

KING BAUDOIN FOUNDATION UNITED STATES, INC.

*FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

DECEMBER 31, 2018 AND 2017

KING BAUDOIN FOUNDATION UNITED STATES, INC.

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1 – 2
FINANCIAL STATEMENTS	
<i>Statements of Financial Position,</i> December 31, 2018 and 2017	3
<i>Statement of Activities and Changes in Net Assets,</i> Year ended December 31, 2018 with summarized information for 2017	4
<i>Statement of Functional Expenses,</i> Years ended December 31, 2018 and 2017	5
<i>Statements of Cash Flows,</i> Years ended December 31, 2018 and 2017	6
<i>Notes to Financial Statements</i>	7 – 16

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
King Baudouin Foundation United States, Inc.
New York, New York

We have audited the accompanying financial statements of King Baudouin Foundation United States, Inc. which comprise the statement of financial position as of December 31, 2018 and the related statements of activities and changes in net assets, statement of functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management 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 organization'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 organization'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 King Baudouin Foundation United States, Inc. 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.

**Board of Directors
King Baudouin Foundation United States, Inc.
New York, New York**

Report on Summarized Comparative Information

We have previously audited King Baudouin Foundation United States, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 30, 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.

Tait, Weller & Baker LLP

**New York, New York
April 22, 2019**

KING BAUDOIN FOUNDATION UNITED STATES, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 6,206,917	\$ 3,530,217
Investments (<i>Note 2</i>)	14,488,816	15,854,408
Grants receivable (<i>Note 3</i>)	2,960,830	4,255,657
Accounts receivable	26,967	-
Prepaid expenses and other assets	345,524	453,032
Donated artwork and other donated collection (<i>Note 4</i>)	3,020,678	3,602,072
Security deposit	<u>7,200</u>	<u>7,200</u>
Total assets	<u>\$ 27,056,932</u>	<u>\$ 27,702,586</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 44,763	\$ 18,215
Grants payable (<i>Note 5</i>)	4,489,043	4,761,165
Deferred revenue	<u>386,109</u>	<u>476,689</u>
Total liabilities	<u>4,919,915</u>	<u>5,256,069</u>
NET ASSETS		
Without donor restrictions		
General operations	(365,074)	(877)
Art Works	3,020,678	3,602,072
Advised gifts in process	643,621	284,483
American Friends Funds	<u>4,971,408</u>	<u>4,208,358</u>
Total without donor restrictions	<u>8,270,633</u>	<u>8,094,036</u>
With donor restrictions (<i>Note 6</i>)	<u>13,866,384</u>	<u>14,352,481</u>
Total net assets	<u>22,137,017</u>	<u>22,446,517</u>
Total liabilities and net assets	<u>\$ 27,056,932</u>	<u>\$ 27,702,586</u>

KING BAUDOIN FOUNDATION UNITED STATES, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2018 With Summarized Information For 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2018</u>	<u>Total 2017</u>
REVENUE AND OTHER SUPPORT				
Contributions – General	\$ 13,635,355	\$ 5,645,031	\$ 19,280,386	\$ 17,817,370
Gifts In-kind	61,000	-	61,000	459,678
U.S. Government grants	981,195	-	981,195	836,829
Investment income	79,949	334,097	414,046	393,003
Consulting	14,500	-	14,500	25,200
Management and investment fees	777,358	-	777,358	716,577
Net assets released from restrictions (<i>Note 6</i>)	<u>5,063,688</u>	<u>(5,063,688)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>20,613,045</u>	<u>915,440</u>	<u>21,528,485</u>	<u>20,248,657</u>
EXPENSES				
Grants and program expenses	19,069,317	-	19,069,317	18,798,973
Management and general expenses	<u>1,152,122</u>	<u>-</u>	<u>1,152,122</u>	<u>1,089,336</u>
Total expenses	<u>20,221,439</u>	<u>-</u>	<u>20,221,439</u>	<u>19,888,309</u>
Excess of operating support and revenue over expenses	391,606	915,440	1,307,046	360,348
NON-OPERATING CHANGES				
Realized and unrealized gains (losses)	<u>(215,009)</u>	<u>(1,401,537)</u>	<u>(1,616,546)</u>	<u>2,327,029</u>
Change in net assets	176,597	(486,097)	(309,500)	2,687,377
NET ASSETS				
Beginning of year	<u>8,094,036</u>	<u>14,352,481</u>	<u>22,446,517</u>	<u>19,759,140</u>
End of year	<u>\$ 8,270,633</u>	<u>\$ 13,866,384</u>	<u>\$ 22,137,017</u>	<u>\$ 22,446,517</u>

KING BAUDOIN FOUNDATION UNITED STATES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018 With Summarized Information For 2017

	<u>Program</u>	<u>Management And General</u>	<u>2018</u>	<u>2017</u>
Grants and educational programs	\$19,057,317	\$ -	\$19,057,317	\$18,777,973
Salaries, Taxes, & benefits	-	627,279	627,279	595,057
Travel, conferences, and meals	-	120,013	120,013	115,365
Professional services	12,000	73,167	85,167	125,300
Occupancy	-	86,535	86,535	86,535
Office supplies and postage	-	14,110	14,110	13,919
Website and publications	-	61,230	61,230	24,379
Events and related expenses	-	98,697	98,697	92,351
Information technology	-	25,755	25,755	20,566
Insurance	-	13,808	13,808	11,523
Dues and memberships	-	19,752	19,752	16,657
Bank charges	-	7,989	7,989	7,232
Miscellaneous	-	3,787	3,787	1,452
Total expenses – 2018	<u>\$19,069,317</u>	<u>\$1,152,122</u>	<u>\$20,221,439</u>	
Total expenses – 2017	<u>\$18,798,973</u>	<u>\$1,089,336</u>		<u>\$19,888,309</u>

KING BAUDOIN FOUNDATION UNITED STATES, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (309,500)	\$ 2,687,377
<i>Adjustments to reconcile the net change in net assets to net cash provided by (used for) operating activities</i>		
Unrealized (gain) loss on investments	1,875,548	(1,601,512)
Gain on sale of investments	(259,002)	(725,517)
(Increase) decrease in		
Prepaid expenses and other assets	107,508	(125,748)
Grants receivable	1,294,827	75,157
Accounts receivable	(26,967)	18,972
Increase (decrease) in		
Accounts and grants payable	(245,574)	(3,204,954)
Deferred revenue	(90,580)	119,405
Net cash provided by (used for) operating activities	<u>2,346,260</u>	<u>(2,756,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,052,513)	(5,785,381)
Proceeds from sales of investments	801,559	6,238,375
Donated artwork, net	581,394	(4,018)
Net cash provided by investment activities	<u>330,440</u>	<u>448,976</u>
Net increase (decrease) in cash	2,676,700	(2,307,844)
CASH		
Beginning of year	<u>3,530,217</u>	<u>5,838,061</u>
End of year	<u>\$ 6,206,917</u>	<u>\$ 3,530,217</u>

KING BAUDOUIIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 And 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

King Baudouin Foundation United States, Inc. (the “*Foundation*” or “*KBFUS*”) is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation was organized in 1997. Its objective is to facilitate the flow of philanthropic funds from the United States to Europe and Africa. The Foundation assists United States donors wishing to support non-profit initiative on these two continents and provides cost effective solutions to European and African non-profit organization seeking to raise funds in the United States.

BASIS OF ACCOUNTING

The Foundation prepares its financial statements on the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when owed under the accrual basis.

ACCOUNTING ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

INCOME TAX STATUS

Management has reviewed the tax positions for each of the open tax years (2015 – 2017) or expected to be taken in the Foundation’s 2018 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

CONCENTRATION OF CREDIT RISK

The Foundation occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“*ASC*”) 825, “*Financial Instruments*”, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

INVESTMENTS

Investments are reported at their fair values with associated income and gains and losses recorded on the accompanying statement of activities. The fair value of investments traded on a securities exchange is determined based on quoted market prices. Contributions of marketable securities are recorded at their market values on the dates of donation.

PROPERTY AND EQUIPMENT

Purchased property and equipment are recorded at acquisition cost. Donated property and equipment are recorded at their fair value. Property and equipment are depreciated over the estimated useful lives of the assets.

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

NET ASSETS

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary mission of the Foundation.

General Operations – include the revenues and expenses associated with the principal mission of the Foundation.

Art Works – include the various works of art donated to the Foundation.

Advised Gifts in Process – included contributions received with the recommendations that the Foundation use the gift to support a specific non-profit organization.

American Friends Funds – include contributions received from U.S. donors for various non-profit organizations established in Europe and Asia.

With donor restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts; pledges; and investment returns on “true” endowment funds. Expirations of restrictions of net assets with donor restrictions are reported as net assets released from restriction.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation, including gifts wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment) and that only the income be made available for operations or other purposes.

GOVERNMENT GRANTS AND OTHER CONTRACTS

The Foundation records revenue from government and other contracts as the underlying work is performed, as these contracts are structured as exchange transactions and not as restricted or unrestricted grants.

CONTRIBUTIONS

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts-in-kind are recorded at fair value on the date of receipt.

Pledges (contributions receivable) are recorded as income in the periods in which they are received in writing.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation’s audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the Foundation’s various programs and supporting services has been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

RECENT ACCOUNTING PRONOUNCEMENTS

In 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, Presentation of the Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

<u>Net Asset Classifications</u>	<u>ASU 2016-14 Classification</u>		<u>Total Net Assets</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
As previously presented:			
Unrestricted	\$8,094,036	\$ -	\$ 8,094,036
Temporarily Restricted	-	7,257,378	7,257,378
Permanently Restricted	-	7,095,103	7,095,103
Net assets as reclassified	<u>\$8,094,036</u>	<u>\$14,352,481</u>	<u>\$22,446,517</u>

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied. The Foundation plans to adopt the new ASU at the required implementation date.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Foundation plans to adopt the new ASU at the required implementation date.

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

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*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. The Foundation plans to adopt the new ASU at the required implementation date.

RECLASSIFICATIONS

Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation.

(2) INVESTMENTS

The components of marketable securities at December 31 are:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash equivalents	\$ 64,566	\$ 64,566	\$ 30,482	\$ 30,482
Mutual Funds				
Bond	2,540,946	2,520,056	1,865,465	1,849,563
Equity	<u>11,418,179</u>	<u>11,904,194</u>	<u>11,617,788</u>	<u>13,974,363</u>
	<u>\$14,023,691</u>	<u>\$14,488,816</u>	<u>\$13,513,735</u>	<u>\$15,854,408</u>

As of December 31, 2018 and 2017, net unrealized gains consisted of \$465,125 and \$2,340,673, respectively.

The Foundation utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instruments on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Foundation's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

For the years ended December 31, 2018 and 2017, all securities were classified as Level 1.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2018 and 2017.

KING BAUDOUIIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

(3) GRANTS RECEIVABLE

Grants receivable are due as follows at December 31:

	<u>2018</u>	<u>2017</u>
Receivable in one year	\$ 1,467,197	\$ 3,578,441
Receivable in one to five years	1,400,000	435,000
Receivable in more than five years	<u>248,878</u>	<u>348,878</u>
Total grants receivable	3,116,075	4,362,319
Less: discount to present value at 3.31% in 2018 and 2.64% in 2017	<u>(155,245)</u>	<u>(106,662)</u>
Total grants receivable - net	<u>\$ 2,960,830</u>	<u>\$ 4,255,657</u>

(4) DONATED ARTWORK

In 2018, the Foundation received artwork by Jean-Francois De Troy, valued at \$45,000. Also, in 2018, the Foundation received artwork by Louis Le Sueur, valued at \$16,000. These works are currently on loan to Petit Palais in France.

In 2017, the Foundation received a collection of photographs documenting works of art by early Italian artists, valued at \$167,178. These works are currently on loan to Fondazione Federico Zeri at the University of Bologna in Italy. Also in 2017, the Foundation received fourteen fine art photographs by Ed vander Elskan, valued at \$182,500. These works are currently on loan to the Rijks Museum in the Netherlands. Further in 2017, the Foundation received donated artwork, valued at \$110,000, which is on loan to Petit Palais in France.

In 2016, the Foundation received donated artwork, valued at \$2,500,000, which is on loan to the King Baudouin Foundation in Belgium.

In 2018, the Foundation granted various works of art received in 2015 to the King Baudouin Foundation in Belgium. This artwork, valued at \$642,394, is included with grant and program expenses on the statement of activities and changes in net assets.

(5) GRANTS PAYABLE

Unconditional grants are recorded as expense during the year of approval. Grants subject to certain conditions are recorded as expense during the year in which conditions are substantially met or the possibility that the conditions will not be met is remote, as determined by management.

The fair value of grants payable as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Payable in one year	\$2,991,909	\$ 4,088,724
Payable in one to five years	1,403,500	429,142
Payable in more than five years	<u>248,879</u>	<u>348,879</u>
Total grants payable	4,644,288	4,866,745
Less: discount to present value at 3.31% in 2018 and 2.64% in 2017	<u>(155,245)</u>	<u>(105,580)</u>
Total grants payable – net	<u>\$4,489,043</u>	<u>\$ 4,761,165</u>

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

(6) NET ASSETS

Net assets with donor restrictions are available for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a special purpose:		
Purpose restricted grants	\$ 3,340,073	\$ 2,754,332
Subject to the passage of time:		
Time restricted grants	<u>35,000</u>	<u>203,918</u>
Perpetual in nature:		
General use – KBF Endowment	6,630,200	6,630,200
Program activities – Tony Julius Designated Fund	<u>464,903</u>	<u>464,903</u>
	<u>7,095,103</u>	<u>7,095,103</u>
Accumulated income on endowments:		
Accumulated Endowment Income – KBF Endowment Fund	3,301,870	4,149,612
Accumulated Endowment Income – Tony Julius Designated Fund	<u>94,338</u>	<u>149,516</u>
	<u>3,396,208</u>	<u>4,299,128</u>
	<u>\$ 13,866,384</u>	<u>\$ 14,352,481</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the year ended December 31, 2018:

Purpose restricted grants	\$4,893,688
Time restricted grants	<u>170,000</u>
	<u>\$5,063,688</u>

ENDOWMENT FUNDS

The Foundation's endowment fund consists of two donor-restricted endowment funds. As required by GAAP in the United States, net assets associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

The KBF Endowment Fund (the "*Fund*") was transferred to the Foundation by the King Baudouin Foundation, Belgium ("*KBF Belgium*"). The agreement consists of a transfer of \$6,630,200 to the Foundation. The Foundation has full and unrestricted control and complete discretion over the use of any and all income from investment of the Fund, including, but not limited to, interest, dividends, and capital gains earned by the Fund, regardless of whether the Foundation has taken any action expressly to appropriate such investment income for expenditure. Income can be either immediately allocated in agreement with the Foundation's spending policy or accumulated for later allocation to the funding of current or future expenses associated with the Foundation's general operations, educational programs or other exempt purposes, at the sole discretion of the Foundation's Board of Directors. The initial agreement was signed November 24, 2011, for a six-year term, and automatically renewed for an additional six years at the end of the initial term. The agreement can be terminated by either party with 90 days written notice of any six-year term. In the event of termination by either party, the Foundation shall return to KBF Belgium, within 30 days of the effective date of the termination, the lesser of the original corpus donated of \$6,630,200, or the balance in the Fund on the effective date of the termination, as valued by the Foundation.

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

INTERPRETATION OF RELEVANT LAW

The Foundation is incorporated in the state of Georgia, which has enacted the Uniform Prudent Management of Institutional Funds Act (“*UPMIFA*”). UPMIFA governs donor institutional funds for not-for-profit corporations, including endowment funds. The Foundation has interpreted the applicable state standards and guidelines for the prudent management of an endowment fund as requiring a prudent appropriation of the endowment fund’s assets, taking into account any explicit donor stipulations or restrictions on the appropriation or expenditure of assets. As a result, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund (i.e. the accumulated realized and unrealized gains/losses) that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

RETURN OBJECTIVES AND RISK PARAMETERS

The total rate of return (net of fees) is expected to equal or exceed a passive investment in commonly quoted market indices (benchmarks) based on a long-term optimal asset allocation.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY

In 2012, the Foundation adopted a spending policy whereby beginning in 2015, 4% of the endowment fund’s market value over the three previous years will be distributed to the Foundation to be used for operational and program expenses. For the year ended December 31, 2017, a distribution of \$69,426 was made from the Tony Julius Designated Fund portion of the endowment to support a programmatic grant. No distribution was made from the Tony Julius Designated Fund for the year ended December 31, 2018. Further, the Foundation elected not to make an operating distribution under its spending policy from the KBF Endowment Fund for the year ended December 31, 2018 and 2017.

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state standards require the Foundation to retain as a fund of perpetual duration. At December 31, 2018 and 2017, no donor restricted endowment funds have fallen below the required.

Endowment net asset composition by type of fund as of December 31, 2018 and 2017 are as follows:

	2018		
	<u>Accumulated Income</u>	<u>Corpus</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$3,396,208</u>	<u>\$7,095,103</u>	<u>\$10,491,311</u>

	2017		
	<u>Accumulated Income</u>	<u>Corpus</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$4,299,128</u>	<u>\$7,095,103</u>	<u>\$11,394,231</u>

The Foundation classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as net assets with donor restrictions. Income earned on such gifts is classified as net assets with donor restrictions until it is expended in accordance with the Uniform Prudent Management of Institutional Funds Act as enacted by the State of Georgia.

Changes in endowment net assets for the year ended December 31, 2018 and 2017 are as follows:

	2018		
	<u>Accumulated Income</u>	<u>Corpus</u>	<u>Total</u>
Endowment net assets, beginning of year	\$4,299,128	\$7,095,103	\$ 11,394,231
Investment return	<u>(902,920)</u>	<u>-</u>	<u>(902,920)</u>
	<u>\$3,396,208</u>	<u>\$7,095,103</u>	<u>\$10,491,311</u>

	2017		
	<u>Accumulated Income</u>	<u>Corpus</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,302,191	\$7,095,103	\$ 9,397,294
Investment return	2,066,363	-	2,066,363
Endowment income designated for grants	<u>(69,420)</u>	<u>-</u>	<u>(69,426)</u>
	<u>\$4,299,128</u>	<u>\$7,095,103</u>	<u>\$11,394,231</u>

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

(7) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The Foundation strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Foundations financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restriction or internal board designations. Amounts not available include certain board-designated net assets received with recommendations for various non-profit organizations established in Europe and Africa. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

Financial Assets	<u>2018</u>
Cash	\$ 6,206,917
Investments	14,488,816
Grants receivable	2,960,830
Accounts receivable	<u>26,967</u>
Total financial assets	\$ 23,683,530
Less:	
Grants receivable due in more than a year	(1,493,633)
Net assets with donor restrictions	(13,866,384)
Board-designated net assets	(5,615,029)
Grants payable in less than a year	<u>(2,991,909)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ (283,425)</u>

(8) COMMITMENTS

The Foundation leases office space in New York under an operating lease which expires February 29, 2020. Rent expense for the years ended December 31, 2018 and 2017 was \$86,535 and \$86,535, respectively.

Future minimum rental commitments under this lease are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 86,535
2020	<u>14,422</u>
	<u>\$ 100,957</u>

KING BAUDOIN FOUNDATION UNITED STATES, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

(9) PENSION PLAN

Substantially all employees of the Foundation are enrolled in a defined contribution pension plan. Contributions to this plan are based upon earnings for all eligible employees after completing one year of service. The Foundation will match employee deferrals up to 8% of eligible compensation. Pension expense for the years ended December 31, 2018 and 2017 was \$38,774 and \$37,960, respectively.

(10) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available, April 22, 2019, have been evaluated in the preparation of the financial statements.