,518	1,100,000			
SJF Ventures IV	(g)	3,521,455	165,000			
SJF Ventures V	(g)	462,583	2,460,000			
Illumen Capital	(h)	558,946	511,664			
Illumen Capital II	(h)	137,071	1,854,005			
Impact America Fund II	(i)	562,046	319,800			
MacVentures	(j)	687,539	116,350			
Alkeon Innovation Offshore	(k)	898,844	1,132,000			
Collab Fund I	(l)	294,429	666,667			
Kapor Capital III	(m)	53,347	435,000			
Apis and Heritage Legacy	(n)	225,346	755,447			
		<u>\$ 91,338,824</u>	<u>\$ 15,107,207</u>			

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Notes to Financial Statements

Note 13. 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.
- (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.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

- (f) 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.
- (g) 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.
- (h) 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.
- (i) This private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The limited liability company's investment objective is to realize long-term appreciation, generally from venture capital investments in equity and equity-oriented securities in early stage high growth companies reaching underserved low to moderate income communities. The partnership invests in technology enabled companies with impact built into their operating models and core values. 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 the 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 it has adequate liquidity to meet its objectives.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

- (j) This private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The partnership's primary purpose is to make venture capital investments, principally by investing in and holding equity and equity-oriented securities of privately held early-stage technology 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 the 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 it has adequate liquidity to meet its objectives.
- (k) The private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The partnership's investment strategy is to achieve capital appreciation by investing primarily in securities of private and publicly traded technology companies that are technology innovators or that will otherwise be impacted positively (or adversely, in the case of short sales) by disruptive technology. 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 the 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 it has adequate liquidity to meet its objectives.
- (l) The private equity investment is made through a limited liability company operating agreement where the Foundation is one of many limited members. The limited liability company's investment strategy is to invest in Black owned innovation companies that have a viable path to certain revenue targets. The fund's strategy takes advantage of the market opportunities created by systemically closed financial systems. 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 fund has a stated maturity date, but provides for annual extensions for the purposes of disposing of the 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 limited liability company operating 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 it has adequate liquidity to meet its objectives.
- (m) The private equity investment is made through a limited partnership agreement where the Foundation is one of many limited partners. The partnership's investment strategy is to invest in startups that address urgent social needs and they transform industries including health tech, edtech, and fintech. 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 the 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 it has adequate liquidity to meet its objectives.

Mary Reynolds Babcock Foundation, Incorporated

Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

(n) The private equity investment is made through a limited liability company agreement where the Foundation is one of many limited members. The limited liability company's investment objective is to invest in debt, equity, and mezzanine securities to support the conversion of operating companies to an ownership structure that provides direct and/or indirect ownership to the workforces of those companies. The fund makes investments in the furtherance of its social mission to positively impact the job quality of and the wealth accumulation by people of color. 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 fund has a stated maturity date, but provides for annual extensions for the purposes of disposing of the 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 limited liability company operating 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 it has adequate liquidity to meet its objectives.

Note 14. 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, 2021, were as follows:

	Program		Supporting Services		Total Expenses
	Grants	Grant Making	Operational Support	Investment Administration	
Grants awarded	\$ 7,231,250	\$ -	\$ -	\$ -	\$ 7,231,250
Uplift America grants awarded	1,100,000	-	-	-	1,100,000
Compensation	-	715,750	311,345	30,633	1,057,728
Employee taxes and benefits	-	287,554	127,443	12,523	427,520
Program support, learning and strategy	-	51,768	-	-	51,768
Communications	-	7,544	-	-	7,544
Travel, meetings and conferences	-	32,329	12,382	1,230	45,941
Professional services	-	123,745	307,005	51,284	482,034
Membership	-	60,213	-	-	60,213
Technology and equipment	-	114,929	25,390	2,495	142,814
Insurance	-	17,619	5,034	514	23,167
Loan interest and bank fees	-	8,501	3,768	370	12,639
Other office expenses	-	21,779	9,652	948	32,379
Depreciation	-	22,818	10,113	994	33,925
	<u>\$ 8,331,250</u>	<u>\$ 1,464,549</u>	<u>\$ 812,132</u>	<u>\$ 100,991</u>	<u>\$ 10,708,922</u>