



THE WALLACE FOUNDATION

Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
The Wallace Foundation:

Opinion

We have audited the financial statements of The Wallace Foundation (the Foundation), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the 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 U.S. generally accepted accounting principles.

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 the 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 U.S. generally accepted accounting principles, 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 the Foundation's ability to continue as a going concern for one year after the date that 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 the 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 the 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.

KPMG LLP

New York, New York
June 22, 2022

THE WALLACE FOUNDATION

Balance Sheets

December 31, 2021 and 2020

| Assets | 2021 | 2020 |
|---|-------------------------|----------------------|
| Cash and cash equivalents | \$ 135,778,433 | 18,729,715 |
| Investments (note 4) | 1,897,104,714 | 1,787,539,237 |
| Other assets and receivables | 1,921,061 | 1,041,564 |
| Fixed assets, net (note 5) | <u>7,986,275</u> | <u>8,638,537</u> |
| Total assets | <u>\$ 2,042,790,483</u> | <u>1,815,949,053</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accrued expenses and other payables | \$ 1,803,598 | 2,099,650 |
| Grants payable (note 6) | 9,884,193 | 16,278,471 |
| Deferred liabilities (note 7) | <u>12,119,249</u> | <u>9,956,970</u> |
| Total liabilities | 23,807,040 | 28,335,091 |
| Net assets – without donor restrictions | <u>2,018,983,443</u> | <u>1,787,613,962</u> |
| Total liabilities and net assets | <u>\$ 2,042,790,483</u> | <u>1,815,949,053</u> |

See accompanying notes to financial statements.

THE WALLACE FOUNDATION

Statements of Activities

Years ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-------------------------|----------------------|
| Investment return: | | |
| Investment income | \$ 297,954,893 | 262,676,072 |
| Less investment expenses | <u>(4,768,169)</u> | <u>(5,039,363)</u> |
| Total investment return, net | 293,186,724 | 257,636,709 |
| Contributions | <u>25</u> | <u>—</u> |
| Total revenues | <u>293,186,749</u> | <u>257,636,709</u> |
| Expenses: | | |
| Grants and related activities | 46,681,833 | 54,071,662 |
| Operating expenses | <u>15,135,435</u> | <u>14,452,932</u> |
| Total expenses | <u>61,817,268</u> | <u>68,524,594</u> |
| Change in net assets | 231,369,481 | 189,112,115 |
| Net assets – without donor restrictions: | | |
| Beginning of year | <u>1,787,613,962</u> | <u>1,598,501,847</u> |
| End of year | <u>\$ 2,018,983,443</u> | <u>1,787,613,962</u> |

See accompanying notes to financial statements.

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Statements of Functional Expenses

Years ended December 31, 2021 and 2020

| | 2021 | | | 2020 | | |
|-------------------------------------|----------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Program | Supporting services | Total | Program | Supporting services | Total |
| Grants and related activities: | | | | | | |
| Grants | \$ 40,616,873 | — | 40,616,873 | 47,201,142 | — | 47,201,142 |
| Direct charitable activities | 6,064,960 | — | 6,064,960 | 6,870,520 | — | 6,870,520 |
| Total grants and related activities | <u>46,681,833</u> | <u>—</u> | <u>46,681,833</u> | <u>54,071,662</u> | <u>—</u> | <u>54,071,662</u> |
| Operating expenses: | | | | | | |
| Salaries | 4,912,496 | 3,334,180 | 8,246,676 | 4,653,230 | 3,219,892 | 7,873,122 |
| Benefits | 1,671,864 | 1,174,723 | 2,846,587 | 1,549,123 | 1,105,751 | 2,654,874 |
| Consultants | 480,099 | 369,711 | 849,810 | 164,506 | 573,714 | 738,220 |
| Rent, net of amortization | 858,260 | 704,998 | 1,563,258 | 803,827 | 684,742 | 1,488,569 |
| Other occupancy costs | 118,956 | 97,714 | 216,670 | 159,559 | 135,920 | 295,479 |
| Information technology | 299,590 | 230,442 | 530,032 | 253,103 | 206,459 | 459,562 |
| Insurance | 67,602 | 55,530 | 123,132 | 64,387 | 54,848 | 119,235 |
| Travel and meetings | 28,889 | 16,985 | 45,874 | 100,936 | 24,828 | 125,764 |
| Subscription, dues and fees | 8,161 | 19,275 | 27,436 | 12,285 | 11,276 | 23,562 |
| Depreciation | 376,605 | 309,355 | 685,960 | 364,255 | 310,291 | 674,545 |
| Total operating expenses | <u>8,822,522</u> | <u>6,312,913</u> | <u>15,135,435</u> | <u>8,125,211</u> | <u>6,327,721</u> | <u>14,452,932</u> |
| Total expenses | <u>\$ 55,504,355</u> | <u>6,312,913</u> | <u>61,817,268</u> | <u>62,196,873</u> | <u>6,327,721</u> | <u>68,524,594</u> |

See accompanying notes to financial statements.

THE WALLACE FOUNDATION

Statements of Cash Flows

Years ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|----------------|---------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 231,369,481 | 189,112,115 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Unrealized (gains) on investments | (161,852,984) | (150,200,561) |
| Realized (gains) on investments | (128,888,002) | (106,565,980) |
| Depreciation | 685,960 | 674,545 |
| Changes in operating assets and liabilities: | | |
| Other assets and receivables | (879,497) | 1,983,354 |
| Accrued expenses and other payables | (296,052) | (1,604,477) |
| Grants payable | (6,394,278) | (8,229,836) |
| Deferred liabilities | 2,162,279 | 2,025,826 |
| Net cash used in operating activities | (64,093,093) | (72,805,014) |
| Cash flows from investing activities: | | |
| Sales of investments | 483,639,681 | 384,561,652 |
| Purchases of investments | (302,464,172) | (314,833,193) |
| Purchases of fixed assets | (33,698) | (230,834) |
| Net cash provided by investing activities | 181,141,811 | 69,497,625 |
| Net increase (decrease) in cash equivalents and cash | 117,048,718 | (3,307,389) |
| Cash equivalents and cash at beginning of year | 18,729,715 | 22,037,104 |
| Cash equivalents and cash at end of year | \$ 135,778,433 | 18,729,715 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for excise taxes | \$ 500,000 | 1,266,000 |

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2021 and 2020

(1) Nature of Operations

The Wallace Foundation (the Foundation) is the philanthropic legacy of DeWitt and Lila Acheson Wallace, the co-founders of *Reader's Digest*. Our mission is to foster equity and improvements in learning and enrichment for young people, and in the arts for everyone. As stewards of limited resources, we seek to maximize the benefits derived from our grant dollars, so that they have an impact beyond the services we can fund directly. Our approach is to look for opportunities to develop important new insights and evidence in our areas of interest; fund real world tests of innovative concepts; and then disseminate what we have learned nationally to policymakers and those who work on the ground providing services. As a result, in addition to funding the direct delivery of services to the intended beneficiaries and capacity building for grantees, we gather and publish insights useful to policymakers and those who work in fields where we focus our philanthropy: afterschool, arts education, building audiences for the arts, school leadership, social and emotional learning, and summer learning.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accounts of the Foundation are maintained on the accrual basis of accounting and in conformity with U.S. generally accepted accounting principles (GAAP).

The classification of the Foundation's revenue and gains (losses), is based on the existence or absence of donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. U.S. GAAP requires that the amounts of each class of net assets, without donor restriction and with donor restriction, to be displayed in the balance sheets and that the amounts of change in each of those classes of net assets be displayed in the statements of activities.

These classes are defined as follows:

Net assets without donor restrictions – Net assets which are not subject to donor-imposed stipulations or the restrictions have expired and/or have been satisfied.

Net assets with donor restrictions – Net assets which are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation or that expire by the passage of time.

The Foundation does not have any donor restricted net assets as of December 31, 2021 or 2020.

(b) Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a private foundation as defined in Section 509(a) of the Code. As required by the Code, the Foundation distributes annually at least 5% of the monthly average of the fair market value of its assets no later than the 12-month period following the end of its fiscal year.

The Foundation recognizes the effects of income tax positions only if those positions are more likely than not to be sustained in the future. The Foundation has concluded that there were no uncertainties to disclose.

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Notes to Financial Statements

December 31, 2021 and 2020

(c) Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Foundation uses three levels of inputs to measure fair value:

Level 1: Quoted or published prices in active markets for identical assets. Level 1 assets include debt and equity securities that are traded or published in an active exchange market.

Level 2: Observable inputs other than Level 1 prices such as quoted or published prices for similar assets; prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(d) Investments

Investments in equity securities with readily determinable fair values are reported at fair value based on quoted market prices or published net asset value (NAV). Investments in debt securities are measured using quoted market prices where available. If quoted market prices for debt securities are not available, the fair value is determined using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded markets for debt of similar terms to companies with comparable credit risk, the issuer's credit spread, and illiquidity by sector and maturity.

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Notes to Financial Statements

December 31, 2021 and 2020

The Foundation follows the accounting standards of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10-35-59, *Fair Value Measurement and Disclosures – Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using NAV per share or its equivalent. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

(e) Fixed Assets

Fixed assets consist of furniture, fixtures, equipment, and leasehold improvements. All assets are depreciated on a straight-line basis over the estimated useful lives of the assets. Computers are depreciated over 3 years, office equipment is depreciated over 5 years, and furniture and fixtures are depreciated over 15 years. Leasehold improvements are depreciated over the life of the lease or the estimated life of the leasehold improvement, whichever is shorter.

(f) Grants

Grants expense are reported as an expense and liability of the Foundation when approved by the Foundation's board of directors or the president, under authority delegated by the board of directors, and upon receipt of an acknowledgement of terms, provided the grant is not subject to future conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. A grant is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the barriers.

(g) Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less at the time of purchase, except for those short-term investments managed by the Foundation's investment managers as part of their long-term investment strategies.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. The significant estimates made in the preparation of these financial statements include the fair value of investments. Actual results could differ from those estimates.

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Notes to Financial Statements

December 31, 2021 and 2020

(i) *Natural and Functional Classifications of Expenses*

Program expenses pertain to grant making activities such as program design, proposal review, awarding and monitoring, evaluation, and knowledge dissemination. Direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted, in whole or in part, by the Foundation. Supporting service expenses include costs related to managing the Foundation. Investment expenses reported on the statements of activities excludes certain investment manager fees which are recorded net of investment income on the statements of activities. Investment expenses that are not directly attributable to investment strategy, including staff costs for investment recordkeeping and office costs, are included within supporting services. Certain operating costs have been allocated, based on headcount, among the program and supporting services benefited.

(j) *Implications of COVID-19 on Operations*

The Foundation has continued its operations, including its grantmaking programs, throughout the COVID-19 pandemic.

(3) **Liquidity and Availability of Resources**

The Foundation monitors the liquidity required to meet its grants, committed contracts and operating expenses on a regular basis while also seeking to generate favorable risk-adjusted returns from its investments. The Foundation's liquidity monitoring focuses on ensuring that sufficient liquidity, including cash and cash equivalents and investments convertible to cash in the next 12 months, is available to meet projected spending based on the Foundation's projected payouts for grants and operating expenses. Despite the large amount of available liquid assets, the Foundation anticipates expenditures to remain consistent and not exceed what is required to support and meet its mandated distribution requirements.

The following table represents the Foundation's financial assets available for general expenditure, without restrictions limiting their use, within one year of the balance sheet dates of December 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------------|----------------------|
| Cash and cash equivalents | \$ 135,778,433 | 18,729,715 |
| Investments convertible to cash in the next 12 months | 1,209,750,993 | 1,313,467,766 |
| Receivables for investments sold, net | 13,408,336 | 2,852,809 |
| | <u>\$ 1,358,937,762</u> | <u>1,335,050,290</u> |

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Notes to Financial Statements

December 31, 2021 and 2020

(4) Investments

(a) Fair Value Hierarchy

The following tables present the Foundation's fair value hierarchy for investments, the only financial instruments measured at fair value on an annual basis, as of December 31, 2021 and 2020. Investments measured using the NAV per share practical expedient are included in the total fair value column only and are not disclosed within the fair value hierarchy levels:

| | 2021 | | | |
|---|-----------------------------|----------------|----------------|----------------|
| | Total fair value | Level 1 | Level 2 | Level 3 |
| Public equities: | | | | |
| United States | \$ 175,987,520 | 175,987,520 | — | — |
| Global | 201,995,715 | 201,995,715 | — | — |
| Emerging market | 72,034,810 | 72,034,810 | — | — |
| Public equities total | 450,018,045 | 450,018,045 | — | — |
| Fixed income: | | | | |
| United States government/agency | 9,716,085 | — | 9,716,085 | — |
| Mutual fund | 46,491,619 | 46,491,619 | — | — |
| Fixed income total | 56,207,704 | 46,491,619 | 9,716,085 | — |
| Other: | | | | |
| Short-term investments | 5,569,763 | 5,569,763 | — | — |
| Equity holdings | 142,444 | 142,444 | — | — |
| Receivables for investments sold, net | 13,408,336 | 13,408,336 | — | — |
| Total | 525,346,292 | 515,630,207 | 9,716,085 | — |
| Investments measured using net asset value (or its equivalent): | | | | |
| Public equities: | | | | |
| United States | 180,365,142 | | | |
| Global | 217,055,588 | | | |
| Emerging market | 69,360,097 | | | |
| Private capital | 520,719,642 | | | |
| Hedged equities | 133,637,437 | | | |
| Absolute return | 188,409,413 | | | |
| Real assets | 62,211,103 | | | |
| Total investments using net asset value | 1,371,758,422 | | | |
| Total investments | \$ 1,897,104,714 | | | |

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Notes to Financial Statements

December 31, 2021 and 2020

| | 2020 | | | |
|---|-------------------------|--------------------|-------------------|----------------|
| | Total | | | |
| | fair value | Level 1 | Level 2 | Level 3 |
| Public equities: | | | | |
| United States | \$ 170,255,939 | 170,255,939 | — | — |
| Global | 210,964,423 | 210,964,423 | — | — |
| Emerging market | 77,584,180 | 77,584,180 | — | — |
| Public equities total | <u>458,804,542</u> | <u>458,804,542</u> | <u>—</u> | <u>—</u> |
| Fixed income: | | | | |
| United States government/agency | 85,113,465 | — | 85,113,465 | — |
| Mutual fund | 65,008,581 | 65,008,581 | — | — |
| Cash equivalent | 5,098,974 | 5,098,974 | — | — |
| Fixed income total | <u>155,221,020</u> | <u>70,107,555</u> | <u>85,113,465</u> | <u>—</u> |
| Other: | | | | |
| Short-term investments | 8,166,646 | 8,166,646 | — | — |
| Equity holdings | 3,279,251 | 3,279,251 | — | — |
| Receivables for investments sold, net | 2,852,809 | 2,852,809 | — | — |
| Total | <u>628,324,268</u> | <u>543,210,803</u> | <u>85,113,465</u> | <u>—</u> |
| Investments measured using net asset value (or its equivalent): | | | | |
| Public equities: | | | | |
| United States | 218,666,421 | | | |
| Global | 139,070,189 | | | |
| Emerging market | 55,107,279 | | | |
| Private capital | 165,391,210 | | | |
| Hedged equities | 200,879,075 | | | |
| Absolute return | 334,744,659 | | | |
| Real assets | 45,356,136 | | | |
| Total investments using net asset value | <u>1,159,214,969</u> | | | |
| Total investments | \$ <u>1,787,539,237</u> | | | |

Short-term investments include money market funds and U.S. government securities managed by the Foundation's investment managers as part of their long-term investment strategies.

The Foundation did not have any Level 3 investments in 2021 or 2020.

The Foundation recognizes transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2021 and 2020.

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Notes to Financial Statements

December 31, 2021 and 2020

(b) Strategies of Commingled Stock, Hedge Fund, and Private Asset Funds

The following tables list the investment strategies, redemption terms, and assets for public equities, private capital, hedged equities, absolute return funds, and real assets measured at fair value using NAV (or its equivalents) as of December 31, 2021 and 2020:

| | 2021 | | | |
|------------------|-------------------------|-----------------------------|---|---------------------------------|
| | <u>Total fair value</u> | <u>Unfunded commitments</u> | <u>Redemption dates per year</u> | <u>Redemption notice period</u> |
| Public equities: | | | | |
| United States | \$ 180,365,142 | 2,143,882 | Bi-Annually/Quarterly | 60/65/90 days |
| Global | 217,055,588 | — | Monthly/Quarterly Annually (with lock-up until September 2023) | 30/60 days 90 days |
| Emerging market | 69,360,097 | — | Bi-Annually (with lock-up until June 2023) Daily | 60 days 30 days |
| Private capital | 520,719,642 | 189,690,635 | Not redeemable | Not redeemable |
| Hedged equities | 133,637,437 | — | Quarterly/Annually | 45 days |
| Absolute return | 188,409,413 | 18,900,000 | Monthly/Quarterly Semi-Annually | 5/65 days 60/90 days |
| Real assets | <u>62,211,103</u> | <u>38,359,272</u> | Not redeemable | Not redeemable |
| Total | <u>\$ 1,371,758,422</u> | <u>249,093,789</u> | | |

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Notes to Financial Statements

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| | 2020 | | | |
|------------------|-----------------------------|---------------------------------|--|---|
| | Total fair value | Unfunded commitments | Redemption dates per year | Redemption notice period |
| Public equities: | | | | |
| United States | \$ 218,666,421 | 2,143,882 | Bi-Annually/Quarterly | 60/90 days |
| Global | 139,070,189 | — | Monthly/Quarterly | 30/60 days |
| | | | Annually (with lock-up until September 2023) | 90 days |
| Emerging market | 55,107,279 | — | Bi-Annually (with lock-up until June 2023) | 60 days |
| | | | Daily | 30 days |
| Total | 412,843,889 | 2,143,882 | | |
| Private capital | 334,744,659 | 175,504,399 | Not redeemable | Not redeemable |
| Hedged equities | 200,879,075 | — | Quarterly/Annually | 45 days |
| Absolute return | 165,391,210 | 10,000,000 | Monthly/Quarterly | 5/65 days |
| | | | Semi-Annually | 60/90 days |
| Real assets | 45,356,136 | 21,265,808 | Not redeemable | Not redeemable |
| Total | \$ 1,159,214,969 | 208,914,089 | | |

The following provides details for the investment strategies as of December 31, 2021 listed above:

(i) *Public Equities*

United States

This includes \$180.4 million invested in four funds that invest in US equities.

Global

This includes \$217.1 million invested in four funds that invest in Global equities.

Emerging Markets

This includes \$69.4 million invested in three funds that invest in Emerging Market equities.

(ii) *Private Capital*

This includes \$520.7 million invested in 67 funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years approximately. These funds invest directly in diversified portfolios of buyout, growth and venture capital investments.

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Notes to Financial Statements

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(iii) *Hedged Equities*

This includes \$133.6 million invested in two hedge funds that invest in public equities using a combination of long and short positions.

(iv) *Absolute Return*

This includes \$188.4 million invested in six managers that allocate capital across multiple asset classes and geographies and provide returns largely independent of overall equity market moves.

(v) *Real Assets*

This includes \$62.2 million invested in fifteen funds that invest in diversified portfolios of real estate and natural resources, both of which provide material protection against inflation, generate current income and are less correlated with equities.

(5) Fixed Assets, Net

At December 31, 2021 and 2020, fixed assets are comprised of the following:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|---------------------|------------------|
| Furniture and fixtures | \$ 1,000,993 | 1,000,993 |
| Computer hardware | 290,252 | 291,121 |
| Equipment | 50,289 | 50,289 |
| Leasehold improvements | 7,952,858 | 7,927,762 |
| Artwork | 104,613 | 104,613 |
| | <u>9,399,005</u> | <u>9,374,778</u> |
| Less accumulated depreciation | <u>(1,412,730)</u> | <u>(736,241)</u> |
| | <u>\$ 7,986,275</u> | <u>8,638,537</u> |

Depreciation expense for fixed assets for the years ended December 31, 2021 and 2020 was \$685,960 and \$674,545, respectively.

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Notes to Financial Statements

December 31, 2021 and 2020

(6) Grants Payable

At December 31, 2021 and 2020, non-conditional grants scheduled to be paid in future years are as follows:

| | 2021 | 2020 |
|--|--------------|-------------|
| Year: | | |
| 2021 | \$ — | 11,105,349 |
| 2022 | 7,568,018 | 4,876,188 |
| 2023 | 1,562,665 | 384,763 |
| 2024 | 788,000 | — |
| | 9,918,683 | 16,366,300 |
| Discount to present value (based on interest rates from 0.18% to 0.78% and 0.10% to 2.66% for 2021 and 2020, respectively) | (34,490) | (87,829) |
| | \$ 9,884,193 | 16,278,471 |

At December 31, 2021, the value of conditional grants totaled \$13,816,453, which have not been recorded in the financial statements as they have not met the criteria for expense recognition at December 31, 2021. The Foundation expects such amounts to be recognized as grant expense when the expense recognition criteria is met.

(7) Deferred Liabilities

At December 31, 2021 and 2020, deferred liabilities consisted of the following:

| | 2021 | 2020 |
|-----------------------------|---------------|-------------|
| Federal excise tax (note 8) | \$ 10,780,929 | 8,595,690 |
| Landlord incentives | 1,338,320 | 1,361,280 |
| | \$ 12,119,249 | 9,956,970 |

(8) Federal Excise Tax

Due to recent changes in tax law, under Section 4940(a) of the Code, as a private foundation, the Foundation is subject to a federal excise tax equal to 1.39% of its net investment income for tax purposes. The Foundation's current federal excise taxes for the year ended December 31, 2021 and December 31, 2020 were \$(368,533) and \$1,033,950, respectively.

The Foundation records a liability for deferred federal excise tax at the 1.39% rate on the total unrealized appreciation in the fair value of investments. The federal excise tax will be paid as realized gains are reported for tax purposes. The unrealized gains on investments are reported net of the deferred federal excise tax expense of \$2,185,239 and \$2,059,970 for the years ended December 31, 2021 and 2020, respectively, on the statements of activities.

THE WALLACE FOUNDATION

Notes to Financial Statements

December 31, 2021 and 2020

(9) Lease Commitments

In December 2018, the Foundation entered into a lease agreement, expiring in 2035, for office space.

The Foundation's contractual lease commitments are as follows:

| | |
|-----------------|-----------------------------|
| Year: | |
| 2022 | \$ 1,588,000 |
| 2023 | 1,588,000 |
| 2024 | 1,642,000 |
| 2025 | 1,719,000 |
| 2026 | 1,719,000 |
| 2027 and beyond | <u>14,615,000</u> |
| | \$ <u><u>22,871,000</u></u> |

During the years ended December 31, 2021 and 2020, rent expense, including escalations, was \$1,563,258 and \$1,488,569, respectively.

(10) Pension Plans

The Foundation provides a defined-contribution retirement plan for all eligible employees, whereby the Foundation contributes 15% of a participant's eligible earnings on an annual basis. In addition, the Foundation provides a supplemental executive retirement plan for the benefit of certain eligible employees. Total pension expense for the years ended December 31, 2021 and 2020 was \$1,425,785 and \$1,479,588, respectively.

(11) Subsequent Events

The Foundation evaluated events subsequent to the balance sheet date of December 31, 2021 through June 22, 2022, which was the date the financial statements were available to be issued. There were no subsequent events of which management is aware, that would require recognition or additional disclosure in the Foundation's financial statements.