



Clover Foundation, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2023

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1 - 2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 20

Independent Auditor's Report

To The Board of Directors of the
Clover Foundation, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of the Clover Foundation, Inc. and Subsidiary (the "Foundation", a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2023, 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 present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2023, and the 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 (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 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 Consolidated 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 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 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 December 31, 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 5, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Rogoff & Company, PC
Certified Public Accountants
New York, New York
September 9, 2024

Clover Foundation, Inc. and Subsidiary
Consolidated Statement of Financial Position
As of December 31, 2023
(with comparative amounts as of December 31, 2022)

	2023	2022
<u>ASSETS</u>		
Cash and cash equivalents	\$ 866,496	\$ 707,618
Program loans receivable	14,804,950	12,177,118
Accrued interest and dividends	108,719	85,395
Rent receivable	107,121	107,121
Prepaid federal excise tax	20,430	29,840
Investments, at fair value	80,953,696	75,323,851
Foreign real estate investment	5,000,000	5,000,000
Domestic land and building, net	19,946,287	20,374,771
Total assets	\$ 121,807,699	\$ 113,805,714
<u>LIABILITIES and NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 43,076	\$ 17,076
Grants payable	214,000	-
Total liabilities	257,076	17,076
Net assets		
Without donor restrictions	121,493,735	113,674,850
With donor restrictions	56,888	113,788
Total net assets	121,550,623	113,788,638
Total liabilities and net assets	\$ 121,807,699	\$ 113,805,714

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

Clover Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

For the year ended December 31, 2023
(with summarized totals for the year ended December 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Revenue and support				
Investment return, net	\$ 10,191,405	\$ -	\$ 10,191,405	\$ (11,749,670)
Contributions	200,000	152,721	352,721	828,788
Program rental income	428,484	-	428,484	428,484
Program loan interest	127,267	-	127,267	133,578
	<u>10,947,156</u>	<u>152,721</u>	<u>11,099,877</u>	<u>(10,358,820)</u>
Net assets released from restrictions	<u>209,621</u>	<u>(209,621)</u>	<u>-</u>	<u>-</u>
 Total revenue and support	 <u>11,156,777</u>	 <u>(56,900)</u>	 <u>11,099,877</u>	 <u>(10,358,820)</u>
Expenses				
Grants	2,799,138	-	2,799,138	4,275,099
Program support	451,972	-	451,972	445,633
Total program expenses	<u>3,251,110</u>	<u>-</u>	<u>3,251,110</u>	<u>4,720,732</u>
General administration	<u>86,782</u>	<u>-</u>	<u>86,782</u>	<u>69,730</u>
 Total expenses	 <u>3,337,892</u>	 <u>-</u>	 <u>3,337,892</u>	 <u>4,790,462</u>
 Changes in net assets	 7,818,885	 (56,900)	 7,761,985	 (15,149,282)
Net assets - beginning of year	<u>113,674,850</u>	<u>113,788</u>	<u>113,788,638</u>	<u>128,937,920</u>
Net assets - end of year	<u>\$ 121,493,735</u>	<u>\$ 56,888</u>	<u>\$ 121,550,623</u>	<u>\$ 113,788,638</u>

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

Clover Foundation, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the year ended December 31, 2023
(with summarized totals for the year ended December 31, 2022)

	Grants	Program support	General adminis- tration	2023 Total	2022 Total
Grants	\$ 2,799,138	\$ -	\$ -	\$ 2,799,138	\$ 4,275,099
Personnel costs	-	17,927	40,392	58,319	41,083
Professional fees	-	-	35,000	35,000	29,197
Occupancy	-	5,561	7,993	13,554	14,559
Depreciation	-	428,484	-	428,484	428,484
Other	-	-	3,397	3,397	2,040
	<u>\$ 2,799,138</u>	<u>\$ 451,972</u>	<u>\$ 86,782</u>	<u>\$ 3,337,892</u>	<u>\$ 4,790,462</u>

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

Clover Foundation, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the year ended December 31, 2023
(with comparative amounts for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Changes in net assets	\$ 7,761,985	\$ (15,149,282)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Realized and unrealized (gain) loss on investments	(7,760,192)	12,458,911
Hedge funds and feeder funds earnings	(1,373,310)	211,978
Foreign exchange (gains)	-	(170,824)
Non-cash grants	440,138	1,071,000
Depreciation	428,484	428,484
Changes in operating assets and liabilities:		
Accrued interest and dividends	(23,324)	4,911
Other receivables	-	(107,121)
Prepaid federal excise tax	9,410	(29,840)
Accounts payable and accrued expenses	26,000	(17,478)
Grants payable	214,000	-
Net cash used in operating activities	<u>(276,809)</u>	<u>(1,299,261)</u>
Cash flows from investing activities:		
Program loans repaid	932,030	1,304,084
Program loans made	(4,000,000)	(1,695,000)
Sale of investments	31,086,793	47,578,908
Purchase of investments	(27,765,140)	(47,720,893)
Hedge funds and feeder funds distributions	469,523	1,736,849
Hedge funds and feeder funds contributions	(287,519)	(383,609)
Net cash (used in) provided by investing activities	<u>435,687</u>	<u>820,339</u>
Net decrease in cash and cash equivalents	158,878	(478,922)
Cash and cash equivalents - beginning of year	<u>707,618</u>	<u>1,186,540</u>
Cash and cash equivalents - end of year	<u>\$ 866,496</u>	<u>\$ 707,618</u>
Supplemental data:		
Federal excise tax paid	<u>\$ 10,403</u>	<u>\$ 105,387</u>

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

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 1 – Organization

Clover Foundation, Inc. and 165 W 57 LLC (wholly-owned “Subsidiary” or “LLC”) (collectively the “Foundation”) is a nonprofit nonoperating private foundation formed in 1985, to provide support and assistance to vocational, charitable, research and educational institutions from the elementary level through graduate studies. The Foundation does this by making loans and grants to domestic and foreign nonprofit charitable organizations fostering the same objectives as the Foundation.

The Foundation also owns real property that it leases to a tax-exempt, nonprofit educational organization by the name of IESE-USA, Inc.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Clover Foundation, Inc. and LLC because the Foundation has both control and an economic interest in the Subsidiary. 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 significant intercompany accounts and transactions have been eliminated in consolidation.

Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited consolidated financial statements for the year December 31, 2022, from which the summarized information was derived.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to certain projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables and Credit Policies

Receivables consist primarily of program loans and rental income. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. There was no allowance as of December 31, 2023, as well as no bad debt expense for the year ended December 31, 2023.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 2 – Summary of Significant Accounting Policies – continued

Promises to Give

We record unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. We determine the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. As of December 31, 2023, there was no allowance.

Contributions of donated non-cash assets are recorded at their fair value in the period received. It is the policy and practice of the Foundation to sell donated securities shortly after receipt. Accordingly, those items are not shown separately in the consolidated statement of cash flows.

Property and Equipment

The Foundation records property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2023.

Leases

The Foundation determines if an arrangement is a lease at inception. Right-of-use assets represent the Foundation's right to use an underlying asset for the lease term. Lease obligations represent the Foundation's liability to make lease payments arising from the lease. Operating lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate discount rate at the commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 2 – Summary of Significant Accounting Policies – continued

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position except for a foreign real estate investment described in Note 6. Net investment return/(loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. 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 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 has selectively participated 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Investment return from endowments that are maintained and invested by the Foundation, may be expendable for certain purposes, or may be available for general purposes (see Note 9).

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 2 – Summary of Significant Accounting Policies – continued

Revenue and Revenue Recognition

The Foundation recognizes revenue from exchange transactions when the earnings process is complete and goods have been delivered and/or services performed. Payments received for which the Foundation has a future performance obligation are reported as deferred revenue in the consolidated statement of financial position.

Receivables from program loans amounted to \$14,804,950 and \$12,177,118 as of December 31, 2023 and 2022, respectively. Rent receivable amounted to \$107,121 as of December 31, 2023 and 2022. There is no deferred revenue balances as of December 31, 2023 and 2022.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated using management's estimates among the programs and supporting services benefited using methods that reflect time and effort, material usage, and other appropriate indicators.

Income Taxes

The Foundation is a Texas nonprofit organization and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under the Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined to be a private foundation. Management is required to file a Return of Private Foundation (Form 990-PF) annually with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to our exempt purposes. Management has determined that we are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. For more information on the Foundation's open tax positions see Note 8.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 2 – Summary of Significant Accounting Policies – continued

Estimates (continued)

of revenues and expenses during the reporting period. Actual results could differ from those estimates assumptions.

Financial Instruments and Credit Risk

The Foundation maintains its cash accounts at commercial banks. The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000 for the total cash balances in each financial institution. From time to time, the Foundation may have amounts on deposit in excess of FDIC limits. As of December 31, 2023, the amount in excess of insured limits was approximately \$670,000. The Foundation performs ongoing evaluations of the commercial banks to limit its concentration of risk exposure. The Foundation has not experienced any loss in such accounts. Management believes that the Foundation is not exposed to any significant risk on its cash. Credit risk associated with accounts receivables and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals supportive of our mission. Investments are made by diversified investment managers whose performance is monitored by us and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the consolidated statement of financial position and disclosing key information about leasing arrangements. Under the provisions of Topic 842, a lessee is required to recognize a right-of-use asset and lease liability, initially measured at the present value of the remaining lease payments, in the consolidated statement of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities. The Foundation adopted this ASU and related amendments as of January 1, 2022 under the modified retrospective approach and elected certain practical expedients permitted under the transition guidance. Lease term is defined as the non-cancelable period of the lease plus any options to extend or terminate the lease when it is reasonably certain that The Foundation will exercise the option. The Foundation has elected not to recognize right-of-use asset and lease obligations for its short-term leases, which are defined as leases with an initial term of 12 months or less. The adoption of ASU 2016-02, did not have an impact on the Foundation's consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events through September 9, 2024, the date the consolidated financial statements were available to be issued.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 3 – Availability and Liquidity

The following represents the Foundation's financial assets as of December 31, 2023:

Financial assets at end of year:	
Cash and cash equivalents	\$ 866,496
Program loans receivable	14,804,950
Accrued investment income	108,719
Rent receivable	107,121
Investments, at fair value	<u>80,953,696</u>
	96,840,982
Amounts not available within one year:	
Net assets with donor restrictions	(56,888)
Program loans due beyond one year	(13,789,059)
Pledged assets (see Note 6)	(15,000,000)
Investments subject to liquidity restrictions	<u>(4,483,704)</u>
Financial assets available within one year	<u>\$ 63,511,331</u>

The Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligation become due. The Foundation's primary outlays of operating cash and cash equivalents are for program loans and grants, 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 portion of excess cash is invested in short-term investments.

Note 4 – 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.

Loans receivable of \$14,804,950 as of December 31, 2023 consist of eleven 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.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 4 – Program Loans - continued

Principal payments on program loans receivable are scheduled to be received as follows for the years ending December 31,:

2024	\$ 1,015,891
2025	1,505,105
2026	1,852,984
2027	2,021,999
2028	2,747,232
Thereafter	<u>5,661,739</u>
	<u>\$ 14,804,950</u>

Note 5 – Fair Value Measurements and Disclosures

The Foundation reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 5 – Fair Value Measurements and Disclosures – continued

lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2023.

Equities: securities that are valued at the closing quoted price in an active market in which they are traded are classified as Level 1.

Cash and cash equivalents: held within the investment portfolio are carried at cost and are classified as Level 1.

Fixed income: securities that are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available. These are classified as Level 2.

Net Asset Value: As a practical expedient, fair value of certain investments (hedge funds and feeder funds) may be estimated using their net asset value (NAV) if such investments are redeemable at NAV. In the fair value hierarchy, such investments that are redeemable at NAV are reported separately instead of the levels within the fair value hierarchy. The fair values are intended to permit a reconciliation to the fair value hierarchy to the amounts presented on the consolidated statement of financial position.

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

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 5 – Fair Value Measurements and Disclosures – continued

The following tables sets forth the valuation of the Foundation’s investments as of December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Percentage of Total</u>
Equities	\$ 47,243,818	\$ -	\$ 47,243,818	58.3%
Cash and cash equivalents	2,201,496	-	2,201,496	2.7%
Fixed income	-	13,497,317	13,497,317	16.7%
	<u>\$ 49,445,314</u>	<u>\$ 13,497,317</u>	62,942,631	77.8%
Hedge funds and feeder funds			<u>18,011,065</u>	<u>22.2%</u>
Total investments at fair value			<u>\$ 80,953,696</u>	<u>100%</u>

In management’s opinion, the Foundation did not hold any Level 3 investments as of December 31, 2023.

Additional information concerning hedge fund and feeder fund investments for the year ended December 31, 2023, is presented below.

	<u>Fair Value</u>	<u>Unfunded Commitmen</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fund of funds (a)	\$12,114,960	\$ -	Quarterly	90 days
Equity long/short hedge fund (b)	601,594	-	Monthly	60 calendar plus 8 business days
Multi-strategy and relative value hedge fund (c)	810,807	-	Quarterly	90 calendar plus 8 business days
Feeder funds (d)	<u>4,483,704</u>	<u>2,317,545</u>	None	N/A
	<u>\$18,011,065</u>	<u>\$2,317,545</u>		

(a) Fund of funds

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.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 5 – Fair Value Measurements and Disclosures – continued

(b) Equity long/short hedge fund

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.

(c) Multi-strategy and relative value hedge fund

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.

(d) Feeder funds

The eleven feeder funds invest in private and late-stage growth companies; 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. 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, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 5 – Fair Value Measurements and Disclosures – continued

Investment Return

The composition of investment return for the year ended December 31, 2023 was as follows:

Realized and unrealized gain (loss)	\$ 7,760,193
Dividends and interest, net of foreign taxes	1,419,474
Investment fees paid directly	(388,215)
Hedge funds and feeder funds gain (loss)	1,373,310
Foreign currency gain (loss)	1,985
Excise tax on investment income	(19,813)
Class action settlements	44,471
	<u>\$ 10,191,405</u>

The changes in fair value of investments for the year ended December 31, 2023 is summarized as follows:

Beginning of year	\$ 75,323,851
Purchases	27,765,140
Sales	(31,086,793)
Realized and unrealized gain (loss)	7,760,193
Hedge funds and feeder funds contributions	287,519
Hedge funds and feeder funds distributions	(469,523)
Hedge funds and feeder funds earnings	1,373,310
Foreign exchange gain (loss)	1,985
End of year	<u>\$ 80,955,681</u>

Note 6 – 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 a time which is advantageous with respect to exiting from the Trust's real estate holdings in Mexico. 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.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 6 – Foreign Real Estate and Charitable Remainder Trust – continued

In June 2012, the Foundation invested \$5,000,000 for the title to a building located in Mexico City (the “Santa Fe Title”). 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 consolidated 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.

In May 2023, management learned that the Trust desires to purchase the Foundation’s ownership of the Santa Fe Title; for more information see Note 10.

Note 7 – 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, nonprofit 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 building and improvements is recorded using the straight-line method over 30 years.

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

Land	\$ 12,912,000
Building and improvements	12,854,528
	<u>25,766,528</u>
Accumulated depreciation	<u>(5,820,241)</u>
	<u>\$ 19,946,287</u>

Depreciation expense for the year ended December 31, 2023 was \$428,484.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 7 – Domestic Land and Building and Program Rental Revenue - continued

The land and building are leased to IESE-USA, Inc. until May 15, 2030, at an annual rent of \$428,484. Rental income expected to be received from non-cancelable operating lease are as follows for the years ending December 31,:

2024	\$ 428,484
2025	428,484
2026	428,484
2027	428,484
2028	428,484
Thereafter	<u>589,166</u>
	<u>\$ 2,731,586</u>

Note 8 – Commitments and Contingencies

Administrative Service Agreement

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 based on the percentage of time allocated for services to the Foundation. For the year ended December 31, 2023 the expense amounted to \$72,924 and was allocated between personnel costs, occupancy and other in the accompanying consolidated statement of functional expenses. The public charity and the Foundation have Board Members and Officers in common.

The Foundation's Directors and/or Officers may from time to time serve as Directors and/or Officers of nonprofit organizations that receive loans or grants from, or make contributions to the Foundation.

Undistributed Income

In 2023, management discovered that for tax periods 2020 and 2021, the amounts of current year grants reported as qualifying distributions on the Foundation's Forms 990-PF were incorrect and as a result the Foundation had undistributed income. Total excise tax on undistributed income for the 2021 and 2022 tax periods were \$57,460 and \$156,989, respectively. Grants in the amount of \$745,000 were distributed in 2023 as corrective action.

The Foundation has requested abatement of the tax (and related penalties and interest) based on its history of prudent compliance practices and subsequent compensating distributions, demonstrating that the undistributed income resulted from reasonable cause and not willful neglect. As of the date of this report, the Foundation is waiting for an answer by the IRS.

Clover Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2023

Note 9 – Net Assets With Donor Restrictions

During 2023, net assets with donor restrictions were released for the following purposes:

The Premio Campodonico Program	\$ 158,621
Projects in Dominican Republic and Panama	<u>51,000</u>
	<u>\$ 209,621</u>

Net assets with donor restrictions are available for the following purpose as of December 31, 2023:

The Premio Campodonico Program	<u>\$ 56,888</u>
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The Premio Campodonico Program was established in collaboration with the University of Piura in Peru to make awards in the name of Esteban Campodonico.

Note 10 – Subsequent Events

On March 26, 2024, the Foundation's Board approved the sale of the Foundation's ownership of the Santa Fe Title to the Trust (see Note 8) for approximately \$8.9 million. The transaction was successfully completed on June 20, 2024.

On May 6, 2024, the Board of Trustees approved new program loans and grants totaling \$3,034,600 ranging from \$20,000 to \$2 million.