

MARDAG FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mardag Foundation
St. Paul, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mardag Foundation, which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

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

Auditors' 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 auditors' 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 Mardag 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 Mardag 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 16, 2022

MARDAG FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and Cash Equivalents	\$ 170,820	\$ 160,148
Investments	72,207,647	62,878,596
Prepaid Tax Asset	22,844	33,657
Total Assets	\$ 72,401,311	\$ 63,072,401
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 77,900	\$ 80,615
Grants Payable	866,678	756,269
Deferred Tax Liability	209,537	150,465
Total Liabilities	1,154,115	987,349
NET ASSETS WITHOUT DONOR RESTRICTIONS	71,247,196	62,085,052
Total Liabilities and Net Assets	\$ 72,401,311	\$ 63,072,401

See accompanying Notes to Financial Statements.

MARDAG FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
REVENUE AND GAINS		
Investment Income, Net of Investment Expenses of \$247,788 and \$230,193 in 2021 and 2020, Respectively	\$ 1,260,385	\$ 653,601
Net Unrealized and Realized Gains	10,905,364	4,940,095
Other Income	27,665	3,405
Total Revenue and Gains	12,193,414	5,597,101
EXPENSES		
Program:		
Grants	2,609,329	2,425,646
Program Expenses	195,249	205,348
Total Program	2,804,578	2,630,994
Management and General:		
Administrative Expenses	66,307	58,194
Federal Excise Tax	101,313	24,881
Deferred Tax Expense	59,072	78,729
Total Management and General	226,692	161,804
Total Expenses	3,031,270	2,792,798
CHANGE IN NET ASSETS	9,162,144	2,804,303
Net Assets Without Restrictions - Beginning of Year	62,085,052	59,280,749
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	\$ 71,247,196	\$ 62,085,052

See accompanying Notes to Financial Statements.

MARDAG FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 9,162,144	\$ 2,804,303
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Realized and Unrealized Gains in Market Value of Investments	(10,905,364)	(4,940,095)
Decrease in Assets:		
Prepaid Tax Asset	10,813	23,381
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,715)	(10,222)
Grants Payable	110,409	(114,681)
Deferred Tax Liability	59,072	78,729
Net Cash Used by Operating Activities	(1,565,641)	(2,158,585)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	3,111,624	2,885,303
Reinvestment of Investment Income	(1,535,311)	(885,091)
Net Cash Provided by Investing Activities	1,576,313	2,000,212
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,672	(158,373)
Cash and Cash Equivalents - Beginning of Year	160,148	318,521
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 170,820	\$ 160,148
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Taxes	\$ 90,000	\$ -

See accompanying Notes to Financial Statements.

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mardag Foundation (the Foundation) is an exempt private foundation that supports Minnesota nonprofits to remove barriers and create opportunities for low income or traditionally marginalized children, youth and families; older adults with barriers to living independently; and to build capacity of organizations supporting the arts and humanities. 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.

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. There were no conditional grants as of December 31, 2021 and 2020.

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 2021 and 2020, 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.

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, via the investment partnership, 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.

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 16, 2022, 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:

	2021			
	Level 1	Level 2	Level 3	Total
Investment in Partnership	\$ -	\$ -	\$ 72,207,647	\$ 72,207,647
	2020			
	Level 1	Level 2	Level 3	Total
Investment in Partnership	\$ -	\$ -	\$ 62,878,596	\$ 62,878,596

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Purchases, sales, transfers in and transfers out of Level 3 investments consist of the following for the years ended December 31:

	2021	2020
Purchases (Reinvestment of Investment Income)	\$ 1,535,311	\$ 885,091
Sales of Investments	(3,111,624)	(2,885,303)

The following is a summarization of the Level 3 significant unobservable inputs:

Quantitative Information About Level 3 Fair Value Measurements			
Type of Assets	Fair Value at December 31, 2021	Principal Valuation Technique	Unobservable Inputs
Investment in Partnership	\$ 72,207,647	FMV of Assets	Value of Underlying Assets
Type of Assets	Fair Value at December 31, 2020	Principal Valuation Technique	Unobservable Inputs
Investment in Partnership	\$ 62,878,596	FMV of Assets	Value of Underlying Assets

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 \$170,820 and \$160,148 at December 31, 2021 and 2020, respectively. As described in Note 1, the Foundation is subject to a 5% annual spending rate. The estimated amount of required distribution in 2022 is \$3,124,939. 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 4.75%. Unconditional grants payable at December 31 are due as follows:

	2021	2020
Less than One Year	\$ 825,000	\$ 692,500
One Year to Five Years	41,678	63,769
Total	\$ 866,678	\$ 756,269

MARDAG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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:

	2021		
	Program Services	Management and General	Total
Grants	\$ 2,609,329	\$ -	\$ 2,609,329
Staff Costs	195,249	32,013	227,262
Excise Tax	-	101,313	101,313
Deferred Tax Expense	-	59,072	59,072
Other Direct Expenses	-	34,294	34,294
Total Functional Expenses	\$ 2,804,578	\$ 226,692	\$ 3,031,270
	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

NOTE 6 FEDERAL EXCISE TAXES

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). 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.

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