Financial Statements and

Report of Independent Certified Public Accountants

The Poetry Foundation

December 31, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
The Poetry Foundation

We have audited the accompanying financial statements of The Poetry Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

Grant Thornton

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
June 7, 2018

The Poetry Foundation
STATEMENTS OF FINANCIAL POSITION
December 31,
(In thousands)

ASSETS	2017	2016
Cash	$ 713	$ 1,208
Investments	249,340	217,637
Receivables, net	83	50
Prepaid expenses and other	642	637
Property and equipment, net	19,820	20,364
Beneficial interest in Lilly Trusts	5,948	6,443
TOTAL ASSETS	$ 276,546	$ 246,339

LIABILITIES AND NET ASSETS	2017	2016
Liabilities		
Accounts payable	$ 253	$ 296
Accrued expenses	219	212
Unearned revenue	489	466
Bonds payable, net of bond issuance cost	12,971	13,255
Total liabilities	13,932	14,229
Net assets		
Unrestricted	254,970	224,140
Temporarily restricted	6,313	6,639
Permanently restricted	1,331	1,331
Total net assets	262,614	232,110
TOTAL LIABILITIES AND NET ASSETS	$ 276,546	$ 246,339

The accompanying notes are an integral part of these statements.

The Poetry Foundation
STATEMENT OF ACTIVITIES
Year ended December 31, 2017
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Publication and advertising	$ 676	$ -	$ -	$ 676
Contributions	530	-	-	530
Planned payout from investments and trusts	9,800	-	-	9,800
Other income	95	-	-	95
Total operating revenues	11,101	-	-	11,101
Operating expenses				
Salaries and benefits	2,885	-	-	2,885
Professional services	584	-	-	584
Prizes and awards to authors and students	389	-	-	389
Author, editor and reader payments	338	-	-	338
Advertising and promotion	776	-	-	776
Printing and postage	601	-	-	601
Sponsorships and grants	862	-	-	862
Office	568	-	-	568
Occupancy	1,142	-	-	1,142
Audio and web production	908	-	-	908
Interest on bonds	705	-	-	705
Awards and ceremonies, travel and meals	327	-	-	327
Other	498	-	-	498
Total operating expenses	10,583	-	-	10,583
Change in net assets from operations	518	-	-	518
Non-operating items				
Net assets released from restrictions	791	(791)	-	-
Investment return, net of planned payout	29,521	169	-	29,690
Change in value of beneficial interest	-	296	-	296
Total non-operating items	30,312	(326)	-	29,986
Change in net assets	30,830	(326)	-	30,504
Net assets at beginning of year	224,140	6,639	1,331	232,110
Net assets at end of year	$ 254,970	$ 6,313	$ 1,331	$ 262,614

The accompanying notes are an integral part of this statement.

The Poetry Foundation
STATEMENT OF ACTIVITIES
Year ended December 31, 2016
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Publication and advertising	$ 560	$ -	$ -	$ 560
Contributions	677	-	-	677
Planned payout from investments and trusts	9,430	-	-	9,430
Other income	80	-	-	80
Total operating revenues	10,747	-	-	10,747
Operating expenses				
Salaries and benefits	2,662	-	-	2,662
Professional services	523	-	-	523
Prizes and awards to authors and students	355	-	-	355
Author, editor and reader payments	298	-	-	298
Advertising and promotion	899	-	-	899
Printing and postage	528	-	-	528
Sponsorships and grants	588	-	-	588
Office	547	-	-	547
Occupancy	1,115	-	-	1,115
Audio and web production	711	-	-	711
Interest on bonds	720	-	-	720
Awards and ceremonies, travel and meals	291	-	-	291
Other	559	-	-	559
Total operating expenses	9,796	-	-	9,796
Change in net assets from operations	951	-	-	951
Non-operating items				
Net assets released from restrictions	1,971	(1,971)	-	-
Investment return, net of planned payout	8,153	52	-	8,205
Change in value of beneficial interest	-	(99)	-	(99)
Total non-operating items	10,124	(2,018)	-	8,106
Change in net assets	11,075	(2,018)	-	9,057
Net assets at beginning of year	213,065	8,657	1,331	223,053
Net assets at end of year	$ 224,140	$ 6,639	$ 1,331	$ 232,110

The accompanying notes are an integral part of this statement.

The Poetry Foundation
STATEMENTS OF CASH FLOWS
Years ended December 31,
(In thousands)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 30,504	$ 9,057
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,108	1,078
Net unrealized gains on investments	(20,484)	(8,889)
Net realized gains on investments	(13,845)	(2,804)
Changes in		
Beneficial interest in Lilly Trusts	(296)	99
Distributions from Lilly Trusts	791	1,971
Changes in operating assets and liabilities		
Accounts receivable	(33)	(2)
Prepaid expenses and other	(5)	(58)
Accounts payable	(43)	146
Unearned revenue	23	10
Accrued expenses	7	(17)
Bond issuance cost	30	32
Net cash (used in) provided by operating activities	(2,243)	623
Cash flow from investing activities		
Proceeds from sale/maturities of investments	37,147	18,193
Purchase of investments	(34,521)	(17,473)
Purchase of property and equipment	(563)	(579)
Net cash provided by investing activities	2,063	141
Cash flow from financing activities		
Principal payments on bonds	(315)	(305)
Net cash used in financing activities	(315)	(305)
Net change in cash	(495)	459
Cash at beginning of year	1,208	749
Cash at end of year	$ 713	$ 1,208
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 677	$ 689

The accompanying notes are an integral part of these statements.

NOTE A - ORGANIZATION

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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the accrual basis of accounting. Significant accounting policies are described below.

Basis of Presentation

The Foundation's financial statements have been prepared to focus on the Foundation as a whole and to present balances and activities in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activities are classified as unrestricted, temporarily restricted or permanently restricted based on donor-imposed restrictions, as follows:

<u>Unrestricted</u> - Net assets that are not subject to donor-imposed restrictions.

<u>Temporarily restricted</u> - Net assets that are subject to donor-imposed restrictions that will be met either by the actions of the Foundation or the passage of time.

<u>Permanently restricted</u> - Net assets that are subject to donor-imposed restrictions to be maintained in perpetuity by the Foundation.

Operating Results

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

Revenue and Expenses

Revenue is reported as an increase in unrestricted net assets 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 unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is explicitly restricted by donor stipulation or law. Expirations of temporarily restricted net assets (i.e., the donor-specified purpose has been fulfilled and/or the stipulated time period has expired) are reported as reclassifications between applicable classes of net assets.

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. Publication revenues for POETRY magazine are recognized as earned over the life of the subscriptions. Advertising revenues for POETRY magazine are recognized in the period in which the advertising occurs.

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% to 5.5% 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.

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.

Property and Equipment

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

Beneficial Interest in Lilly Trusts

The Foundation's beneficial interest in the Lilly Trusts is reported at estimated fair value, which has been measured at the net present value (NPV) of the estimated future distributions expected to be received over the term of the related charitable lead trust agreements using discount rates commensurate with the risks involved. The change in the estimated fair value of the Foundation's beneficial interest in the Lilly Trusts is reported as an increase or decrease in temporarily restricted net assets. Distributions from the Lilly Trusts are reclassified from temporarily restricted net assets to unrestricted net assets when they are received.

Income Taxes

The Foundation has received a favorable determination letter from the Internal Revenue Service (IRS) indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 (IRC), except for income taxes pertaining to unrelated business income. In 2007, the Foundation met the criteria for a private operating foundation. The organization is exempt from excise taxes as related to a private foundation as long as it meets IRS requirements for program spending. The Foundation has met these requirements for the years ended December 31, 2017 and 2016.

A provision for income taxes for 2017 and 2016 in the amount of $6 and $112, respectively, has been included in the accompanying financial statements.

The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The Poetry Foundation does have unrelated business income and files a Form 990-T; however, no provision of income taxes is required, as it has a carry forward overpayment. There are no interest or penalties recognized in the statements of activities or statements of financial position. The Poetry Foundation has determined that there are no material uncertain positions that require recognition or disclosure in the financial statements for the years ending December 31, 2017 and 2016.

Use of 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 Trusts, in order to prepare these financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Actual results could differ from these estimates. Note D contains additional information regarding the estimated fair value of the beneficial interest in the Lilly Trusts.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date for one year. The guidance is currently effective for the Foundation for calendar year 2018. The guidance permits the use of either a retrospective or cumulative effect transition method. The adoption of the ASUs are not expected to have material impact on the Foundation's financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment return, and cash flows. The guidance replaces the three classes of net assets currently presented on the statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires a not-for-profit to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Foundation for fiscal year 2018. Early adoption is permitted and entities are required to adopt the guidance retrospectively, but if comparative financial statements are presented, they have the option to omit certain information for any periods presented that are prior to the period of adoption.

(In thousands)

NOTE C - INVESTMENTS

Investments at December 31, 2017 and 2016, consist of the following:

	2017	2016
Marketable securities		
Money market accounts	$ 30	$ 11
Mutual funds		
Domestic equity funds	110,737	96,969
International equity funds	47,617	37,686
Bond funds	41,131	34,314
Non-marketable securities		
Private equity funds	14,136	13,968
Real estate funds	20,776	19,966
Credit funds	2,873	3,185
Natural resources fund	740	787
Hedge fund	11,300	10,751
Total	$249,340	$217,637

Investment income for the years ended December 31, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends, net of investment expenses of $352 and $425, respectively	$ 5,161	$ 5,942
Realized gain	13,845	2,804
Unrealized gain on investment	20,484	8,889
Net investment return	39,490	17,635
Less planned payout from investments and trusts	(9,800)	(9,430)
Investment return, net of planned payout	$29,690	$ 8,205

Investment return is recorded on an accrual basis.

NOTE D - BENEFICIAL INTEREST IN LILLY TRUSTS

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 Trusts). The charitable remainder trusts were fully distributed in prior years.

The charitable lead trusts are funded solely with non-voting 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 2016. 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.

(In thousands)

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.

The following table presents the general terms of the Lilly Trusts:

Trust	Payment start date	Length of trust	Annual payments
CLT #2	January 18, 2003	15 years	Fixed payment based on initial fair value of Stafford III - $4,900 annual distribution through 2015 and $1,200 final distribution received in 2016
CLT #3	January 18, 2003	30 years	12.5% of fair value of portion of Stafford III - $792 received in 2017 and $850 received in 2016

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

	Annual market appreciation		Discount rate to calculate NPV	
	2017	2016	2017	2016
CLT #2	N/A	N/A	N/A	N/A
CLT #3	7.2%	6.9%	2.65%	2.22%

The estimated fair value of CLT #3 was $5,948 and $6,443 at December 31, 2017 and 2016, respectively.

NOTE E - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and specifies disclosure requirements for fair value measurements. These principles maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The Foundation has no Level 2 financial instruments.

Level 3 - Financial instruments that have little to no pricing observability as of the report date.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable information requires significant judgment by Foundation management. The Foundation considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Financial instruments with values that are based on quoted market prices in active markets and are, therefore, classified within Level 1 include active listed equities, publicly traded mutual funds with published prices per share and certain money market securities. The Foundation does not adjust the quoted price for such instruments.

Financial instruments classified within Level 3 have significant unobservable inputs as they trade infrequently or not at all.

The valuation of the beneficial interest in the Lilly Trusts falls under Level 3 as there are no significant observable inputs. The Lilly Trusts' valuation is based on assumptions about the present value of future distributions to be received from the trusts. The inputs used by the Foundation in estimating the Level 3 beneficial interest in the Lilly Trusts are included in note D. Assumptions used by the Foundation due to the lack of observable inputs may significantly impact the resulting fair value of the investments and beneficial interest in the Lilly Trusts and, therefore, the Foundation's results of operations.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2017 and 2016, and indicate the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

(In thousands)

Assets measured at fair value on a recurring basis as of December 31, 2017, are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Significant unobservable inputs (Level 3)	Total
Investments			
Money market	$ 30	$ -	$ 30
Domestic equity funds	110,737	-	110,737
International equity funds	47,617	-	47,617
Bond funds	41,131	-	41,131
	$199,515	$ -	$199,515
Alternative investments, measured at NAV			
Private equity funds			14,136
Real estate funds			20,776
Credit funds			2,873
Natural resources fund			740
Hedge fund			11,300
Total investments			$249,340
Beneficial interest in Lilly Trusts	$ -	$5,948	$ 5,948

Assets measured at fair value on a recurring basis as of December 31, 2016, are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Significant unobservable inputs (Level 3)	Total
Investments			
Money market	$ 11	$ -	$ 11
Domestic equity funds	96,969	-	96,969
International equity funds	37,686	-	37,686
Bond funds	34,314	-	34,314
	$168,980	$ -	$168,980
Alternative investments, measured at NAV			
Private equity funds			13,968
Real estate funds			19,966
Credit funds			3,185
Natural resources fund			787
Hedge fund			10,751
Total investments			$217,637
Beneficial interest in Lilly Trusts	$ -	$6,443	$ 6,443

(In thousands)

The following table summarizes the changes in fair values associated with Level 3 assets:

	Lilly Trusts
Balance as of January 1, 2016	$8,513
Distributions from trusts	(1,971)
Unrealized loss	(99)
Balance as of December 31, 2016	6,443
Distributions from trusts	(791)
Unrealized gain	296
Balance as of December 31, 2017	$5,948

The following table provides additional information related to investments recorded at NAV as of December 31, 2017:

	Fair value	Unfunded commitments	Redemption frequency	Term of investment
Private equity fund[(a)]	$ 2,230	$ 18	Illiquid during term of commitment	10 years
Private equity fund[(b)]	3,654	465	Illiquid during term of commitment	12 years plus three-year extension option
Private equity fund[(c)]	1,921	175	Illiquid during term of commitment	10 years
Private equity fund[(d)]	6,331	435	Illiquid during term of commitment	10 years plus two one-year extension options
Real estate fund[(e)]	7,132	-	Quarterly	Open
Real estate fund[(f)]	13,644	-	Quarterly	Open
Credit fund[(g)]	879	-	Illiquid during term of commitment	7 years plus two one-year extension options
Credit fund[(h)]	1,994	291	Illiquid during term of commitment	8 years plus two one-year extension options
Natural resources fund[(i)]	740	37	Illiquid during term of commitment	12 years plus three-year extension option
Hedge fund[(j)]	11,300	-	Quarterly	Open
	$49,825	$1,421		

(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.

(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 is January 24, 2019.

(c) The fund focuses on smaller private equity buyout investments, but also seeks other transaction types included, 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 non-marketable 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 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 multi-family 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.

(f) 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.

(g) 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 as well as 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 is July 26, 2018.

(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 as well as 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.

(In thousands)

(i) 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 is October 20, 2018.

(j) The fund is a hedge fund of funds with a differentiated opportunistic credit portfolio with 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.

Cash

Cash approximates fair value.

Receivables, Net

Receivables approximate fair value due to their short-term nature.

Unearned Revenue

The carrying amount recorded approximates the fair value due to their short-term nature and is based on publication and advertising revenue received in advance and not yet deemed to be earned.

Bonds Payable

The fair value of the bonds payable is presumed to approximate the carrying value.

The following tables present the estimated fair value of the financial instruments not measured at fair value, which approximates carrying value, as of December 31, 2017 and 2016, and indicate the level of the estimated fair value measurement based on the Foundation's ability to observe the inputs used:

	2017			
	Level 1	Level 2	Level 3	Fair value
Assets				
Cash	$713	$ -	$ -	$713
Receivables, net	-	-	83	83
Liabilities				
Unearned revenue	-	-	489	489
Bonds payable, net of bond issuance cost	-	12,971	-	12,971

(In thousands)

	2016			
	Level 1	Level 2	Level 3	Fair value
Assets				
Cash	$1,208	$ -	$ -	$1,208
Receivables, net	-	-	50	50
Liabilities				
Unearned revenue	-	-	466	466
Bonds payable, net of bond issuance costs	-	13,255	-	13,255

NOTE F - PROPERTY AND EQUIPMENT

Components of property and equipment at December 31, 2017 and 2016, are shown below:

	2017	2016
Office and computer equipment	$ 483	$ 453
Website and digital programs	2,333	2,840
Books	189	176
Land	7,264	7,264
Building	15,206	15,084
Total property and equipment	25,475	25,817
Accumulated depreciation	(5,655)	(5,453)
Property and equipment, net	$19,820	$20,364

Depreciation expense for 2017 and 2016 was $1,108 and $1,078, respectively.

(In thousands)

NOTE G - BONDS PAYABLE

During 2010, the Foundation issued $15,000 in fixed-rate revenue 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, 2017, are shown below:

Maturity date	Principal amount	Bond issuance amortization expense	Interest rate
2018	$ 330	$ 28	4.250
2019	340	27	4.375
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	515	37	5.000
2029 - 2031	1,705	37	5.300
2032 - 2040	7,000	-	
	$13,250	$279	

Unamortized bond issuance costs were $279 and $310 as of December 31, 2017 and December 31, 2016, respectively.

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 $677 and $689 for the years ended December 31, 2017 and 2016, respectively. A reconciliation of the Foundation's total interest cost to interest expense included in the statements of activities for 2017 and 2016 is as follows:

	2017	2016
Amortization of cost of bond issuance	$ 30	$ 32
Amortization of bond discount	4	4
Interest cost associated with completed project	671	684
Total interest expense	$705	$720

NOTE H - EMPLOYEE RETIREMENT PLAN

The Foundation has established a defined contribution retirement plan within the provisions of Section 403(b) of the IRC. The plan is provided through the Teachers Insurance and Annuity Association of America (TIAA). Employees are eligible to participate in the plan after the completion of one year of service and attainment of age 25. Years of service with any organization that meets the eligibility requirements of 403(b) not-for-profit institutions will be counted for satisfying this requirement. As a condition of employment, employees must begin participation after three years of employment and the attainment of age 30. Plan contributions are made as a percentage of compensation as follows: 10% by the Foundation and 5% by the individual. The Foundation and employee participants make bi-monthly contributions to TIAA for the purchase of individual annuities. The Foundation made matching contributions to TIAA totaling $186 and $177 in 2017 and 2016, respectively.

NOTE I - NET ASSETS

Temporarily Restricted

As of December 31, 2017 and 2016, all temporarily restricted net assets were time-restricted. During the years ended December 31, 2017 and 2016, the Foundation released $792 and $1,971, respectively, from temporarily restricted net assets for expiration of time restrictions.

Permanently Restricted

The Foundation’s endowment consists of a fund established by a donor to provide income to be used to award poetry prizes or for the general operating purposes of the Foundation. The income is allocated to temporarily restricted net assets until appropriated for expenditure to satisfy the purpose of the restrictions. Realized gains are reinvested in the restricted endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation’s endowment includes only donor-restricted endowment funds.

(In thousands)

Endowment Net Assets

The Foundation had the following endowment-related activities:

	Temporarily restricted	Permanently restricted	Total
Balance as of January 1, 2016	$144	$1,331	$1,475
Investment return			
Interest and dividends	40	-	40
Net appreciation (realized and unrealized)	79	-	79
Total investment return	119	-	119
Appropriation of endowment assets for expenditure	(67)	-	(67)
Total change in endowment net assets	52	-	52
Balance as of December 31, 2016	196	1,331	1,527
Investment return			
Interest and dividends	32		32
Net appreciation (realized and unrealized)	210	-	210
Total investment return	242		242
Appropriation of endowment assets for expenditure	(73)	-	(73)
Total change in endowment net assets	169	-	169
Balance as of December 31, 2017	$365	$1,331	$1,696

The Foundation invests its permanently 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.

For the years ended December 31, 2017 and 2016, the unrestricted fund was entitled to receive from the earnings on the endowment fund 5% of the average annual market value of the endowment fund as of the end of the preceding eight calendar quarters.

(In thousands)

NOTE J - EXPENSES BY FUNCTIONAL CLASSIFICATION

Expenses are reported in the statements of activities by natural business classification. The Foundation's primary services are the publication of POETRY magazine, its online archive and journal at Poetryfoundation.org, and other public and educational poetry programs. The Foundation's operating expenses by functional classification for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
POETRY magazine	$ 1,756	$1,640
Poetryfoundation.org	2,518	2,296
Public and educational poetry programs	4,131	3,730
Total program expenses	8,405	7,666
General and administrative	2,178	2,130
Total	$10,583	$9,796

NOTE K - 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 Trusts 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 Trusts 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, 2017 and 2016, the Foundation had no significant concentration of credit risk in investments.

NOTE L - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2017, financial statements for subsequent events through June 7, 2018, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the financial statements.