

MAYER AND MORRIS KAPLAN FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020



Lipschultz, Levin & Gray
L.L.C. Certified Public Accountants



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Trustees
Mayer and Morris Kaplan Foundation
Highland Park, Illinois

We have reviewed the accompanying financial statements of Mayer and Morris Kaplan Foundation, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Foundation management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Report on 2020 Financial Statements

The 2020 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated November 4, 2021. We have not performed any auditing procedures since that date.

Lipschultz, Levin & Gray, L.L.C.
Lipschultz, Levin & Gray, LLC
Northbrook, Illinois
October 27, 2022



Lipschultz, Levin & Gray
L.L.C. Certified Public Accountants

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MAYER AND MORRIS KAPLAN FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	Reviewed 2021	Audited 2020
<u>ASSETS</u>		
CASH	\$ 1,091,087	
INVESTMENTS:		
Cash Management Funds	302,904	\$ 650,876
Bond Mutual Funds	997,776	1,008,498
Common Stocks and Mutual Funds	12,741,751	10,536,761
Limited Partnerships	15,031,823	13,656,831
Notes Receivable	500,000	
Offshore Hedge Funds		2,954,815
TOTAL INVESTMENTS	<u>29,574,254</u>	<u>28,807,781</u>
FURNITURE AND EQUIPMENT:		
Office Equipment and Furnishings	105,425	105,425
Less: Accumulated Depreciation	(105,425)	(105,425)
FURNITURE AND EQUIPMENT, NET	<u>0</u>	<u>0</u>
OTHER ASSET -		
Other Receivables	60,391	53,353
TOTAL ASSETS	<u>\$ 30,725,732</u>	<u>\$ 28,861,134</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Checks Issued in Excess of Funds on Deposit		\$ 12,373
Current and Deferred Income and Excise Taxes Payable	\$ 62,548	11,525
Grants Payable	1,062,500	377,000
TOTAL LIABILITIES	<u>1,125,048</u>	<u>400,898</u>
NET ASSETS:		
Without Donor Restrictions	29,600,684	28,460,236
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,725,732</u>	<u>\$ 28,861,134</u>



See Independent Accountant's Review Report and Accompanying Notes to Financial Statements

Lipschultz, Levin & Gray
L.L.C. Certified Public Accountants

MAYER AND MORRIS KAPLAN FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2021 AND 2020

	Reviewed 2021	Audited 2020
REVENUES AND OTHER INCOME (LOSS):		
Contributions	\$ 215,248	\$ 70,537
Interest	36,214	14,351
Dividends	403,102	369,418
Realized Gains (Losses), Net	1,637,653	(795,852)
Other Income (Expense), Net	(193,020)	499,688
Investment Expenses	(301,345)	(457,726)
Investment Interest Expense	(19,929)	(42,663)
Investment Advisor Fees	(125,211)	(116,922)
TOTAL NET REVENUES AND OTHER INCOME (LOSS)	<u>1,652,712</u>	<u>(\$459,169)</u>
GRANTS AND EXPENSES:		
Grant Expenditures	2,518,572	1,584,545
Professional Fees	22,000	14,500
Office Expenses	26,110	62,128
Travel and Meetings	5,841	6,349
Meals and Entertainment	474	(100)
Salaries and Payroll Taxes	323,645	239,829
Consulting and Other Expenses	8,340	15,590
TOTAL GRANTS AND EXPENSES	<u>2,904,982</u>	<u>1,922,841</u>
DECREASE IN NET ASSETS BEFORE UNREALIZED GAINS ON INVESTMENTS, NET AND INCOME AND EXCISE TAXES EXPENSE	<u>(1,252,270)</u>	<u>(2,382,010)</u>
UNREALIZED GAINS ON INVESTMENTS, NET	<u>2,482,432</u>	<u>2,574,934</u>
INCREASE IN NET ASSETS BEFORE INCOME AND EXCISE TAXES EXPENSE	<u>1,230,162</u>	<u>192,924</u>
INCOME AND EXCISE TAXES BENEFIT (EXPENSE)	<u>(89,714)</u>	<u>55,751</u>
INCREASE IN NET ASSETS	<u>1,140,448</u>	<u>248,675</u>
NET ASSETS - BEGINNING OF YEAR	<u>28,460,236</u>	<u>28,211,561</u>
NET ASSETS - END OF YEAR	<u>\$ 29,600,684</u>	<u>\$ 28,460,236</u>

See Independent Accountant's Review Report and Accompanying Notes to Financial Statements



MAYER AND MORRIS KAPLAN FOUNDATIONSTATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>Reviewed</u> <u>2021</u>	<u>Audited</u> <u>2020</u>
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 1,140,448	\$ 248,675
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Flows From Operating Activities:		
Unrealized Gains on Investments, Net	(2,482,432)	(2,574,934)
Increase (Decrease) in Operating Assets:		
Other Receivables	(7,038)	(32,773)
Current and Deferred Income and Excise Taxes, Net	51,023	(132,073)
Grants Payable	685,500	(513,000)
NET CASH FLOWS USED BY OPERATING ACTIVITIES	<u>(612,499)</u>	<u>(3,004,105)</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES;		
Issuance of Notes Receivable	(500,000)	
Sales of Investments and Partnership Distributions, Net of Additional Investments	<u>2,215,959</u>	<u>3,027,531</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>1,715,959</u>	<u>3,027,531</u>
NET INCREASE IN CASH	1,103,460	23,426
CHECKS ISSUED IN EXCESS OF FUNDS ON DEPOSIT - BEGINNING OF YEAR	<u>(12,373)</u>	<u>(35,799)</u>
CASH (CHECKS ISSUED IN EXCESS OF FUNDS ON DEPOSIT) - END OF YEAR	<u>\$ 1,091,087</u>	<u>\$ (12,373)</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for:		
Income and Excise Taxes	<u>\$ 20,000</u>	<u>\$ 60,000</u>
Investment Interest Expense	<u>\$ 19,929</u>	<u>\$ 36,164</u>

See Independent Accountant's Review Report and Accompanying Notes to Financial Statements



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

ORGANIZATION AND NATURE OF ACTIVITIES

The Mayer and Morris Kaplan Foundation (the "Foundation") was established on August 11, 1959, as a private foundation for the purpose of supporting recognized charitable organizations within the United States of America.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

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

Investments:

Investments of cash management funds, mutual funds and common stocks (foreign and domestic) are carried at fair value based on quoted market prices and net asset values. Quoted prices are provided for offshore hedge funds; however, these investments are not readily tradable. Unrealized gains and losses are included in the statements of activities.

The Foundation utilizes the practical expedient in valuing its investment in limited partnerships and certain of the underlying investments held by the partnerships. The practical expedient is an acceptable method under accounting principles generally accepted in the United State of America to determine the fair value of investments that do not have a readily determinable fair value predicated upon a public market and have the attributes of an investment company. The Foundation first utilizes the equity method based on K-1 capital account balances provided by the general partner. Under the equity method, the investments are recorded at cost, increased by the Foundation's share of the limited partnerships' operating income and additional capital contributions, and decreased by the amount of any distributions received or receivable and operating losses of the limited partnerships. Management then takes into consideration the other information provided by the general partner to determine overall reasonableness of the recorded value. Management believes this method represents the best estimate of the partnerships' fair values. Because of the inherent uncertainty of valuing the investments in such partnerships and certain of the underlying investments held by the partnerships, the Foundation's estimate of fair value may differ significantly from the values that would have been used had a ready market for the investments existed.

Furniture and Equipment:

Purchases of furniture and equipment are carried at cost. Depreciation is provided using an accelerated method over the estimated useful lives of the assets.

MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenue Recognition for Contributions:

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Bequests are recorded as contributions in the year of the passing of the donor to the extent that such amounts are readily determinable.

Any noncash contributions received are recorded at the fair market value of the asset at the time of the donation.

Grant Expenditures:

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to substantial future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. As of December 31, 2021 and 2020, the Foundation had approved but unpaid grants amounting to \$1,062,500 and \$377,000, respectively (see *Grants Payable* note).

Income and Excise Taxes:

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except for unrelated business income taxes. In 2021 and 2020, the Foundation incurred taxes on unrelated business income passed through from partnership investments.

In addition, according to the applicable provisions of the Code, the Foundation is subject to an excise tax (1.37%) on net investment income, including realized gains, as defined in the Code. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2021 and 2020, the Foundation had distributed more than the required minimum.

Management believes its tax positions have been taken in accordance with the rules and regulations of the respective taxing authorities in which it files and they have filed in jurisdictions where required.



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income and Excise Taxes (Continued):

The Foundation's federal tax returns have not been examined by the tax authorities for the last three years, which remain as the years generally still subject to examination. Management realizes there may be differences of opinion relating to interpretations taken by taxing authorities and certain tax jurisdictions may require filings that have not been made. However, through October 27, 2022, there have not been any material claims made by any taxing authorities that have not been appropriately defended or provided for in the financial statements, nor is management aware of any specific uncertain tax positions that currently exist.

Deferred Income Taxes:

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered and settled. Substantially all of the tax provision is comprised of deferred taxes.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

LIQUIDITY AND AVAILABILITY

The Foundation has the ability to liquidate investments as needed to meet cash needs for general expenditures within one year. There are no restrictions on any of the financial assets of the Foundation, although the ability to liquidate the investments in limited partnerships and offshore hedge funds would be dependent upon the prevailing market conditions.

CASH AND CASH MANAGEMENT FUNDS

The Foundation maintains its cash accounts in what it believes are high-quality financial institutions. Nevertheless, there is exposure where balances exceed the federally insured limit of \$250,000.



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

CASH AND CASH MANAGEMENT FUNDS (Continued):

The Foundation maintains accounts with brokerage firms. The accounts contain cash management funds and other securities. Balances are insured up to \$500,000 for each brokerage firm by the Security Investor Protection Corporation against potential losses, excluding decreases in market value. The Foundation has not experienced any losses in its cash management funds. Management believes the Foundation is not exposed to any significant credit risk on these accounts.

The Foundation considers cash management funds to be investments since the balances in such accounts routinely exceed the amounts required to fund normal operating expenses.

For the purpose of the statements of cash flows, the Foundation does not consider highly liquid investments with maturity of three months or less, when purchased, to be cash equivalents.

FAIR VALUE OF INVESTMENTS

The Foundation's investments at cost/equity basis and fair value are summarized below as of December 31, 2021:

	<u>Cost/Equity Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 302,904	\$ 302,904
Bond Mutual Funds	991,367	997,776
Common Stocks and Mutual Funds	8,870,477	12,741,751
Limited Partnerships	<u>11,305,041</u>	<u>15,031,823</u>
Total Investments	<u>\$ 21,469,789</u>	<u>\$ 29,074,254</u>

The Foundation's investments at cost/equity basis and fair value are summarized below as of December 31, 2020:

	<u>Cost/Equity Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 650,876	\$ 650,876
Bond Mutual Funds	951,429	1,008,498
Common Stocks and Mutual Funds	8,338,051	10,536,761
Limited Partnerships	10,754,129	13,656,831
Offshore Hedge Funds	<u>2,500,000</u>	<u>2,954,815</u>
Total Investments	<u>\$ 23,194,485</u>	<u>\$ 28,807,781</u>



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

FAIR VALUE OF INVESTMENTS (Continued):

Accounting principles generally accepted in the United States of America have established 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets in active markets;
 - Quoted prices for identical or similar assets in inactive markets;
 - Inputs other than quoted prices that are observable for the asset;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified term, the Level 2 input must be observable for substantially the full term of the asset.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets fair value measurement level within the fair value hierarchy are 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.

See the *Summary of Significant Accounting Policies* note for description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

The valuation methods described in the *Summary of Significant Accounting Policies* note may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

FAIR VALUE OF INVESTMENTS (Continued):

The following table sets forth, by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Management Funds		\$ 302,904		\$ 302,904
Bond Mutual Funds	\$ 997,776			997,776
Common Stocks and Mutual Funds	12,741,751			12,741,751
Limited Partnerships			\$15,031,823	15,031,823
Total	<u>\$13,739,527</u>	<u>\$ 302,904</u>	<u>\$15,031,823</u>	<u>\$29,074,254</u>

The following table sets forth, by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Management Funds		\$ 650,876		\$ 650,876
Bond Mutual Funds	\$ 1,008,498			1,008,498
Common Stocks and Mutual Funds	10,536,761			10,536,761
Limited Partnerships			\$13,656,831	13,656,831
Offshore Hedge Funds			2,954,815	2,954,815
Total	<u>\$11,545,259</u>	<u>\$ 650,876</u>	<u>\$16,611,646</u>	<u>\$28,807,781</u>

The following table provides a summary of changes in fair value of the Foundation's Level 3 investments in limited partnerships, as well as the portion of gains or losses included in income attributable to unrealized gains or losses that relate to those investments held at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance, Beginning of Year	\$ 13,656,831	\$ 6,773,861
Investment Income, Net	1,665,980	2,301,712
Purchases, Issuances and Settlements, Net	(290,988)	4,581,258
Balance, End of Year	<u>\$ 15,031,823</u>	<u>\$ 13,656,831</u>
Portion of Investment Income, Net Relating to Those Assets Still Held	<u>\$ 1,690,947</u>	<u>\$ 2,301,712</u>



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

FAIR VALUE OF INVESTMENTS (Continued):

The above information for the Level 3 investments in Offshore Hedge Funds is not available since they represent a segment of total investments in a master fund with portions attributable to all levels.

RISKS AND UNCERTAINTIES

The Foundation invests in various types of investment securities, which are all exposed to various risks, such as interest rate, market conditions and credit. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risks in the near term would materially affect the net assets on the financial statements.

The Foundation does not anticipate a significant adverse effect on its financial position resulting from the Foundation's investments. However, market and economic conditions could cause a loss in the fair value of the Foundation's investments, which could adversely affect operating results.

FUNCTIONAL ALLOCATION OF EXPENSES

The Foundation's program is to award grants. Program costs are the actual grants and the related costs of administering the grants. All other costs are management and general expenses.

GRANTS PAYABLE

Grants payable totaling \$1,062,500 and \$377,000 at December 31, 2021 and 2020, respectively, consisted of approved grant commitments. Based on the specific grant agreements, the grants payable are expected to be paid as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 698,500
2023	<u>364,000</u>
Total	<u>\$ 1,062,500</u>

MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

INVESTMENT RETURN

The following schedule summarizes the investment return for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest	\$ 36,214	\$ 14,351
Dividends	403,102	369,418
Realized Gains (Losses), Net	1,637,653	(795,852)
Unrealized Gains, Net	2,482,432	2,574,934
Other Income, Net	(193,020)	499,688
Investment Expenses	(301,345)	(457,726)
Investment Interest Expense	(19,929)	(42,663)
Investment Advisor Fees	<u>(125,211)</u>	<u>(116,922)</u>
Investment Income, Net	<u>\$ 3,919,896</u>	<u>\$ 2,045,228</u>

RELATED PARTY TRANSACTIONS

During 2021 and 2020 the Foundation incurred expenses related to investment advisor, personnel and other services from Lorelei Partners, LLC, an affiliate of the trustees, in the amount of \$453,639 and \$397,674, respectively.

COMMITMENT

As of December 31, 2021 and 2020, the Foundation was committed to future capital calls on its investments amounting to \$356,929 and \$623,929, respectively.

GRANT EXPENDITURES

On February 26, 2014, the Foundation entered into a Fund Division Agreement with Dolores Kohl Kaplan, a former trustee of the Foundation, and the Dolores Kohl Education Foundation ("Kohl Foundation"). The agreement requires the Foundation to make grants to the Kohl Foundation. There were no grants for the years ended December 31, 2021 and 2020. Any de minimis amounts remaining will be transferred upon certain hedge fund liquidations and other transactions. The remaining transfers, if any, do not have an agreed upon end date.

NOTES RECEIVABLE

In 2021, the Foundation began an impact investing program to closer align its investments with the mission of the Foundation. The Foundation entered into loan agreements with two separate entities, and advanced a total of \$500,000 to these entities. The maturity dates of the two loans are December 2023 and July 2024. This amount is shown on the statement of financial position as Notes Receivable. The Foundation receives interest on the amounts

MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTES RECEIVABLE (Continued):

advanced from the entities. Total interest income from the notes amounted to \$22,589 and is included in Interest on the statement of activities for the year ended December 31, 2021

SUBSEQUENT EVENTS

The Foundation's management has evaluated subsequent events through October 27, 2022, the date that the financial statements were available for issue.

