



CLOVER FOUNDATION and SUBSIDIARY

Consolidated Financial Statements

December 31, 2021

(With Independent Auditors' Report)

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Independent Auditor's Report

The Board of Trustees  
Clover Foundation:

***Opinion***

We have audited the consolidated financial statements of Clover Foundation, Inc. (the "Foundation", a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2021, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 audit. 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 U.S. 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 consolidated financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

## ***Report on Summarized Comparative Information***

We have previously audited the Foundation's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Rogoff & Company PC*

Rogoff & Company, PC  
New York, New York  
January 31, 2023

CLOVER FOUNDATION and SUBSIDIARY  
Consolidated Statement of Financial Position

December 31, 2021  
(with comparative amounts as of December 31, 2020)

|                                               | 2021           | 2020           |
|-----------------------------------------------|----------------|----------------|
| <u>ASSETS</u>                                 |                |                |
| Cash and cash equivalents                     | \$ 1,186,540   | \$ 501,978     |
| Program loans receivable                      | 12,857,202     | 14,768,985     |
| Accrued investment income                     | 90,306         | 93,911         |
| Other assets                                  | -              | 116,562        |
| Investments, at fair value                    | 89,035,171     | 80,547,150     |
| Foreign real estate investment                | 5,000,000      | 5,000,000      |
| Domestic land and building, net               | 20,803,255     | 21,231,739     |
| Total assets                                  | \$ 128,972,474 | \$ 122,260,325 |
| <u>LIABILITIES and NET ASSETS</u>             |                |                |
| Accounts payable and accrued liabilities      | \$ 34,554      | \$ 24,129      |
| Grants payable                                | -              | 285,656        |
| Total liabilities                             | 34,554         | 309,785        |
| Commitments and contingencies (Notes 3 and 4) |                |                |
| Net assets without donor restrictions         | 128,937,920    | 121,950,540    |
| Total liabilities and net assets              | \$ 128,972,474 | \$ 122,260,325 |

The accompanying notes are an integral part of these consolidated financial statements

CLOVER FOUNDATION and SUBSIDIARY  
Consolidated Statement of Activities  
Year ended December 31, 2021  
(with comparative amounts for the year ended December 31, 2020)

|                                                    | <u>2021</u>               | <u>2020</u>               |
|----------------------------------------------------|---------------------------|---------------------------|
| Support and revenue:                               |                           |                           |
| Investment return, net                             | \$ 10,910,562             | \$ 9,953,404              |
| Contributions                                      | 195,000                   | 400,000                   |
| Program rental revenue                             | 428,484                   | 428,484                   |
| Program loan interest                              | <u>92,747</u>             | <u>40,482</u>             |
| <br>Total support and revenue                      | <br><u>11,626,793</u>     | <br><u>10,822,370</u>     |
| <br>Program expenses:                              |                           |                           |
| Grants                                             | 4,120,355                 | 2,232,949                 |
| Program support                                    | <u>442,050</u>            | <u>443,133</u>            |
|                                                    | 4,562,405                 | 2,676,082                 |
| <br>Management and general                         | <br><u>77,008</u>         | <br><u>50,546</u>         |
| <br>Total expenses                                 | <br><u>4,639,413</u>      | <br><u>2,726,628</u>      |
| <br>Excess of support and<br>revenue over expenses | <br>6,987,380             | <br>8,095,742             |
| <br>Net assets without donor restrictions          |                           |                           |
| Beginning of year                                  | <u>121,950,540</u>        | <u>113,854,798</u>        |
| <br>End of year                                    | <br><u>\$ 128,937,920</u> | <br><u>\$ 121,950,540</u> |

The accompanying notes are an integral part of these consolidated financial statements

CLOVER FOUNDATION and SUBSIDIARY  
Consolidated Statement of Functional Expenses  
Year ended December 31, 2021  
(with summarized totals for the year ended December 31, 2020)

|                   | <u>Grants</u>       | <u>Program<br/>Support</u> | <u>Management<br/>and General</u> | <u>2021<br/>Total</u> | <u>2020<br/>Total</u> |
|-------------------|---------------------|----------------------------|-----------------------------------|-----------------------|-----------------------|
| Grants            | \$ 4,120,355        | \$ -                       | \$ -                              | \$ 4,120,355          | \$ 2,232,949          |
| Personnel Costs   | -                   | 11,241                     | 24,256                            | 35,497                | 35,537                |
| Professional fees | -                   | -                          | 41,485                            | 41,485                | 16,116                |
| Occupancy         | -                   | 2,325                      | 10,077                            | 12,402                | 12,021                |
| Depreciation      | -                   | 428,484                    | -                                 | 428,484               | 428,484               |
| Other             | -                   | -                          | 1,190                             | 1,190                 | 1,521                 |
|                   | <u>\$ 4,120,355</u> | <u>\$ 442,050</u>          | <u>\$ 77,008</u>                  | <u>\$ 4,639,413</u>   | <u>\$ 2,726,628</u>   |

The accompanying notes are an integral part of these consolidated financial statements

CLOVER FOUNDATION and SUBSIDIARY  
Consolidated Statement of Cash Flows  
Year ended December 31, 2021  
(with comparative amounts for the year ended December 31, 2020)

|                                                                                                                           | 2021                | 2020               |
|---------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|
| Cash flows from operating activities:                                                                                     |                     |                    |
| Excess of support and revenue over expenses                                                                               | \$ 6,987,380        | \$ 8,095,742       |
| Adjustments to reconcile excess of support and revenue over expenses to net cash provided (used) by operating activities: |                     |                    |
| Realized and unrealized gain on investments                                                                               | (7,990,692)         | (7,550,198)        |
| Hedge funds and feeder funds earnings                                                                                     | (1,718,271)         | (1,654,947)        |
| Foreign currency loss (gain)                                                                                              | 24,997              | (4,535)            |
| Non-cash grants                                                                                                           | 564,000             | 549,750            |
| Depreciation                                                                                                              | 428,484             | 428,484            |
| Changes in:                                                                                                               |                     |                    |
| Accrued investment income                                                                                                 | 3,605               | 13,465             |
| Other assets                                                                                                              | 116,562             | 21,823             |
| Accounts payable and accrued liabilities                                                                                  | 10,425              | 13,129             |
| Grants payable                                                                                                            | (285,656)           | 285,656            |
| Cash provided (used) provided by operating activities                                                                     | <u>(1,859,166)</u>  | <u>198,369</u>     |
| Cash flows from investing activities:                                                                                     |                     |                    |
| Program loans repaid                                                                                                      | 1,347,783           | 1,126,365          |
| Program loans made                                                                                                        | -                   | (500,000)          |
| Sale of investments                                                                                                       | 32,518,886          | 25,426,446         |
| Purchase of investments                                                                                                   | (33,246,669)        | (27,882,600)       |
| Hedge funds and feeder funds distributions                                                                                | 2,388,993           | 1,732,091          |
| Hedge funds and feeder funds contributions                                                                                | (465,265)           | (1,636,973)        |
| Cash provided (used) by investing activities                                                                              | <u>2,543,728</u>    | <u>(1,734,671)</u> |
| Increase (decrease) in cash and cash equivalents                                                                          | 684,562             | (1,536,302)        |
| Cash and cash equivalents - beginning of year                                                                             | <u>501,978</u>      | <u>2,038,280</u>   |
| Cash and cash equivalents - end of year                                                                                   | <u>\$ 1,186,540</u> | <u>\$ 501,978</u>  |
| Supplemental data:                                                                                                        |                     |                    |
| Federal excise tax paid                                                                                                   | <u>\$ 77,922</u>    | <u>\$ 34,484</u>   |

The accompanying notes are an integral part of these consolidated financial statements



# CLOVER FOUNDATION and SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2021

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### **Note 1 – Organization**

Clover Foundation (the “Foundation”) is a not-for-profit non-operating private foundation that provides a program of support and assistance to vocational, charitable, research and educational institutions from the elementary level through graduate studies. The Foundation does this by making grants and loans to domestic and foreign non-profit charitable organizations fostering the same objectives as the Foundation.

The Foundation also owns real property that it leases to a tax-exempt, non-profit educational organization, IESE-USA, Inc.

The Foundation was formed in the State of Texas on May 27, 1986.

### **Note 2 – Summary of Significant Accounting Policies**

#### Principles of Consolidation

The consolidated financial statements include the accounts of Clover Foundation and its wholly-owned subsidiary, 165 W 57 LLC. The LLC was formed in 2009 for the sole purpose of holding all right, title and interest in the Foundation's real property. Previously, such real property was owned directly by the Foundation. All material inter-entity transactions and balances have been eliminated in consolidation.

#### Basis of Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

As of December 31, 2021, there were no net assets with donor restrictions.

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

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**Note 2 – Summary of Significant Accounting Policies** (continued)

Cash and Cash Equivalents

The Foundation's cash consists of cash on deposit with banks. Cash equivalents represent money market accounts that are highly liquid, other than those held in the investment portfolio which are invested for long-term purposes.

Concentrations of credit risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Foundation maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Foundation's cash and cash equivalent accounts have been placed with high credit quality financial institutions. The Foundation has not experienced, nor does it anticipate, any losses with respect to such accounts.

Contributions

The Foundation recognizes contributions when cash, securities or other assets, or unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation.

Contributed Services

Contributed services are recognized as contributions if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The Foundation has recorded no contributed services because all services requiring specific professional expertise during the year were purchased.

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

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**Note 2 – Summary of Significant Accounting Policies** (continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The Foundation is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to federal excise tax on net investment income, including realized gains.

The Foundation recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. The Foundation evaluated its tax positions and determined that it has no uncertain tax positions.

Investments

Except for a foreign real estate investment described in Note 3, investments are reported at fair value in the consolidated statement of financial position; and changes in fair value are reported as investment return in the consolidated statement of activities. Investment in foreign real estate is reported at cost in the consolidated statement of financial position.

Net investment return is reported in the consolidated statement of activities and consists of interest and dividends income and realized and unrealized capital gains and losses, net of direct expenses.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are recorded in the consolidated statement of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management based on time-and-effort, space usage and other pertinent data.

CLOVER FOUNDATION and SUBSIDIARY  
Notes to Consolidated Financial Statements  
December 31, 2021

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**Note 2 – Summary of Significant Accounting Policies** (continued)

Comparative Information

The financial statements include certain prior-year comparative information that may not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2020, from which the comparative information was derived.

New Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a separate line-item for contributed nonfinancial assets on the statement of activities, apart from contributed cash and other financial assets. ASU 2020-07 should be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021.

The Foundation is currently evaluating the impact of adopting ASU 2020-07 on the financial statements.

Subsequent Events

The Foundation has evaluated subsequent events through January 31, 2023, which is the date the consolidated financial statements were available to be issued. The Foundation is not aware of any material subsequent events.

**Note 3 – Investments**

Investment Policy

The Foundation maintains an investment portfolio for which the primary return objective is long-term growth with a moderate level of volatility over a ten-year time horizon. A well-established portfolio manager is employed. Specific policies call for a mixture of assets with target allocations of: cash and equivalents - 2%; equities - 54%; fixed income securities 17%; hedge funds - 12%; private investments - 15%. Significant variations may be made as approved by the investment committee.

The Foundation selectively participates in private investment opportunities through *feeder funds* that allow for smaller commitment amounts. These opportunities have investment objectives deemed by the investment committee to be compatible with the Foundation's overall investment goals and strategies.

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

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**Note 3 – Investments** (continued)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Foundation groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets in active markets as of the measurement date.
  
- Level 2 Other observable inputs, either directly or indirectly, including:
  - Quoted prices for similar assets in active markets;
  - Quoted prices for identical or similar assets in non-active markets;
  - Inputs other than quoted prices that are observable for the asset; and,
  - Inputs that are derived principally from or corroborated by other observable market data.
  
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Fair value information concerning hedge fund and feeder fund investments is not determined within the fair value hierarchy described above. The fair values of those assets are measured using net asset values ("NAV") reported by the funds as a practical expedient.

Equity and commodity securities are valued at the closing quoted price in an active market. Fixed income securities are valued based on yields of similar instruments with comparable characteristics. Cash and cash equivalents held within the investment portfolio are carried at cost.

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

**Note 3 – Investments** (continued)

Fair Value Measurements (continued)

The following schedule summarizes the fair value of investments, as of December 31, 2021:

|                                 | Fair Value           |                      |                      | Percentage<br>of Total |
|---------------------------------|----------------------|----------------------|----------------------|------------------------|
|                                 | Level 1              | Level 2              | Total                |                        |
| Cash and cash equivalents       | \$ 3,976,224         | \$ -                 | \$ 3,976,224         | 4.5%                   |
| Fixed income                    | -                    | 11,695,570           | 11,695,570           | 13.1%                  |
| Equities                        | 54,978,399           | -                    | 54,978,399           | 61.8%                  |
|                                 | <u>\$ 58,954,623</u> | <u>\$ 11,695,570</u> | 70,650,193           | 79.4%                  |
| Hedge funds and feeder funds    |                      |                      | 18,384,978           | 20.6%                  |
| Total investments at fair value |                      |                      | <u>\$ 89,035,171</u> | <u>100%</u>            |

Additional information concerning hedge fund and feeder fund investments is presented below.

|                                                     | Fair Value           | Unfunded<br>Commitment | Redemption<br>Frequency | Redemption Notice<br>Period         |
|-----------------------------------------------------|----------------------|------------------------|-------------------------|-------------------------------------|
| Fund of funds (a)                                   | \$ 11,126,908        | \$ -                   | Quarterly               | 90 days                             |
| Equity long/short hedge fund (b)                    | 550,019              | -                      | Monthly                 | 60 calendar plus 8<br>business days |
| Multi-strategy and relative value<br>hedge fund (c) | 676,823              | -                      | Quarterly               | 90 calendar plus 8<br>business days |
| Feeder funds (d)                                    | 6,031,228            | 2,697,540              | N/A                     | N/A                                 |
|                                                     | <u>\$ 18,384,978</u> | <u>\$ 2,697,540</u>    |                         |                                     |

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

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**Note 3 – Investments** (continued)

Fair Value Measurements (continued)

Fund of funds (a)

The hedge fund primarily invests with portfolio managers employing different investment strategies. For example, some of the fund's portfolio managers may rely on equity strategies (e.g., long/short, long only), while others may rely on fixed income or macro-economic strategies. Within each strategy, the fund expects that it will not rely on any single portfolio manager. The fair value of this investment was estimated using the net asset value per share reported by the fund manager. Shares of the fund may be redeemed as of the last business day of each calendar quarter at the net asset value per share then in effect. Requests for redemption must be made at least 90 calendar days prior to the redemption date.

Equity long/short hedge fund (b)

This category includes HedgeForum Renaissance Equities Ltd RIEF, Class B ("RIEF"). RIEF is a long/short equity fund and trades U.S. equities through the use of proprietary mathematical modeling techniques. The fund seeks to achieve superior rates of return with low volatility and a beta of approximately 0.40 relative to the S&P 500 Index. The fair value of this investment was estimated using the net asset value per share reported by the fund manager. RIEF follows a monthly redemption schedule, and requests for redemption must be made at least 60 calendar plus 8 business days prior to the redemption date.

Multi-strategy and relative value hedge fund (c)

This category includes HedgeForum Millennium, Ltd. Class A ("Millennium"). Millennium invests across a diverse range of strategies including relative value fundamental equity, quantitative strategies, fixed income, and equity arbitrage. Typically significant leverage is applied in seeking to take advantage of arbitrage and relative value opportunities that are small and short-term in nature. The fair value of this investment was estimated using the net asset value per share reported by the fund manager. The fund follows a quarterly redemption schedule, and requests for redemption must be made at least 90 calendar plus 8 business days prior to the redemption date. There is a 5% quarterly feeder level gate in place, meaning that for quarters in which the overall aggregated redemption requests of the feeder exceed the 5% quarterly threshold, individual investor redemption requests will be pro-rated.

Feeder funds (d)

The twelve feeder funds invest in European non-performing loans ("NPL"); distressed NPL portfolios; real estate; structured credit transactions; distressed securities; a diversified portfolio of primarily privately negotiated, secured loans to European midmarket companies; oil and gas; private and late-stage growth companies. The fair value of these investments was estimated using the net asset value per share reported by the funds. These investments can never be redeemed with the funds. Distributions will be received as their underlying investments are liquidated, estimated to occur over the next 4 to 7 years.

## CLOVER FOUNDATION and SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2021

**Note 3 – Investments** (continued)Investment Return

The composition of investment return was as follows:

|                                              | <u>2021</u>          | <u>2020</u>         |
|----------------------------------------------|----------------------|---------------------|
| Realized and unrealized gain                 | \$ 7,990,692         | \$ 7,550,198        |
| Dividends and interest, net of foreign taxes | 1,756,197            | 1,099,910           |
| Investment fees paid directly                | (412,090)            | (332,284)           |
| Hedge funds and feeder funds                 | 1,718,271            | 1,654,947           |
| Foreign currency gain (loss)                 | (24,997)             | 4,535               |
| Excise tax on investment income              | (121,717)            | (25,226)            |
| Class action settlements                     | 4,206                | 1,324               |
|                                              | <u>\$ 10,910,562</u> | <u>\$ 9,953,404</u> |

Investment Activity

The changes in fair value of investments for the years 2021 and 2020 are summarized as follows:

|                                            | <u>2021</u>          | <u>2020</u>          |
|--------------------------------------------|----------------------|----------------------|
| Beginning of year                          | \$ 80,547,150        | \$ 68,976,434        |
| Purchases                                  | 33,246,669           | 27,882,600           |
| Sales                                      | (32,518,886)         | (25,426,446)         |
| Realized and unrealized gain (loss)        | 7,990,692            | 7,550,198            |
| Hedge funds and feeder funds contributions | 465,265              | 1,636,973            |
| Hedge funds and feeder funds distributions | (2,388,993)          | (1,732,091)          |
| Hedge funds and feeder funds earnings      | 1,718,271            | 1,654,947            |
| Foreign exchange gain (loss)               | (24,997)             | 4,535                |
| End of year                                | <u>\$ 89,035,171</u> | <u>\$ 80,547,150</u> |



CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

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**Note 4 – Foreign Real Estate and Charitable Remainder Trust**

The Foundation became remainder beneficiary of an irrevocable charitable trust (the "Trust") in 2014. The Trust is a Mexican entity operating under the laws of Mexico, and is expected to distribute its assets to the Foundation at some future time, not likely to be sooner than ten years. The assets of the Trust are a mix of securities, operating businesses, real estate, and various other assets. Those assets will be managed by the trustees until the distribution occurs. The Foundation's management has been unable to determine whether this arrangement meets the criteria for recording its beneficial interest in the Trust as an asset. Accordingly, the Foundation's beneficial interest in the Trust is not reported in the accompanying consolidated financial statements.

In June 2012, the Foundation invested \$5,000,000 for the title to a building located in Mexico City. One of the operating businesses owned by the Trust will have beneficial ownership of the building's annual net income for an initial period of 16 years. After the initial period, the beneficial ownership of the building's annual net income will revert to the Foundation. The Foundation's \$5,000,000 investment is reflected in the statement of financial position at cost.

In December 2014, the Board of the Foundation assigned its interest in the building as security for a bank loan to the aforementioned operating business.

In May 2019, the Board agreed to pledge \$15 million of the Foundation's assets to guarantee a loan by Citibank to the Trust, which had more favorable terms than existing financing. The decision was reached after having received advice from legal counsel that the proposed guarantee was compliant with IRS regulations and consistent with the fiduciary duties of the members of the Clover Board.

**Note 5 – Domestic Land and Building and Program Rental Revenue**

In 2007 the Foundation purchased a 6-story office building in New York City for an acquisition cost of approximately \$25,766,000. Improvements to make the facility suitable for educational purposes costing approximately \$18 million were made by the tenant, IESE-USA, Inc., a charitable, non-profit organization, with partial financing provided by the Foundation

The building was placed in service in May, 2010. The tenant is responsible for all operating costs of the property. The Foundation charges rent to the tenant in an amount equal to the Foundation's depreciation expense on the building. Depreciation of the property is recorded using the straight-line method over 30 years.

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Notes to Consolidated Financial Statements  
December 31, 2021

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**Note 5 – Domestic Land and Building and Program Rental Revenue** (continued)

The composition of the Foundation’s land and building in New York City is as follows:

|                           |                      |
|---------------------------|----------------------|
| Land                      | \$ 12,912,000        |
| Building and improvements | <u>12,854,528</u>    |
|                           | 25,766,528           |
| Accumulated depreciation  | <u>(4,963,273)</u>   |
|                           | <u>\$ 20,803,255</u> |

Depreciation of building and improvements is recorded using the straight-line method over 30 years. Depreciation expense for 2021 was \$428,484. The land and building are leased to IESE-USA until May 15, 2030 at an annual rental \$428,484. For the year ended December 31, 2020, the Foundation granted IESE-USA \$428,484 rent relief due to the loss of program income as a result of the COVID-19 outbreak.

**Note 6 – Related Party Transactions**

The Foundation has entered into a service agreement with a tax-exempt public charity with similar goals as the Foundation. That agreement calls for the public charity to provide administrative services regarding corporate, grant, loan, donor, and investment administration. The agreement calls for an expense reimbursement payment from the Foundation to the public charity of \$48,888 per year. The public charity has board members and officers who are also board members and officers of the Foundation. The Foundation’s directors and/or officers may from time to time serve as directors and/or officers of not-for-profit organizations that receive grants or loans from, or make contributions to, the Foundation.

**Note 7 – Program Loans**

As part of its charitable program the Foundation provides loans to vocational, educational, research and charitable organizations worldwide, the proceeds of which are for the recipients’ capital construction projects or charitable programs. The Foundation may at any time grant the reduction or forgiveness of principal or interest owed when it is deemed to be consistent with the charitable purposes of the Foundation and in the interest of its program loan recipients. In addition, the Foundation may from time-to-time enter into incentive agreements with borrowers, whereby certain portions of principal and interest will be reduced or forgiven, conditioned upon the borrower meeting repayment schedules and certain other performance factors. Any amounts reduced or forgiven are charged to grant expense in the period such actions are taken.

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

**Note 7 – Program Loans** (continued)

Loans receivable of \$12,857,202 at December 31, 2021 consist of twelve loans that are due in installments through 2033. Loans range in interest from 0% to 2%. Program loans receivable are reviewed at least annually for potential impairment of collectability and conversion to grants. Principal payments on program loans receivable are scheduled to be received as follows:

| <u>Year</u> | <u>Amount</u>        |
|-------------|----------------------|
| 2022        | \$ 1,614,333         |
| 2023        | 1,438,632            |
| 2024        | 1,341,049            |
| 2025        | 1,186,200            |
| 2026        | 3,247,542            |
| 2027 - 2033 | 4,029,446            |
|             | <u>\$ 12,857,202</u> |

In response to the COVID-19 crisis, the Foundation's Board of Trustees authorized the postponement of up to \$750,000 of loan principal that was due in 2020 for up to two years. In addition, \$45,700 of loan interest was forgiven and \$63,100 was postponed.

**Note 8 – Availability and Liquidity**

The following represents the Foundation's financial assets at December 31, 2021:

|                                               |                      |
|-----------------------------------------------|----------------------|
| Financial assets at end of year:              |                      |
| Cash and cash equivalents                     | \$ 1,186,540         |
| Program loans receivable                      | 12,857,202           |
| Accrued investment income and other assets    | 90,306               |
| Investments, at fair value                    | 89,035,171           |
|                                               | <u>103,169,219</u>   |
| Amounts not available within one year:        |                      |
| Program loans due beyond one year             | (11,242,869)         |
| Pledged assets (see Note 4)                   | (15,000,000)         |
| Investments subject to liquidity restrictions | (6,031,228)          |
|                                               | <u>\$ 70,895,122</u> |

CLOVER FOUNDATION and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

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**Note 8 – Availability and Liquidity** (continued)

The Foundation structures its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Foundation's primary outlays of operating cash and cash equivalents are for grants and program loans, both of which are made on a discretionary basis by the Board, with due consideration of the effect on liquidity. As part of its liquidity plan, a significant portion of the Foundation's investments have immediate liquidity.