

MARDAG FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019



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**MARDAG FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mardag Foundation
St. Paul, Minnesota

We have audited the accompanying financial statements of Mardag Foundation, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Mardag Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mardag Foundation as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 24, 2021

MARDAG FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 160,148	\$ 318,521
Investments	62,878,596	59,938,713
Prepaid Tax Asset	33,657	57,038
Total Assets	\$ 63,072,401	\$ 60,314,272
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 80,615	\$ 90,837
Grants Payable	756,269	870,950
Deferred Tax Liability	150,465	71,736
Total Liabilities	987,349	1,033,523
NET ASSETS WITHOUT DONOR RESTRICTIONS	62,085,052	59,280,749
Total Liabilities and Net Assets	\$ 63,072,401	\$ 60,314,272

See accompanying Notes to Financial Statements.

MARDAG FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
REVENUE AND GAINS		
Investment Income, Net of Investment Expenses of \$230,193 and \$286,029 in 2020 and 2019, Respectively	\$ 653,601	\$ 871,383
Net Unrealized and Realized Gains	4,940,095	7,392,610
Other Income	3,405	33,272
Total Revenue and Gains	5,597,101	8,297,265
EXPENSES		
Program:		
Grants	2,425,646	2,321,970
Program Expenses	205,348	247,414
Total Program	2,630,994	2,569,384
Management and General:		
Administrative Expenses	58,194	74,018
Federal Excise Tax	24,881	47,055
Deferred Tax Expense	78,729	17,996
Total Management and General	161,804	139,069
Total Expenses	2,792,798	2,708,453
CHANGE IN NET ASSETS	2,804,303	5,588,812
Net Assets Without Restrictions - Beginning of Year	59,280,749	53,691,937
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	\$ 62,085,052	\$ 59,280,749

See accompanying Notes to Financial Statements.

MARDAG FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,804,303	\$ 5,588,812
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Realized and Unrealized Gains in Market Value of Investments	(4,940,095)	(7,392,610)
(Increase) Decrease in Assets:		
Prepaid Tax Asset	23,381	(55,692)
Increase (Decrease) in Liabilities:		
Accounts Payable	(10,222)	23,159
Grants Payable	(114,681)	(309,665)
Deferred Tax Liability	78,729	17,996
Net Cash Used by Operating Activities	<u>(2,158,585)</u>	<u>(2,128,000)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	2,885,303	2,939,078
Reinvestment of Investment Income	(885,091)	(1,176,268)
Net Cash Provided by Investing Activities	<u>2,000,212</u>	<u>1,762,810</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(158,373)	(365,190)
 Cash and Cash Equivalents - Beginning of Year	<u>318,521</u>	<u>683,711</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 160,148</u>	<u>\$ 318,521</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Taxes	<u>\$ -</u>	<u>\$ 103,000</u>

See accompanying Notes to Financial Statements.

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mardag Foundation (the Foundation) is an exempt private foundation that has a strategic focus on enhancing quality of life, inspiring learning, revitalizing communities, and promoting access to the arts across Minnesota. Through grant making, the Foundation uses its resources to support the work of nonprofit organizations on projects that align with its strategic focus and that serve people and communities across Minnesota.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Cash and Cash Equivalents

For the purposes of presenting the statement of cash flows, the Foundation considers all short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Foundation owns a percentage of a private investment partnership organized to provide its members a means to obtain unified professional management for their investments.

Marketable securities are reported at fair value based upon quoted market prices or, when quotes are not available, are valued on the basis of comparable financial instruments.

Limited marketability investments, which principally include collective funds, hedge fund of funds, private capital, natural resources, and real assets, are valued at the quoted market price for securities for which market quotations are readily available or an estimate of value (fair value) as determined in good faith by the general partner. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position.

Grants

Grants are recorded as expense when approved the Foundation's board of directors unless conditions imposed on the grantee have not yet been fulfilled. Such conditional grants are recorded when conditions have been substantially met.

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification

The Foundation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Amounts for each two classes of net assets — with donor restrictions and without donor restrictions, if applicable, are displayed in the financial statements. In 2020 and 2019, the Foundation had no net assets with donor restrictions.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statements of functional expense. Grants and expenses associated with the Foundation's direct charitable activities are considered to be program expenses, while all other expenses of the Foundation are considered to be management and general expenses. All expenses are based on time records and the best estimates of management.

Investment and Spending Policies

The Foundation is subject to the distribution requirements of the Internal Revenue Code (IRC). Accordingly, within one year after the end of each fiscal year, the Foundation must distribute 5% of the average market value of its assets as defined.

The Foundation has adopted investment policies that seek to maintain the purchasing power of the assets. Actual returns in any given year may vary from this amount.

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic equities, international equities, private capital, fixed income, hedge funds, and real assets. The majority of assets are invested in equity or equity like securities. Fixed income, hedge funds, and real estate are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, number of investments, time, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 5% plus inflation.

Derivative Financial Instruments

The investment partnership's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk. These financial instruments may include equity, fixed income and foreign currency futures and options contracts, and foreign currency forward contracts. The investment partnership uses derivatives to obtain domestic and international equity and treasury bond exposure for selected portfolio balances. The investment partnership has not designated any of its derivative financial instruments as hedging instruments.

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The standard on fair value measurements defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Foundation accounts for certain assets and liabilities under various accounting literature. The Foundation also accounts for certain assets at fair value under applicable industry guidance.

In accordance with the standard on fair value measurements, the Foundation has categorized its financial instruments based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

Financial assets recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

Use of Estimates

The Foundation uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

**MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status

The Foundation has tax-exempt status under Section 501(c)(3) of the IRC and Minnesota Statute. It has been classified as an organization that is a private foundation under the IRC. The Foundation files as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the Internal Revenue Service.

The Foundation follows accounting standards for uncertain tax positions. No liability has been recognized by the Foundation under this standard.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 24, 2021, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

Assets measured at fair value on a recurring basis:

	2020			
	Level 1	Level 2	Level 3	Total
Investment in Partnership	\$ -	\$ -	\$ 62,878,596	\$ 62,878,596
	2019			
	Level 1	Level 2	Level 3	Total
Investment in Partnership	\$ -	\$ -	\$ 59,938,713	\$ 59,938,713

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Level 3 Assets

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets for the years ended December 31:

<u>Investment in Partnership</u>	<u>2020</u>	<u>2019</u>
Balance as of January 1	\$ 59,938,713	\$ 54,308,913
Net Realized and Unrealized Gains (Losses) on Investments	4,940,095	7,392,610
Reinvestment of Investment Income	885,091	1,176,268
Proceeds from Sale of Investments	<u>(2,885,303)</u>	<u>(2,939,078)</u>
Balance as of December 31	<u>\$ 62,878,596</u>	<u>\$ 59,938,713</u>

NOTE 3 LIQUIDITY

The Foundation's assets available within one year of the financial position date for general expenditures include cash and cash equivalents balance of \$160,148 and \$318,521 at December 31, 2020 and December 31, 2019, respectively. As described in Note 1, the Foundation is subject to a 5% annual spending rate. The estimated amount of required distribution in 2021 is \$2,684,352. The terms of the Foundation's investment in the private investment partnership allow for partial withdrawal of \$10M or less from the partnership within 10 days after the end of the month in which the partnership receives a request for withdrawal. Cash is requested from the partnership on a monthly basis throughout the year in anticipation of pending grant commitments and other operating expenditures.

NOTE 4 GRANTS PAYABLE

Unconditional grants approved but unpaid at year-end are reported as grants payable on the statement of financial position. Grants to be paid in more than one year are discounted using rates ranging between 3.25% and 5.50%. Unconditional grants payable at December 31, 2020 and 2019 are due as follows:

	<u>2020</u>	<u>2019</u>
Less than One Year	\$ 692,500	\$ 705,500
One Year to Five Years	63,769	165,450
Total	<u>\$ 756,269</u>	<u>\$ 870,950</u>

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 FUNCTIONAL EXPENSES

The costs of providing programs and services have been summarized on a functional basis. Accordingly, certain costs have been allocated between program and the supporting administrative services benefited. All costs are allocated based on time records and best estimates of management.

Functional expenses consisted of the following as of December 31:

	2020		
	Program Services	Management and General	Total
Grants	\$ 2,425,646	\$ -	\$ 2,425,646
Staff Costs	205,348	28,048	233,396
Excise Tax	-	24,881	24,881
Deferred Tax Expense	-	78,729	78,729
Other Direct Expenses	-	30,146	30,146
Total Functional Expenses	\$ 2,630,994	\$ 161,804	\$ 2,792,798
	2019		
	Program Services	Management and General	Total
Grants	\$ 2,321,970	\$ -	\$ 2,321,970
Staff Costs	202,976	20,682	223,658
Excise Tax	-	47,055	47,055
Deferred Tax Expense	-	17,996	17,996
Other Direct Expenses	44,438	53,336	97,774
Total Functional Expenses	\$ 2,569,384	\$ 139,069	\$ 2,708,453

NOTE 6 FEDERAL EXCISE TAXES

In 2020, the Foundation is subject to a 1.39% excise tax on its taxable investment income, which principally includes income from investments plus net realized capital gains (net capital losses for a year, however, are not deductible and cannot be carried back or forward). In 2019, the Foundation was subject to a 1-2% excise tax. The excise tax on net investment income prior to 2020 was reduced from 2% to 1% for any taxable year in which the Foundation's qualifying distributions meet certain requirements prescribed by Internal Revenue Code Section 4940(e). Deferred federal excise taxes are based on a 1.39% tax rate that arise from unrealized appreciation in the market value of investments. This is reflected on the statement of financial position as the Deferred Tax Liability.

