The Poetry Foundation

Financial Report
December 31, 2019

Contents

plante moran

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
The Poetry Foundation

We have audited the accompanying financial statements of The Poetry Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Poetry Foundation as of December 31, 2019 and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, the COVID-19 pandemic has impacted the Foundation's operations subsequent to year end. Our opinion is not modified with respect to this matter.

Report on Prior Year Financial Statements

The financial statements of The Poetry Foundation as of December 31, 2018 were audited by other auditors, whose report dated June 11, 2019 expressed an unmodified opinion on those statements.

Plante & Moran, PLLC

June 1, 2020

PRAXITY
Empowering Business Globally

Statement of Financial Position

December 31, 2019 and 2018
(000s omitted)

	2019	2018
Assets		
Cash	$ 1,378	$ 3,481
Investments (Note 3)	268,887	229,597
Receivables - Net	78	82
Prepaid expenses and other assets	596	501
Beneficial interest in Lilly Trust (Note 4)	4,746	4,620
Property and equipment - Net (Note 6)	18,468	18,834
Total assets	**$ 294,153**	**$ 257,115**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 193	$ 276
Contract liabilities	613	546
Accrued expenses	341	248
Bonds payable - Net of bond issuance cost (Note 7)	12,356	12,669
Total liabilities	13,503	13,739
Net Assets		
Without donor restrictions	274,159	237,202
With donor restrictions (Note 9)	6,491	6,174
Total net assets	280,650	243,376
Total liabilities and net assets	**$ 294,153**	**$ 257,115**

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018
(000s omitted)

		2019	2018
Changes in net assets without donor restrictions:			
Operating			
Revenue			
Publication and advertising	$	740	696
Contributions		327	377
Planned payout from investments and trusts		10,454	10,020
Other income		36	136
Total operating revenue		11,557	11,229
Expenses			
Salaries and benefits		3,298	3,028
Professional services		512	526
Prizes and awards to authors and students		400	365
Author, editor, and reader payments		422	390
Marketing and promotion of poetry programs		612	617
Printing and postage		784	684
Sponsorship and grants		954	1,055
Office		620	616
Occupancy		942	1,163
Digital program production		1,152	898
Interest on bonds		672	689
Awards and ceremonies, travel and meals		641	442
Other		555	457
Total operating expenses		11,564	10,930
(Decrease) Increase in Net Assets Without Donor Restrictions - Before nonoperating income (loss)		(7)	299

Statement of Activities and Changes in Net Assets (continued)

Years Ended December 31, 2019 and 2018
(000s omitted)

		2019	2018
Nonoperating:			
Net assets released from restrictions		689	724
Investment return (loss), net of planned payout		36,275	(18,791)
Total nonoperating income (loss)		36,964	(18,067)
Increase (Decrease) in Net Assets Without Donor Restrictions		36,957	(17,768)
Changes in net assets with donor restrictions:			
Net assets released from restrictions		(689)	(724)
Investment return (loss), net of planned payout		191	(142)
Change in value of beneficial interest		815	(604)
Increase (Decrease) in Net Assets With Donor Restrictions		317	(1470)
Increase (Decrease) in Net Assets		37,274	(19,238)
Net Assets - Beginning of year		243,376	262,614
Net Assets - End of year	$	**280,650**	**243,376**

Statement of Cash Flows

Years Ended December 31, 2019 and 2018
(000s omitted)

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 37,274	$ (19,238)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	929	1,144
Net unrealized (gain) loss on investments	(30,156)	23,146
Net realized gains on investments	(10,971)	(9,139)
Amortization of bond issuance costs	27	28
Changes in beneficial interest in Lilly Trust	(815)	604
Distributions from Lilly Trust	689	724
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	4	1
Prepaid expenses and other assets	(95)	141
Accounts payable	(83)	23
Contract liabilities	67	57
Accrued expenses	93	29
Net cash used in operating activities	(3,037)	(2,480)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	14,399	17,451
Purchases of investments	(12,562)	(11,715)
Purchase of property and equipment	(563)	(158)
Net cash provided by investing activities	1,274	5,578
Cash Flows Used in Financing Activities - Principal payments on bonds	(340)	(330)
Net (Decrease) Increase in Cash	(2,103)	2,768
Cash - Beginning of year	3,481	713
Cash - End of year	**$ 1,378**	**$ 3,481**
Supplemental Cash Flow Information - Cash paid during the year for interest	$ 649	$ 663

Note 1 - Nature of Business

The Poetry Foundation (the "Foundation") was founded in 1941 as The Modern Poetry Association and adopted its current name on April 25, 2003. The Foundation, an Illinois not-for-profit corporation, is an independent literary organization committed to a vigorous presence for poetry in our culture. The Foundation exists to discover and celebrate the best poetry and to place it before the largest possible audience. The Foundation publishes POETRY magazine and other original works of literature, manages a recitation project for high school students in partnership with the National Endowment for the Arts, produces an online site for archived poetry and articles about poetry, sponsors a variety of public and educational programs, and supports creative projects in literature.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

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, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Operating Results

Operating results in the statement of activities and changes in net assets reflect all transactions increasing and decreasing net assets except for long-term investment return in excess of investment payout, nonoperating revenue, gifts restricted for permanent endowment, and the change in value of the charitable lead trust.

Revenue Recognition

Revenue is reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions not satisfied during the fiscal year of donation. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets are reported as increases or decreases in the appropriate net asset category. Private gifts are recognized in the period in which they are received. Contributions of assets other than cash are recorded at their estimated fair value. Planned payout from investments and trusts to support the operating budget is determined annually under a formula mandated by the trustees. The payout is fixed within a range of 4.5 percent to 5.5 percent of the average endowment net asset value (NAV) for the preceding 12 quarters ending June 30, before the new fiscal year. The primary purpose of the payout policy is to ensure that the endowment over time maintains its real, inflation-adjusted value while supporting the programmatic goals of the Foundation.

Note 2 - Significant Accounting Policies (Continued)

The Foundation recognizes revenue for publication and advertising revenue based on the satisfaction of performance obligations. For publication revenue for POETRY magazine, the Foundation has a performance obligation for delivery of a subscription. Revenue is recognized over the life of the subscription as magazines are delivered to the customer. For advertising revenue for POETRY magazine, the Foundation has a performance obligation for publishing an advertisement as promised. Revenue is recognized in the period in which the advertising occurs.

The Foundation invoices at the time of purchase. Payment terms vary but are generally less than one year, with most payments due within 30 days to 90 days of invoice date. In some situations, the Foundation bills customers and collects cash prior to the satisfaction of the performance obligation, which results in the Foundation recognizing contract liabilities upon receipt of payment. The changes in contract liabilities were a result of normal timing differences between the satisfaction of performance obligations and customer payments.

Cash and Cash Equivalents

For the purpose of the accompanying financial statements, the Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The carrying amount reported in the statement of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these investments.

The Foundation maintains its cash and cash equivalents in bank accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes that the Foundation is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable are stated at amounts due from subscription holders, advertising customers, donors, and investments, net of allowances for uncollectible amounts. The Foundation determines its allowance for uncollectible amounts by considering a number of factors, including length of time accounts receivable are past due and the Foundation's previous collection history. The Foundation writes off accounts receivable that have become uncollectible. Payments subsequently received on such receivables are credited to the allowance for uncollectible amounts.

Investments

Investments are reported at fair value. Investment gains (losses), including net realized and unrealized gains (losses), are reflected in the statement of activities and changes in net assets net of planned payout as increases in net assets.

The alternative investments, composed primarily of hedge funds and limited partnerships that are not readily marketable, are measured at fair value, valued at net asset value per share as the practical expedient. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and significant assumptions used in determining fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Beneficial Interest in Lilly Trust

The Foundation's beneficial interest in the Lilly Trust is reported at estimated fair value, which has been measured at the net present value of the estimated future distributions expected to be received over the term of the related charitable lead trust agreement using a discount rate commensurate with the risks involved. The change in the estimated fair value of the Foundation's beneficial interest in the Lilly Trust is reported as an increase or decrease in net assets with donor restrictions. Distributions from the Lilly Trust are reclassified from net assets with donor restrictions to net assets without donor restrictions.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment consist of land, building, website development costs, furniture, books, and computer hardware and software and are recorded at cost. The long-lived assets, other than land, over $1,000 are capitalized and depreciated using the straight-line method over their estimated useful lives of 3 to 30 years, with a full year of depreciation taken during the year the asset is placed in service.

Bond Issuance Costs

Bond issuance costs were incurred by the Foundation in connection with the issuance of bonds. These costs are recorded as a reduction in the recorded balance of the outstanding bond payable. The costs are amortized over the term of the related bond and reported as a component of interest expense.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other applicable taxing authorities.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 10. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. To support its mission, the Foundation offers a wide array of poetry programming, including POETRY magazine, a digital archive of poems, poetry news and features, podcasts, videos, teaching resources and other tools through poetryfoundation.org, and other public and educational poetry programs. The costs of occupancy and office expense are allocated to program areas based on square footage of building space or full-time equivalent of staff respectively. All other expenses are directly tracked and reported by program area where the expense was incurred. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, such as the beneficial interest in the Lilly Trust, in order to prepare these financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates. Note 4 contains additional information regarding the estimated fair value of the beneficial interest in the Lilly Trust.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 1, 2020, which is the date the financial statements were available to be issued. See Notes 13 and 14 for further disclosure of subsequent events.

(000s omitted)

Note 3 - Investments

The details of the Foundation's investments at December 31 are as follows:

	2019	2018
Marketable Securities		
Money market accounts	$ 34	$ 34
Mutual funds:		
Domestic equity funds	121,471	98,201
International equity funds	49,349	39,711
Bond funds	41,722	38,978
Nonmarketable Securities		
Private equity funds	13,999	13,961
Real estate funds	27,145	24,029
Credit funds	2,624	2,343
Natural resources fund	366	568
Opportunity fund	12,177	11,772
Total	$ 268,887	$ 229,597

Investment return (loss) for the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Interest and dividends - Net of investment expenses of $600 and $407, respectively	$ 5,793	$ 5,094
Realized gain	10,971	9,139
Unrealized gain (loss) on investment	30,156	(23,146)
Net investment return (loss)	46,920	(8,913)
Less planned payout from investments and trust	(10,454)	(10,020)
Investment return (loss) - Net of planned payout	$ 36,466	$ (18,933)

Investment return is recorded on an accrual basis.

Note 4 - Beneficial Interest in Lilly Trust

In 2002, the Foundation received gifts of beneficial interests in three charitable lead trusts and two charitable remainder trusts established by Ruth Lilly (the Lilly Trust). The charitable remainder trusts were fully distributed in prior years.

The charitable lead trusts were funded solely with nonvoting units in two limited liability companies. Charitable Lead Trust #1 (CLT #1) was funded with 99,000 units in Stafford Investments II LLC (Stafford II) and was fully distributed in prior years. Charitable Lead Trust #2 (CLT #2) was funded with 75,428 units in Stafford Investments III LLC (Stafford III) and was fully distributed in prior years. Charitable Lead Trust #3 (CLT #3) was funded with 23,572 units in Stafford III. Stafford II and Stafford III were funded solely with Eli Lilly and company stock. Over time, the portfolios for these funds have been gradually diversified.

For each trust, a valuation reflects its specific characteristics, including (1) expected start and end dates for distribution to the Foundation, (2) expected market appreciation (net of fees) based on the composition of the investment portfolio, and (3) appropriate discount factors to adjust estimated future cash flows to present value.

(000s omitted)

Note 4 - Beneficial Interest in Lilly Trust (Continued)

The following table presents the general terms of the active Lilly Trust:

Trust	Payment Start Date	Length of Trust	Annual Payments
CLT #3	January 18, 2003	30 years	12.5 percent of fair value of portion of Stafford III - $689 and $724 received in 2019 and 2018, respectively

The following table details certain significant assumptions used in estimating the fair value of the Lilly Trust at December 31:

	Annual Market Appreciation		Discount Rate to Calculate NPV	
	2019	2018	2019	2018
CLT #3	7.80 %	6.97 %	1.92 %	2.91 %

The Foundation's estimated share of the fair value of CLT #3 was $4,746 and $4,620 at December 31, 2019 and 2018, respectively.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The valuation of the beneficial interest in the Lilly Trust falls under Level 3, as there are no significant observable inputs. The Lilly Trust's valuation is based on assumptions about the present value of the future distributions to be received from the trust. The inputs used by the Foundation in estimating the Level 3 beneficial interest in the Lilly Trust are included in Note 4.

(000s omitted)

Note 5 - Fair Value Measurements (Continued)

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Foundation to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Investments			
Money market	$ 34	$ -	$ 34
Domestic equity funds	121,471	-	121,471
International equity funds	49,349	-	49,349
Bond funds	41,722	-	41,722
Total	$ 212,576	$ -	212,576
Alternative investments measured at NAV:			
Private equity funds			13,999
Real estate funds			27,145
Credit funds			2,624
Natural resources fund			366
Hedge fund			12,177
Total investments			$ 268,887
Beneficial Interest in Lilly Trust		$ 4,746	$ 4,746

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Investments			
Money market	$ 34	$ -	$ 34
Domestic equity funds	98,201	-	98,201
International equity funds	39,711	-	39,711
Bond funds	38,978	-	38,978
Total	$ 176,924	$ -	176,924
Alternative investments measured at NAV:			
Private equity funds			13,961
Real estate funds			24,029
Credit funds			2,343
Natural resources fund			568
Hedge fund			11,772
Total investments			$ 229,597
Beneficial Interest in Lilly Trust		$ 4,620	$ 4,620

(000s omitted)

Note 5 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2019 and 2018 are as follows:

	Lilly Trust
Balance as of January 1, 2018	$ 5,948
Distributions from trust	(724)
Unrealized loss	(604)
Balance as of December 31, 2018	4,620
Distributions from trust	(689)
Unrealized gain	815
Balance as of December 31, 2019	$ 4,746

The following table provides additional information related to investments recorded at NAV as of December 31, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency	Term of Investment
Private equity fund (a)	$ 1,120	$ 1,651	Illiquid during term of commitment	10 years
Private equity fund (b)	2,626	388	Illiquid during term of commitment	12 years plus 3-year extension option
Private equity fund (c)	1,139	165	Illiquid during term of commitment	10 years
Private equity fund (d)	6,211	562	Illiquid during term of commitment	10 years plus two 1-year extension options
Private equity fund (e)	2,089	3,029	Illiquid during term of commitment	10 years plus two 1-year extension options
Real estate fund (f)	10,125	-	Quarterly	Open
Real estate fund (g)	17,020	-	Quarterly	Open
Credit fund (h)	97	319	Illiquid during term of commitment	7 years plus two 1-year extension options
Credit fund (i)	2,527	419	Illiquid during term of commitment	8 years plus two 1-year extension options
Credit fund (j)	813	4,182	Quarterly	3 years followed by evergreen open term
Natural resources fund (k)	366	19	Illiquid during term of commitment	12 years plus 3-year extension option
Opportunity fund (l)	12,177	-	Quarterly	Open
	$ 56,310	$ 10,734		

(a) The fund is composed primarily of restricted securities from private equity investments that have limited liquidity and that are subject to certain restrictions on transfer. The fund may also invest in partnerships, joint ventures, and other private investments. Valuations of such investments, to the extent they have not traded during the most recent quarter, are based on the applicable investment sponsor's valuation or the estimate determined by fund management. The earliest redemption date for this fund was February 7, 2018.

Note 5 - Fair Value Measurements (Continued)

(b) The fund is composed primarily of investments in other private partnerships formed for the purpose of making investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment. Generally, the fund management may not transfer or withdraw its investments in limited partnerships prior to their termination. The fair values of the underlying investments are estimated by the general partner based on the best available information provided by the limited partnerships and may incorporate general partner assumptions and best estimates after considering a variety of internal and external factors. The Foundation's share of the fair value of this fund is reflected in these financial statements. The earliest redemption date for this fund was January 24, 2019.

(c) The fund focuses on smaller private equity buyout investments but also seeks other transaction types, including, but not limited to, corporate partnerships, strategic platforms, and other privately negotiated equity investments. The general partner will value each investment held by the partnership at least annually. All valuations of nonmarketable securities shall be subject to oversight by the Investment Advisory Committee. The earliest redemption date for this fund is February 23, 2022.

(d) The fund is composed primarily of restricted securities from private equity investments that have limited liquidity and that are subject to certain restrictions on transfer. The fund may also invest in partnerships, joint ventures, and other private investments. Valuations of such investments, to the extent they have not traded during the most recent quarter, are based on the applicable investment sponsor's valuation or the estimate determined by fund management. The earliest redemption date for this fund is January 2026.

(e) The fund is composed primarily of restricted securities from private equity investments that have limited liquidity and that are subject to certain restrictions on transfer. The fund may also invest in partnerships, joint ventures, and other private investments. Valuations of such investments, to the extent they have not traded during the most recent quarter, are based on the applicable investment sponsor's valuation or the estimate determined by fund management. The earliest redemption date for this fund is January 2029.

(f) The fund is an open-ended, diversified portfolio of real estate investments for the purpose of providing current income returns and moderate appreciation. The portfolio assembles a high-quality, nationally diversified portfolio of office, industrial, retail, and multifamily properties. The fund utilizes moderate levels of leverage to enhance returns and diversification. The fund investments for which market quotations are not readily available are valued at fair value, as determined in good faith by the general partner.

(g) The fund is a core strategy, fully specified, open-end commingled equity real estate fund with moderate risk diversified by property type and location designed to provide a stable, income-driven rate of return over the long term with potential for growth of net investment income and appreciation of value. The fund values these investments on a quarterly basis and engages independent appraisers. Redemptions are permitted on a quarterly basis if fund management determines that sufficient net capital is available.

(h) The fund focuses on originating proprietary stand-alone credit investments targeted for middle-market borrowers. The sources of investment opportunities include the proprietary deal platform of the fund manager and the syndicated bank loan, high-yield corporate credit markets, including “stressed” and “distressed” opportunities. The fund's investments for which market quotations are not readily available are valued at fair value, as determined in good faith by the general partner. The earliest redemption date for this fund was July 26, 2018.

(i) The fund focuses on originating proprietary stand-alone credit investments targeted for middle-market borrowers. The sources of investment opportunities include the proprietary deal platform of the fund manager and the syndicated bank loan, high-yield corporate credit markets, including “stressed” and “distressed” opportunities. The fund's investments for which market quotations are not readily available are valued at fair value, as determined in good faith by the general partner. The earliest redemption date is eight years from the first draw-down date.

(j) The fund provides tailored, senior secured capital solutions to U.S. lower- to middle-market borrowers. The focus is on sponsor and non-sponsor-owned companies through direct lending transactions. The characteristics of the investments are with proven cash flow generating capabilities and experience manage that lack adequate sources of traditional financing. The fund's investments for which market quotations are not readily available are valued at fair value, as determined in good faith by the general partner. The terms of commitment are an evergreen structure with an initial three-year commitment period and open-ended investment period. Distributions are made quarterly.

(000s omitted)

Note 5 - Fair Value Measurements (Continued)

(k) The fund is composed primarily of other limited partnerships formed for the purpose of making oil, gas, and other natural-resource-related investments. Generally, the fund management may not transfer or withdraw its investments in limited partnerships prior to the investments' termination. The fair values of the underlying investments are estimated by the general partner based on the best available information provided by the limited partnerships and may incorporate general partner assumptions and best estimates after considering a variety of internal and external factors. The earliest redemption date for this fund was October 20, 2018.

(l) The fund is an opportunistic credit fund with a diversified implementation. The characteristics of the investment opportunities are senior capital structure, shorter duration, downside protection, limited leverage, and self-liquidating. The fund's investments for which market quotations are not readily available are valued at fair value, as determined in good faith by the general partner.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Office and computer equipment	$ 168	$ 144
Website and digital programs	2,631	2,255
Books	232	213
Land	7,264	7,264
Building	15,350	15,206
Total cost	25,645	25,082
Accumulated depreciation	7,177	6,248
Net property and equipment	$ 18,468	$ 18,834

Depreciation expense for 2019 and 2018 was $929 and $1,144, respectively.

Note 7 - Bonds Payable

During 2010, the Foundation issued $15,000 in fixed-rate bonds through the Illinois Finance Authority. The proceeds were used to finance the purchase of land and construction of the Foundation's new building. Bonds payable at December 31, 2019 are shown below:

Maturity Date	Principal	Bond Issuance Amortization Expense	Interest Rate
2020	$ 355	$ 25	4.500 %
2021	375	23	4.500
2022	390	21	4.550
2023	410	20	4.625
2024	425	18	4.750
2025	445	16	4.750
2026	470	14	4.850
2027	490	13	4.900
2028 - 2030	2,220	29	5.000
2031 - 2040	7,000	45	5.300
Total	$ 12,580	$ 224	

The principal amount outstanding on bonds payables was $12,580 and $12,920 as of December 31, 2019 and 2018, respectively.

(000s omitted)

Note 7 - Bonds Payable (Continued)

Unamortized bond issuance costs were $224 and $251 as of December 31, 2019 and 2018, respectively.

On February 18, 2020, the Foundation entered into a credit agreement with a bank, including a term note in the amount of $12,307 and a line of credit up to $2,000, for purposes of paying off the bonds payable balance outstanding at December 31, 2019. Information regarding the new credit agreements can be found in Note 13.

The Foundation's policy is to capitalize interest cost as part of the historical cost of purchasing land and construction of its new building, which are financed, in part, by tax-exempt borrowings. The discount on bonds and cost of issuance is amortized using the effective interest rate method. The Foundation made cash payments for interest totaling $649 and $663 for the years ended December 31, 2019 and 2018, respectively. A reconciliation of the Foundation's total interest cost to interest expense included in the statement of activities and changes in net assets for 2019 and 2018 is as follows:

	2019	2018
Amortization of cost of bond issuance	$ 27	$ 29
Amortization of bond discount	4	4
Interest cost associated with completed project	641	656
Total interest expense	$ 672	$ 689

Note 8 - Retirement Plans

The Foundation sponsors a defined contribution retirement plan within the provisions of Section 403(b) of the Internal Revenue Code. The plan is provided through Vanguard beginning in November 2019 and the Teachers Insurance and Annuity Association of America prior to the change in providers. Employees are eligible to participate in the plan after the completion of one year of service and attainment of age 21. Plan contributions are made as a percentage of compensation as follows: 10 percent by the Foundation and 5 percent by the individual. Contributions to the plan totaled $227 and $176 for the years ended December 31, 2019 and 2018, respectively.

Note 9 - Net Assets

Net assets with donor restrictions consist of the following as of December 31:

	2019	2018
Net assets with donor restrictions:		
Endowment to be held in perpetuity	$ 1,331	$ 1,331
Endowment net assets with purpose restrictions	414	223
Net assets with restrictions related to passage of time	4,746	4,620
Total net assets with donor restrictions	$ 6,491	$ 6,174

(000s omitted)

Note 9 - Net Assets (Continued)

The Foundation had the following endowment-related activities:

	Endowments with Donor Restrictions
Balance as of January 1, 2018	$ 1,696
Investment return (loss):	
Interest and dividends	38
Net depreciation, realized and unrealized	(103)
Total investment loss	(65)
Appropriation of endowment assets for expenditure	(77)
Total change in endowment net assets	(142)
Balance as of December 31, 2018	1,554
Investment return:	
Interest and dividends	35
Net appreciation, realized and unrealized	238
Total investment return	273
Appropriation of endowment assets for expenditure	(82)
Total change in endowment net assets	191
Balance as of December 31, 2019	$ 1,745

The Foundation invests its donor-restricted funds prudently with the goal of providing a long-term rate of return in excess of inflation. Objectives of the Foundation's investment policy include providing adequate liquidity, maximizing returns on all funds invested, and achieving full employment of all available funds as earning assets. The Foundation has an active investment committee that meets regularly to ensure that the objectives of the investment policy are being met and that the strategies used to meet the objectives are in accordance with the Foundation's investment policy.

(000s omitted)

Note 10 - Functional Expenses

The Foundation's operating expenses by functional classification for the years ended December 31, 2019 and 2018 are shown below:

	2019			
	Poetry Programs	Audience Outreach	Administration	Total Expense
Salaries and benefits	$ 2,238	$ -	$ 1,060	$ 3,298
Professional services	365	-	147	512
Prizes and awards to authors and students	400	-	-	400
Author, editor, and reader programs	422	-	-	422
Marketing and promotion of poetry programs	-	612	-	612
Printing and postage	770	-	14	784
Sponsorships and grants	954	-	-	954
Office	530	-	90	620
Occupancy	850	-	92	942
Digital program production	1,151	-	1	1,152
Interest on bonds	-	-	672	672
Awards and ceremonies, travel, and meals	641	-	-	641
Other	338	-	217	555
Total	$ 8,659	$ 612	$ 2,293	$ 11,564

	2018			
	Poetry Programs	Audience Outreach	Administration	Total Expense
Salaries and benefits	$ 2,019	$ -	$ 1,009	$ 3,028
Professional services	363	-	163	526
Prizes and awards to authors and students	365	-	-	365
Author, editor, and reader payments	390	-	-	390
Marketing and promotion of poetry programs	-	617	-	617
Printing and postage	672	-	12	684
Sponsorships and grants	1,055	-	-	1,055
Office	525	-	91	616
Occupancy	1,072	-	91	1,163
Digital program production	898	-	-	898
Interest on bonds	-	-	689	689
Awards and ceremonies, travel, and meals	442	-	-	442
Other	364	-	93	457
Total	$ 8,165	$ 617	$ 2,148	$ 10,930

Note 11 - Liquidity and Availability of Resources

The Foundation maintains at least 90 days of cash on hand to meet programmatic and operational needs. The investment policy also takes into account liquidity. A significant portion of the investment portfolio is in marketable securities or funds that permit redemptions each quarter.

(000s omitted)

Note 11 - Liquidity and Availability of Resources (Continued)

The following reflects the Foundation's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	2019	2018
Cash and cash equivalents	$ 1,378	$ 3,481
Accounts receivable	78	82
Investments	268,887	229,597
Beneficial interest in Lilly Trust	4,746	4,620
Total financial assets	275,089	237,780
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Investments with restrictions on liquidation within one year	16,176	16,872
Net assets with donor restrictions	6,491	6,174
Net assets with timing restrictions to be released in one year	(567)	(689)
Financial assets available to meet cash needs for general expenditures within one year	$ 252,989	$ 215,423

On February 18, 2020 the Foundation entered into a credit agreement with a bank, including a line of credit up to an amount of $2,000, which it could draw upon if needed, as further described in Note 13.

Note 12 - Concentration of Credit Risk

Certain financial instruments subject the Foundation to credit risk. Those financial instruments consist primarily of cash, accounts receivable, beneficial interest in the Lilly Trust, and investments. The Foundation maintains its cash balance in financial institutions, which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Concentration of credit risk with respect to receivables is limited due to the large number of accounts and low average cash balance. Concentration of credit risk with respect to the beneficial interest in the Lilly Trust is limited through the diversification of the trust assets. The Foundation's investment policy also stipulates appropriate diversification of investment balances. Because certain investments are not readily marketable, their estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed. As of December 31, 2019 and 2018, the Foundation had no significant concentration of credit risk in investments.

Note 13 - Subsequent Events

On February 18, 2020, the Foundation entered into a credit agreement with a bank, including a term note in the amount of $12,307 and a line of credit up to $2,000, for purposes of paying off the bonds payable balance outstanding at December 31, 2019. The term note is payable in equal annual installments of $4,102 plus a final installment of the remaining unpaid principal on the maturity date of February 18, 2023. Interest is payable on any unpaid principal at 3.4 percent through the period of the loan. Interest on the unpaid principal of the line of credit is payable at a rate equal to the greater of 1.5 percent or the sum of the overnight London Interbank Offered Rate (LIBOR) plus the rate margin.

Note 14 - Impact of Disease Outbreak

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. As of the date of issuance of the financial statements, the Foundation's operations have not been significantly impacted, but the Foundation continues to monitor the situation. The Foundation's investment portfolio incurred a decline in fair value, consistent with the general decline in the financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. No impairments were recorded as of the statement of financial position date, as no triggering events or changes in circumstances had occurred as of year end; however, due to uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Foundation's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.