KPMG

THE WALLACE FOUNDATION

Financial Statements

December 31, 2022 and 2021

(With Independent Auditors’ Report Thereon)

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

Independent Auditors' Report

The Board of Directors
The Wallace Foundation:

Opinion

We have audited the financial statements of The Wallace Foundation (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

New York, New York
June 21, 2023

THE WALLACE FOUNDATION

Balance Sheets

December 31, 2022 and 2021

Assets		**2022**	**2021**
Cash and cash equivalents	$	27,155,897	135,778,433
Investments (note 4)		1,616,840,316	1,897,104,714
Other assets and receivables		567,044	1,921,061
Right of use asset, net		17,266,772	—
Fixed assets, net (note 5)		7,310,158	7,986,275
Total assets	$	1,669,140,187	2,042,790,483
Liabilities and Net Assets			
Liabilities:			
Accrued expenses and other payables	$	2,427,882	1,803,598
Grants payable (note 6)		6,559,760	9,884,193
Line of credit (note 10)		25,000,000	—
Lease liability (note 7)		18,584,449	—
Deferred liabilities (note 8)		4,780,464	12,119,249
Total liabilities		57,352,555	23,807,040
Net assets – without donor restrictions		1,611,787,632	2,018,983,443
Total liabilities and net assets	$	1,669,140,187	2,042,790,483

See accompanying notes to financial statements.

THE WALLACE FOUNDATION

Statements of Activities

Years ended December 31, 2022 and 2021

	2022	2021
Investment return:		
Investment (loss) income	$ (294,476,653)	297,954,893
Less investment expenses	(8,194,161)	(4,768,169)
Total investment (loss) return, net	(302,670,814)	293,186,724
Contributions	—	25
Total (losses) revenues	(302,670,814)	293,186,749
Expenses:		
Grants and related activities	88,388,935	46,681,833
Operating expenses	16,136,062	15,135,435
Total expenses	104,524,997	61,817,268
Change in net assets	(407,195,811)	231,369,481
Net assets – without donor restrictions:		
Beginning of year	2,018,983,443	1,787,613,962
End of year	$ 1,611,787,632	2,018,983,443

See accompanying notes to financial statements.

THE WALLACE FOUNDATION

Statements of Functional Expenses

Years ended December 31, 2022 and 2021

	2022			2021		
	Program	**Supporting services**	**Total**	**Program**	**Supporting services**	**Total**
Grants and related activities:						
Grants	$ 80,824,501	—	80,824,501	40,616,873	—	40,616,873
Direct charitable activities	7,564,434	—	7,564,434	6,064,960	—	6,064,960
Total grants and related activities	88,388,935	—	88,388,935	46,681,833	—	46,681,833
Operating expenses:						
Salaries	5,046,235	3,227,213	8,273,448	4,912,496	3,334,180	8,246,676
Benefits	1,773,390	1,186,991	2,960,381	1,671,864	1,174,723	2,846,587
Consultants	353,084	421,600	774,684	480,099	369,711	849,810
Rent, net of amortization	916,732	632,229	1,548,961	858,260	704,998	1,563,258
Other occupancy costs	151,053	104,175	255,228	118,956	97,714	216,670
Information technology	338,397	218,505	556,902	299,590	230,442	530,032
Insurance	72,895	50,273	123,168	67,602	55,530	123,132
Travel and meetings	219,028	59,412	278,440	28,889	16,985	45,874
Subscription, dues and fees	127,659	556,413	684,072	8,161	19,275	27,437
Depreciation	402,909	277,869	680,778	376,605	309,355	685,959
Total operating expenses	9,401,382	6,734,680	16,136,062	8,822,522	6,312,913	15,135,435
Total expenses	$ 97,790,317	6,734,680	104,524,997	55,504,355	6,312,913	61,817,268

See accompanying notes to financial statements.

THE WALLACE FOUNDATION

Statements of Cash Flows

Years ended December 31, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	(407,195,811)	231,369,481
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Unrealized losses (gains) on investments		433,093,998	(161,852,984)
Realized (gains) on investments		(125,762,086)	(128,888,002)
Depreciation		680,778	685,960
Amortization of right of use asset		1,347,766	—
Changes in operating assets and liabilities:			
Other assets and receivables		1,354,017	(879,497)
Accrued expenses and other payables		624,284	(296,052)
Grants payable		(3,324,433)	(6,394,278)
Lease liability		(1,368,409)	
Deferred liabilities		(6,000,465)	2,162,279
Net cash used in operating activities		(106,550,361)	(64,093,093)
Cash flows from investing activities:			
Sales of investments		513,133,564	483,639,681
Purchases of investments		(540,201,078)	(302,464,172)
Purchases of fixed assets		(4,661)	(33,698)
Net cash (used in) provided by investing activities		(27,072,175)	181,141,811
Cash flows from financing activities:			
Proceeds from line of credit		25,000,000	—
Net cash provided by financing activities		25,000,000	—
Net (decrease) increase in cash equivalents and cash		(108,622,536)	117,048,718
Cash equivalents and cash at beginning of year		135,778,433	18,729,715
Cash equivalents and cash at end of year	$	27,155,897	135,778,433
Supplemental disclosure of cash flow information:			
Cash paid for excise taxes	$	2,645,644	500,000
Right of use asset acquired and operating lease liability through adoption of ASC 842		19,952,858	—

See accompanying notes to financial statements.

(1) Nature of Operations

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

These classes are defined as follows:

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

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

The Foundation does not have any donor restricted net assets as of December 31, 2022 or 2021.

(b) Income Taxes

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

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

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(c) Fair Value Measurements

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

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

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

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

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

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

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

(d) Investments

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

The Foundation follows the accounting standards of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10-35-59, *Fair Value Measurement and Disclosures – Fair Value Measurements of Investments in Certain Entities That Calculate Net*

Asset Value per Share (or Its Equivalent). This allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using NAV per share or its equivalent. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

(e) Fixed Assets

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

(f) Grants

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

(g) Cash Equivalents

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

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made in the preparation of these financial statements include the fair value of investments. Actual results could differ from those estimates.

(i) Natural and Functional Classifications of Expenses

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

(Continued)

recordkeeping and office costs, are included within supporting services. Certain operating costs have been allocated, based on headcount, among the program and supporting services benefited.

(j) Adoption of a New Standard

On January 1, 2022, the Organization adopted ASU No. 2016-02, Leases (Topic 842) and subsequent amendments thereto, which requires all entities to recognize all leases, including operating leases, on-balance sheet via a right of use asset and lease liability, unless the lease is a short-term lease. The standard was adopted under the Effective Date Method as of the date of adoption and the Foundation elected to apply the following practical expedients:

- ASC 842 is applied using the current lease details of the operating lease prospectively.
- Prior year financial statements were not adjusted as a result.
- Lease and non-lease components were combined as a single-lease component.
- No re-assessment of any of the following:
  - Expired or existing contacts are or contain leases (e.g. Embedded leases),
  - Lease classification for any existing or expired leases, and
  - Whether initial direct costs would have qualified for capitalization for any existing leases.
- Use of risk-free discount rate as a practical expedient in lieu of the Foundation’s incremental borrowing rate when assessing lease classification and when measuring its lease liabilities.

Adoption of the leasing standard resulted in the recognition of operating right-of-use (ROU) assets of $18,614,538 and operating lease liabilities of $19,952,858 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the risk-free rate as of the date of adoption. Prior period was not restated and continues to be presented under legacy GAAP. Disclosures about the Foundation’s leasing activities are presented in Note 7 – Leases. Further, deferred rent credits of $1,338,320 were applied to the opening balance of the ROU assets at the time of adoption.

(3) Liquidity and Availability of Resources

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

The following table represents the Foundation’s financial assets available for general expenditure, without restrictions limiting their use, within one year of the balance sheet dates of December 31, 2022 and 2021:

		2022	2021
Cash and cash equivalents	$	27,155,897	135,778,433
Investments convertible to cash in the next 12 months		811,200,539	1,209,750,993
Receivables for investments sold, net		69,149,754	13,408,336
	$	907,506,190	1,358,937,762

(4) Investments

(a) Fair Value Hierarchy

The following tables present the Foundation’s fair value hierarchy for investments, the only financial instruments measured at fair value on an annual basis, as of December 31, 2022 and 2021. Investments measured using the NAV per share practical expedient are included in the total fair value column only and are not disclosed within the fair value hierarchy levels:

		2022			
		Total fair value	Level 1	Level 2	Level 3
Public equities:					
United States	$	99,429,220	99,429,220	—	—
Global		64,742,974	64,742,974	—	—
Public equities total		164,172,194	164,172,194	—	—
Fixed income:					
United States government/agency		84,089,496	—	84,089,496	—
Fixed income total		84,089,496	—	84,089,496	—
Other:					
Short-term investments		6,118,813	6,118,813	—	—
Equity holdings		76,574	76,574	—	—
Receivables for investments sold, net		69,149,754	69,149,754	—	—
Total		323,606,831	239,517,335	84,089,496	—
Investments measured using net asset value (or its equivalent):					
Public equities:					
United States		112,579,109			
Global		66,159,870			
Emerging market		229,908,001			
Private capital		499,899,029			
Hedged equities		105,102,431			

	2022			
	Total fair value	Level 1	Level 2	Level 3
Absolute return	179,614,835			
Real assets	99,970,210			
Total investments using net asset value	1,293,233,485			
Total investments	$ 1,616,840,316			

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

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

The Foundation did not have any Level 3 investments in 2022 or 2021.

The Foundation recognizes transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2022 and 2021.

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

The following tables list the investment strategies, redemption terms, and assets for public equities, private capital, hedged equities, absolute return funds, and real assets measured at fair value using NAV (or its equivalents) as of December 31, 2022 and 2021:

	2022			
	Total fair value	**Unfunded commitments**	**Redemption dates per year**	**Redemption notice period**
Public equities:				
United States	$ 112,579,109	—	Bi-Annually/Quarterly	60/65/90 days
Global	229,908,001	—	Triennial (with lock up until August 2025)	120 days
			Monthly (with lock up until December 2024)	60 days
			Quarterly/Annually	30/90 days
Emerging market	66,159,870	—	Bi-Annually (with lock-up until June 2023)	60 days
			Daily/Quarterly	30/45 days
Private capital	499,899,029	183,804,648	Not redeemable	Not redeemable
Hedged equities	105,102,431	—	Quarterly/Annually	45 days
Absolute return	179,614,835	52,256,855	Monthly/Quarterly	5/60/65 days
			Semi-Annually	60/90 days
Real assets	99,970,210	59,883,313	Not redeemable	Not redeemable
Total	$ 1,293,233,485	295,944,816		

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

The following provides details for the investment strategies as of December 31, 2022 listed above:

(i) Public Equities

United States

This includes $113 million invested in four funds that invest in US equities.

Global

This includes $230 million invested in five funds that invest in Global equities.

Emerging Markets

This includes $66 million invested in three funds that invest in Emerging Market equities.

(ii) Private Capital

This includes $500 million invested in 79 funds that make distributions to investors at the managers' discretion and are expected to fully distribute their assets over the next 10 years. These funds invest directly in diversified portfolios of buyout, growth and venture capital investments.

(iii) Hedged Equities

This includes $105 million invested in two hedge funds that invest in public equities using a combination of long and short positions.

(iv) Absolute Return

This includes $180 million invested in eight managers that allocate capital across multiple asset classes and geographies and provide returns largely independent of overall equity market moves.

(v) Real Assets

This includes $100 million invested in nineteen funds that invest in diversified portfolios of real estate and natural resources, both of which provide material protection against inflation, generate current income and are less correlated with equities.

(5) Fixed Assets, Net

At December 31, 2022 and 2021, fixed assets are comprised of the following:

	2022	2021
Furniture and fixtures	$ 1,000,993	1,000,993
Computer hardware	294,913	290,252
Equipment	50,289	50,289
Leasehold improvements	7,952,858	7,952,858
Artwork	104,613	104,613
	9,403,666	9,399,005
Less accumulated depreciation	(2,093,508)	(1,412,730)
	$ 7,310,158	7,986,275

Depreciation expense for fixed assets for the years ended December 31, 2022 and 2021 was $680,778 and $685,960, respectively.

(6) Grants Payable

At December 31, 2022 and 2021, non-conditional grants scheduled to be paid in future years are as follows:

	2022	2021
Year:		
2022	$ —	7,568,018
2023	5,721,681	1,562,665
2024	888,000	788,000
	6,609,681	9,918,683
Discount to present value (based on interest rates from 0.77% to 2.90% and 0.18% to 0.78% for 2022 and 2021, respectively)	(49,921)	(34,490)
	$ 6,559,760	9,884,193

At December 31, 2022, the value of conditional grants totaled $23,720,047, which have not been recorded in the financial statements as they have not met the criteria for expense recognition at December 31, 2022. The Foundation expects such amounts to be recognized as grant expense when the expense recognition criteria is met.

(7) Leases

The Foundation has a lease for office space expiring in 2035. The Foundation has a weighted average remaining lease term and discount rate associated with their operating leases of approximately 13 years and 2.03%, respectively.

A summary of changes in operating lease liabilities follows:

January 1, 2022	Additions	Payments/ Amortization	December 31, 2022
$ 19,952,858	—	(1,368,409)	18,584,449

A summary of changes in ROU assets follows:

January 1, 2022	Additions	Payments/ Amortization	December 31, 2022
$ 18,614,538	—	(1,347,766)	17,266,772

The future payments due under operating leases as of December 31, 2022 is as follows:

	Total undiscounted
Year ending December 31:	
2023	$ 1,587,822
2024	1,642,417
2025	1,718,852
2026	1,718,852
2027	1,718,852
2028-2035	13,050,019
	21,436,814
Less effects of discounting	(2,852,365)
Operating lease liabilities as at December 31, 2022	$ 18,584,449

Lease expense recognized in the statements of activities amounted to $1,546,645 and $1,563,258 in 2022 and 2021, respectively.

As of December 31, 2021 The Foundation's contractual lease commitments are as follows:

Year:		
2022	$	1,588,000
2023		1,588,000
2024		1,642,000
2025		1,719,000
2026		1,719,000
2027 and beyond		14,615,000
	$	22,871,000

(8) Deferred Liabilities

At December 31, 2022 and 2021, deferred liabilities consisted of the following:

		2022	2021
Federal excise tax (note 9)	$	4,780,464	10,780,929
Landlord incentives		—	1,338,320
	$	4,780,464	12,119,249

(9) Federal Excise Tax

Due to recent changes in tax law, under Section 4940(a) of the Code, as a private foundation, the Foundation is subject to a federal excise tax equal to 1.39% of its net investment income for tax purposes. The Foundation's current federal excise taxes for the year ended December 31, 2022 and December 31, 2021 were $3,993,247 and $(368,533), respectively.

The Foundation records a liability for deferred federal excise tax at the 1.39% rate on the total unrealized appreciation in the fair value of investments. The federal excise tax will be paid as realized gains are reported for tax purposes. The unrealized (losses) gains on investments are reported net of the deferred federal excise tax (benefit) expense of $(6,000,465) and $2,185,239 for the years ended December 31, 2022 and 2021, respectively, on the statements of activities.

(10) Line of Credit

The Foundation entered into a line of credit with a bank in June 2022 for up to $50,000,000 at a variable interest rate of the 12-month average US Treasury Index plus 1.85%. Interest-only payments are due in monthly installments beginning August 15, 2022. All accrued and unpaid interest are due upon maturity on November 15, 2023. As of December 31, 2022, there was $25,000,000 outstanding on this line of credit. As of the date of issuance of these financial statements, the entire outstanding principal has been paid.

(11) Pension Plans

The Foundation provides a defined-contribution retirement plan for all eligible employees, whereby the Foundation contributes 15% of a participant's eligible earnings on an annual basis. In addition, the Foundation provides a supplemental executive retirement plan for the benefit of certain eligible employees. Total pension expense for the years ended December 31, 2022 and 2021 was $1,468,768 and $1,425,785, respectively.

(12) Subsequent Events

The Foundation evaluated events subsequent to the balance sheet date of December 31, 2022 through June 21, 2023, which was the date the financial statements were available to be issued. There were no additional subsequent events of which management is aware, that would require recognition or additional disclosure in the Foundation's financial statements.