

# The Spencer Foundation

Financial Report  
March 31, 2020

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
The Spencer Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of The Spencer Foundation, which comprise the statements of financial position as of March 31, 2020 and 2019, 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.

### Auditor's 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 audits 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 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Spencer Foundation as of March 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.

*RSM US LLP*

Chicago, Illinois  
June 30, 2020

**The Spencer Foundation**

**Statements of Financial Position (In Thousands of Dollars)  
March 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Investments	\$ 471,347	\$ 528,410
Cash	25,572	31,205
Other assets	666	817
	<u>\$ 497,585</u>	<u>\$ 560,432</u>
<b>Liabilities and Net Assets</b>		
Grants payable, net of present value discount of \$12 for 2020 and \$130 for 2019	\$ 16,929	\$ 18,850
Accounts payable and accrued expenses	123	184
Federal excise tax payable	3	50
Deferred federal excise tax	1,757	3,875
Postretirement benefits liability	4,944	4,372
	<u>23,756</u>	<u>27,331</u>
Net assets without donor restrictions	<u>473,829</u>	<u>533,101</u>
	<u>\$ 497,585</u>	<u>\$ 560,432</u>

See notes to financial statements.

**The Spencer Foundation**

**Statements of Activities (In Thousands of Dollars)  
Years Ended March 31, 2020 and 2019**

	<b>2020</b>	2019
Net investment income:		
Net realized gain on sales of investments	\$ 38,144	\$ 19,187
Net unrealized loss on investments	(84,760)	(8,285)
Interest and other income	270	325
Dividend income	12,845	12,601
	<u>(33,501)</u>	23,828
Investment management fees	(535)	(590)
Other direct investment expenses	(48)	(47)
	<u>(34,084)</u>	23,191
Expenses:		
Grants authorized, net of refunds	18,303	15,500
Administrative expenses	7,765	6,988
Current federal excise tax, net of tax refund	938	172
Deferred federal excise tax	(2,118)	(285)
Components of net periodic postretirement benefit cost other than service cost	252	243
Change in postretirement benefit obligation other than net periodic benefit cost	48	57
	<u>25,188</u>	22,675
<b>(Decrease) increase in net assets</b>	<b>(59,272)</b>	516
Net assets without donor restrictions:		
Beginning of year	<u>533,101</u>	532,585
End of year	<u>\$ 473,829</u>	\$ 533,101

See notes to financial statements.

**The Spencer Foundation**

**Statements of Cash Flows (In Thousands of Dollars)  
Years Ended March 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Grants paid	\$ (20,224)	\$ (24,213)
Interest and dividend income	14,226	12,897
Cash paid for payroll and benefits	(3,804)	(4,007)
Cash paid for other administrative expenses	(3,541)	(2,894)
Cash paid for investment related expenses	(583)	(637)
Excise taxes paid	(986)	(121)
<b>Net cash used in operating activities</b>	<b>(14,912)</b>	<b>(18,975)</b>
Cash flows from investing activities:		
Purchases of property and equipment	(65)	(204)
Purchases of investments	(73,000)	(24,500)
Proceeds from sales of investments	82,344	48,666
<b>Net cash provided by investing activities</b>	<b>9,279</b>	<b>23,962</b>
<b>Net (decrease) increase in cash</b>	<b>(5,633)</b>	<b>4,987</b>
Cash, beginning of year	31,205	26,218
Cash, end of year	<b>\$ 25,572</b>	<b>\$ 31,205</b>

See notes to financial statements.

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Spencer Foundation (an Illinois not-for-profit corporation) (the Foundation), organized in 1962, is the residuary legatee under the will of Lyle M. Spencer, deceased. The Foundation was established to support research aimed at the improvement of education. Support is derived primarily from returns on the Foundation's investments. Activities are conducted from offices in Chicago, Illinois.

**Basis of accounting:** The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) in the United States.

**Basis of presentation:** The Foundation's financial statements have been prepared to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as net assets without donor restrictions since they are not subject to donor-imposed restrictions.

**Investments:** Investments are carried at fair value. Purchases and sales of securities are recorded on a trade-date basis. Investment income, realized gains (losses) and change in unrealized gains (losses) are reflected in the statements of activities.

**Deferred federal excise tax:** Deferred federal excise tax represents taxes provided on the net unrealized appreciation on investments, using the applicable tax rate.

**Awards and grants:** The Board of Directors approves an annual budget for awards and grants. Individual awards and grants, including multiyear grants, are considered obligations when approved by the Foundation's President.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Tax status:** The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of 2 percent of net investment income and net realized taxable gains on security transactions or 1 percent if the Foundation meets certain specified distribution requirements. Effective December 20, 2019, for the tax year beginning January 1, 2020, the federal excise tax rate changed to a flat rate of 1.39 percent on net investment income, as defined by the Code.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation, and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax positions identified or recorded as liabilities for the periods presented in these financial statements. The Foundation files Forms 990-PF in the U.S. federal jurisdiction and the State of Illinois.

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Accounting pronouncements adopted:** In 2020, the Foundation adopted Accounting Standards Update (ASU) 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires the Foundation to report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. The adoption of the standard resulted in the reclassification of components of net periodic benefit costs other than service costs from administrative expenses to its own line item on the statements of activities.

**Pending accounting pronouncements:** In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Foundation for the year ending March 31, 2022.

In 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 ASU clarifies the process to determine whether contributions or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. The portion of the standard relevant to resource providers is effective for the Foundation's year ending March 31, 2021.

The Foundation is currently evaluating the impact of the adoption of these standards on its financial statements.

**Reclassification:** Certain items in the 2019 financial statements have been reclassified to conform to the current-year presentation. These reclassifications have no effect on net assets or change in net assets as previously reported.

**Subsequent events:** The Foundation has evaluated subsequent events for potential recognition and/or disclosure through June 30, 2020, the date the financial statements were available to be issued.

#### Note 2. Liquidity and Availability

The Foundation regularly monitors liquidity to meet its grant payments and operating needs (general expenditures). The Foundation relies on investment income, and available financial assets to meet general expenditures over the next twelve months.

The table below presents information related to financial assets available for general expenditures within one year at March 31, 2020 and 2019:

	2020	2019
Financial assets available for general expenditures within one year:		
Cash	\$ 25,572,000	\$ 31,205,000
Investments	471,347,000	528,410,000
	<u>\$ 496,919,000</u>	<u>\$ 559,615,000</u>



## The Spencer Foundation

### Notes to Financial Statements

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#### Note 3. Functional Classification of Expenses

The costs of providing the Foundation's programs and other activities have been summarized on a functional basis in the table below for the year ended March 31, 2020. Direct costs are charged directly to program and management & general categories based upon specific identification where possible. Expenses which are not directly identifiable to program or management & general categories are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits and rent and utilities, which are allocated on the basis of estimates of time and effort.

Expenses by functional classification for the year ended March 31, 2020, consists of the following:

	Program	Management & General	Total
Grants authorized, net of refunds	\$ 18,303,000	\$ -	\$ 18,303,000
Salary and benefits:			
Employee salaries and taxes	1,753,000	1,349,000	3,102,000
Retirement contributions	184,000	178,000	362,000
Employee benefits	444,000	395,000	839,000
Professional fees	1,050,000	442,000	1,492,000
Operating expenses:			
Rent and utilities	259,000	206,000	465,000
Travel, hosting and meeting	748,000	42,000	790,000
Other	26,000	577,000	603,000
Depreciation and amortization	-	160,000	160,000
Current federal excise tax, net of tax refund	-	938,000	938,000
Deferred federal excise tax	-	(2,118,000)	(2,118,000)
Components of net periodic postretirement benefit cost other than service cost	141,000	111,000	252,000
	<u>\$ 22,908,000</u>	<u>\$ 2,280,000</u>	<u>\$ 25,188,000</u>

Expenses by functional classification for the year ended March 31, 2019, consists of the following:

	Program	Management & General	Total
Grants authorized, net of refunds	\$ 15,500,000	\$ -	\$ 15,500,000
Salary and benefits:			
Employee salaries and taxes	1,495,000	1,514,000	3,009,000
Retirement contributions	195,000	202,000	397,000
Employee benefits	263,000	429,000	692,000
Professional fees	403,000	686,000	1,089,000
Operating expenses:			
Rent and utilities	240,000	243,000	483,000
Travel, hosting and meeting	682,000	58,000	740,000
Other	13,000	507,000	520,000
Depreciation and amortization	-	115,000	115,000
Current federal excise tax, net of tax refund	-	172,000	172,000
Deferred federal excise tax	-	(285,000)	(285,000)
Components of net periodic postretirement benefit cost other than service cost	136,000	107,000	243,000
	<u>\$ 18,927,000</u>	<u>\$ 3,748,000</u>	<u>\$ 22,675,000</u>

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 4. Investments

Investments at March 31, 2020 and 2019, are summarized as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Marketable securities:				
Equity funds - domestic	\$ 103,524,000	\$ 222,205,000	\$ 121,229,000	\$ 302,324,000
Equity funds - international	131,912,000	118,690,000	88,367,000	105,042,000
Bond funds - domestic	121,652,000	129,392,000	119,795,000	119,984,000
Real estate investment	641,000	1,060,000	641,000	1,060,000
	<u>\$ 357,729,000</u>	<u>\$ 471,347,000</u>	<u>\$ 330,032,000</u>	<u>\$ 528,410,000</u>

#### Note 5. Fair Value Measurements

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

The Foundation follows the accounting guidance related to fair value measurements, which provides a framework for measuring fair value under generally accepted accounting principles. This guidance applies to all financial instruments that are being measured and reported on a fair value basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 5. Fair Value Measurements (Continued)

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the years ended March 31, 2020 and 2019, there were no such transfers.

For the fiscal years ended March 31, 2020 and 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following are descriptions of the valuation methodologies used for instruments at fair value:

**Marketable securities:** The fair value of investment securities is based on quoted market prices in active markets.

**Real estate investment:** The fair value of the real estate investment is based on independent appraisals, when available, or estimated based on current market prices for similar properties.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs would be classified as Level 3.

**Fair value on a recurring basis:** The tables below present the balances of assets and liabilities measured at fair value on a recurring basis:

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Equity funds - domestic	\$ 222,205,000	\$ -	\$ -	\$ 222,205,000
Equity funds - international	118,690,000	-	-	118,690,000
Bond funds - domestic	129,392,000	-	-	129,392,000
Real estate investment	-	1,060,000	-	1,060,000
	<u>\$ 470,287,000</u>	<u>\$ 1,060,000</u>	<u>\$ -</u>	<u>\$ 471,347,000</u>

  

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Equity funds - domestic	\$ 302,324,000	\$ -	\$ -	\$ 302,324,000
Equity funds - international	105,042,000	-	-	105,042,000
Bond funds - domestic	119,984,000	-	-	119,984,000
Real estate investment	-	1,060,000	-	1,060,000
	<u>\$ 527,350,000</u>	<u>\$ 1,060,000</u>	<u>\$ -</u>	<u>\$ 528,410,000</u>

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 6. Grants Payable

Grants payable consist primarily of multi-year unconditional grants that are generally payable over 1-5 years. Grants are discounted at the net present value using the average 1-3 year treasury rates. Management estimates these grants will be paid as follows:

2021	\$ 11,588,000
2022	3,772,000
2023	1,474,000
2024	107,000
Total	<u>16,941,000</u>
Less: discount to reflect grants payable at present value	<u>(12,000)</u>
Grants payable, net	<u>\$ 16,929,000</u>

Grants authorized are shown net of rescissions and refunds of \$211,000 and \$305,000 and net of present value discount of \$12,000 and \$130,000 in fiscal years 2020 and 2019, respectively. Payments on authorized but unpaid grants may be accelerated upon mutual agreement between the Foundation and the grantees.

#### Note 7. Employee Benefits

The Foundation maintains a defined contribution retirement plan covering all active full-time employees. Under the terms of the plan, the Foundation must contribute specified percentages of an employee's salary. The plan is currently invested in employee-designated individual annuity contracts and various approved mutual funds. The Foundation's contribution to the plan was \$368,000 and \$403,000 for fiscal years 2020 and 2019, respectively.

In addition, the Foundation maintains a supplemental retirement plan that allows employees to defer a portion of their pre-tax salaries. No contributions are made to this plan by the Foundation.

The Foundation maintains a postretirement medical benefits plan and records a liability in accordance with the accounting guidance on the employer's accounting for defined benefit pension and other postretirement plans. The plan provides healthcare benefits to retired employees and their spouses and beneficiaries. Generally, qualified employees may become eligible for these benefits if they retire in accordance with the provisions of the Foundation's medical plan and are participating in the Foundation's medical plan at the time of their retirement. The Foundation's postretirement benefit plan is not funded. The Foundation has the right to modify or terminate the plan. The Foundation uses a March 31 measurement date for its plan.

	<u>2020</u>	<u>2019</u>
Obligations and funded status:		
Fair value of plan assets	\$ -	\$ -
Accumulated postretirement benefit obligation	<u>(4,944,000)</u>	<u>(4,372,000)</u>
Funded status	<u>\$ (4,944,000)</u>	<u>\$ (4,372,000)</u>
Amounts recognized on the statements of financial position:		
Postretirement benefits liability	<u>\$ 4,944,000</u>	<u>\$ 4,372,000</u>

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 7. Employee Benefits (Continued)

The table below summarizes changes in the Foundation's postretirement benefit obligation for the years ended March 31, 2020 and 2019:

	2020	2019
Postretirement benefit obligation, beginning of year	\$ 4,372,000	\$ 3,959,000
Service cost	336,000	323,000
Interest cost	174,000	157,000
Actuarial loss	126,000	-
Benefits paid	(64,000)	(67,000)
Postretirement benefit obligation, end of year	<u>\$ 4,944,000</u>	<u>\$ 4,372,000</u>

Changes in the postretirement benefit obligation are included in the statements of activities in administrative expense for the years ended March 31, 2020 and 2019, as follows:

	2020	2019
Service cost	\$ 336,000	\$ 323,000
Interest cost	173,000	157,000
Amortization of unrecognized prior service cost	(8,000)	(8,000)
Amortization of unrecognized net loss	87,000	94,000
Net periodic postretirement benefit cost	<u>\$ 588,000</u>	<u>\$ 566,000</u>
Change in postretirement benefit obligation not included in net periodic postretirement benefit cost	<u>\$ 48,000</u>	<u>\$ 57,000</u>

There were no contributions made by participants to the medical plan for the years ended March 31, 2020 and 2019.

The weighted-average actuarial assumptions used to determine benefit obligation and benefit cost for the years ended March 31, 2020 and 2019, were as follows:

	2020	2019
Discount rate for obligations	3.25%	4.00%
Discount rate of costs	4.00%	4.00%

## The Spencer Foundation

### Notes to Financial Statements

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#### Note 7. Employee Benefits (Continued)

The assumed healthcare cost trend rates used to determine benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	2020	2019
Assumed healthcare cost trend rates as of March 31:		
Healthcare cost trend Medicare rate assumed for the next year:		
Current pre-65 healthcare trend rate	5.00%	5.00%
Current post-65 healthcare trend rate	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	2021	2020

The Foundation expects to contribute approximately \$83,000 to its postretirement benefit plan during the year ended March 31, 2021.

Annual benefit payments, which reflect expected future service, as appropriate, are expected to be as follows:

Years ending March 31:		
2021	\$	83,000
2022		83,000
2023		82,000
2024		116,000
2025		135,000
Fiscal 2026 - 2030		803,000
		<u>\$ 1,302,000</u>

#### Note 8. Line of Credit

The Foundation entered into a \$25,000,000 revolving line of credit agreement in February 2019 with interest at the greater of LIBOR plus 0.60 percent or prime. The line of credit is collateralized by marketable securities held by the Foundation. The line of credit was extended in February 2020 and matures in February 2021. There were no amounts outstanding under this line of credit as of March 31, 2020 and 2019, respectively.

#### Note 9. Commitments

The Foundation currently occupies office space in Chicago, Illinois, under the terms of an operating lease which expires in fiscal year 2022. The lease requires the Foundation to pay monthly base rents ranging from \$20,000 to \$23,000, plus a proportionate share of operating expense and real estate taxes. At March 31, 2020, the Foundation had the following commitments for base rentals under this lease:

2021	\$	271,000
2022		183,000
		<u>\$ 454,000</u>

Rent expense, including operating expense and real estate taxes, was \$457,000 and \$473,000 for fiscal years 2020 and 2019, respectively.