Consolidated Financial Statements and Report of Independent Certified Public Accountants

Anne Ray Foundation and Subsidiary

December 31, 2018 and 2017

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Anne Ray Foundation

We have audited the accompanying consolidated financial statements of Anne Ray Foundation and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Anne Ray Foundation and Subsidiary as of December 31, 2018 and 2017, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Arlington, Virginia
September 12, 2019

CONSOLIDATED FINANCIAL STATEMENTS

Anne Ray Foundation and Subsidiary
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	$ 15,375,099	$ 42,228,012
Receivables and Prepaid Expenses	881,603	1,209,011
Investments	4,040,292,887	4,277,092,237
Other Assets	1,027,845	1,193,335
Total Assets	$ 4,057,577,434	$ 4,321,722,595
LIABILITIES AND NET ASSETS		
Accounts Payable and Other Liabilities	$ 9,632,965	$ 8,609,607
Grants Payable, Net	62,382,805	77,110,743
Total Liabilities	72,015,770	85,720,350
Net Assets Without Donor Restrictions	3,985,561,664	4,236,002,245
Total Liabilities and Net Assets	$ 4,057,577,434	$ 4,321,722,595

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

Anne Ray Foundation and Subsidiary
Consolidated Statements of Activities
For the years ended December 31, 2018 and 2017

	2018	2017
REVENUES		
Investment Return, Net	$ (118,751,533)	$ 523,082,941
Total Revenues	(118,751,533)	523,082,941
EXPENSES		
Grants and Grantmaking Expenses	127,378,530	152,175,507
Management and General Expenses	4,310,518	5,475,690
Total Expenses	131,689,048	157,651,197
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(250,440,581)	365,431,744
Net Assets Without Donor Restrictions - Beginning of Year	4,236,002,245	3,870,570,501
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	$ 3,985,561,664	$ 4,236,002,245

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

Anne Ray Foundation and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	$	(250,440,581)	$	365,431,744
Adjustments to Reconcile Change in Net Assets to				
Net Cash Provided by (Used in) Operating Activities:				
Net Realized (Gains) Losses on Investments		(65,450,468)		(146,510,880)
Net Unrealized (Gains) Losses on Investments		213,637,626		(348,959,733)
Changes in Assets and Liabilities:				
Receivables and Prepaid Expenses		327,408		44,569
Accounts Payable and Other Liabilities		1,023,358		1,703,096
Grants Payable		(14,727,938)		20,170,192
Net Cash Provided by (Used in) Operating Activities		(115,630,595)		(108,121,012)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Investments		(1,355,098,423)		(1,334,840,444)
Proceeds from Sales of Investments		1,443,710,615		1,441,138,100
Proceeds from Sales of Other Assets		165,490		-
Net Cash Provided by (Used in) Investing Activities		88,777,682		106,297,656
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(26,852,913)		(1,823,356)
Cash and Cash Equivalents - Beginning of Year		42,228,012		44,051,368
CASH AND CASH EQUIVALENTS - END OF YEAR	$	15,375,099	$	42,228,012

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Anne Ray Foundation (Anne Ray) is a Minnesota nonprofit corporation dedicated to providing meaningful assistance and support to society, the arts, and the environment. The mission of Anne Ray is to provide meaningful support to some or all named beneficiary organizations to make a measurable and sustainable difference on our identified priority problems. Each beneficiary, in order to receive support and benefit, must be qualified as an organization as described in Section 509(a)(1) or 509(a)(2) of the Internal Revenue Code.

Consolidation

Anne Ray is the sole member of KARI, LLC which was formed to hold certain real property used in the conduct of the activities of Anne Ray and Margaret A. Cargill Foundation, a related party (see Note 5). The activities of KARI, LLC are consolidated with those of Anne Ray. All intercompany transactions have been eliminated upon consolidation.

Net Asset Classification

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets and changes the information it presents about liquidity, financial performance and cash flows. This guidance is effective for annual periods beginning after December 15, 2017, with early application permitted. Anne Ray adopted this guidance effective for the year ended December 31, 2018 and incorporated presentation changes and new disclosures within these financial statements.

Net assets, revenues, gains and losses and expenses are classified based on donor imposed restrictions. Accordingly, net assets of Anne Ray and changes therein are classified and reported as follows:

- Without Donor Restrictions – Net assets over which the directors have discretionary control.
- With Donor Restrictions – Net assets subject to donor imposed restrictions.

Anne Ray has no net assets with donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include money market mutual funds.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments

Investments, including alternative investments, are stated at fair value based either on quoted market prices or—for certain investments with no readily available quoted market prices—on fair values as determined by management based on review of valuation information provided by Anne Ray's investment managers and other factors. Directly owned positions consist of public equities; credit investments; private investments focused in equity, credit and real asset strategies; and equity, foreign currency and interest rate derivatives. Public equities are generally valued using the official close price as quoted on the primary exchange. Credit investments are generally valued using prices obtained from third party pricing vendors, who primarily use broker quotes and other observable market data. Private investments are generally valued using unobservable inputs including recent transaction activity, third party appraisals and projected cash flows. Equity, foreign currency and interest rate derivatives consist of exchange traded futures and options and forward foreign currency contracts. Exchange traded futures and options are valued based on quoted prices from the exchange. Forward foreign currency contracts are valued based on forward foreign exchange rates applied to the notional amounts stated in the contracts. Cash equivalents include money market funds which are valued at net asset value (NAV).

Alternative investments consist of investments in commingled funds, fund of funds and other private investment entities with no readily available quoted market price. In valuing these investments, management considers the audited financial statements of the investee, the cost of the investments, developments since acquisition, estimates as to the effect of future developments, general economic conditions, and other pertinent factors. Anne Ray uses the "practical expedient" under FASB Accounting Standards Codification (ASC) Topic 820: *Fair Value Measurements and Disclosures*, which allows for the use of Anne Ray's proportionate share of the NAV as fair value if certain conditions are met. These alternative investments are included among equities, credit, private credit, private equity, and real assets categories as shown in Note 3.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. Anne Ray has elected to measure all investments at fair value. Anne Ray may elect to measure newly acquired financial instruments at fair value in the future.

Net unrealized gains and losses for the year are reflected in the consolidated statements of activities. Purchases and sales of investments are reflected on a trade-date basis. Realized gains or losses on sales are based on the specific identification method. Interest income is recorded on the accrual basis and dividend income is recorded on the ex-dividend date.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Other Assets

Other assets consist of assets held for sale.

Grants

Grant commitments are charged to operations at the time the grants are approved. Grants that are payable and considered long term are recorded at their net present value. A conditional promise to give is recognized in the period in which the recipient meets the terms of the condition. As of December 31, 2018 and 2017, Anne Ray had conditional grants outstanding of $13,035,000 and $32,385,000, respectively.

Concentration of Credit Risk

At times during the year, Anne Ray may have cash in excess of federally insured limits of $250,000 per financial institution.

Income Tax Status

Anne Ray has been recognized by the Internal Revenue Service as exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is generally not subject to income tax. However, Anne Ray is subject to taxes on unrelated trade or business income.

Anne Ray has adopted guidance regarding the recognition of uncertain tax positions. Anne Ray believes it has appropriate support for unrelated trade or business positions and, as a result, does not have uncertain tax positions that have a material impact on the consolidated financial statements. Anne Ray's 2015 through 2018 tax years are subject to examination by federal and state authorities.

Distribution Requirements

Anne Ray is subject to Internal Revenue Code provisions requiring supporting organizations to annually disburse an amount which is the greater of 85% of net income as defined by tax rules or approximately 3.5% of the market value of investment assets. This payout requirement may be satisfied by payments for grants, direct conduct of certain charitable activities and grantmaking expenses. Anne Ray has exceeded the distribution requirements for the years ended December 31, 2018 and 2017.

Classification of Expenses

Grants and expenses associated with Anne Ray's grantmaking activities are considered to be program expenses, while all other expenses of Anne Ray are considered to be either investment or management and general expenses.

Foreign Currency

Investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investments and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Anne Ray's financial instruments are cash and cash equivalents, receivables and prepaid expenses, investments, accounts payable and other liabilities, and grants payable. The recorded values of cash and cash equivalents, receivables and prepaid expenses, and accounts payable and other liabilities approximate their fair values based on their short-term nature. Investments are carried at fair value. The carrying value of grants payable is based on discounted cash flows, which approximate fair value at December 31, 2018 and 2017.

Fair Value Measurements

Anne Ray measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own judgments about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Anne Ray may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The pronouncement amends certain fair value measurement disclosures. This guidance is effective for annual periods beginning after December 15, 2019, with early adoption permitted. Anne Ray elected to adopt the revised guidance for the year ended December 31, 2018. Accordingly, the fair value measurement disclosures have been updated to reflect these changes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value Measurements – continued

Fair value measurement categorizes the inputs used to measure fair value into the following three categories:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Anne Ray has the ability to access as of the measurement date. The types of investments typically considered Level 1 include public equities, exchange traded futures and mutual funds.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active. Investments typically classified as Level 2 include credit securities, exchange traded options and forward foreign currency contracts.

Level 3: Inputs that are unobservable. Unobservable inputs reflect Anne Ray's own assumptions about the factors market participants would use in pricing investments, and are based on the best information available in the circumstances. Investments typically classified as Level 3 include certain equity, private credit and real asset investments, where the valuation was based on unobservable market data, and certain investments in funds which are not valued using NAV as a practical expedient.

Investments valued using NAV as a practical expedient have not been categorized within the fair value hierarchy, in accordance with ASC Topic 820.

Reclassifications

Certain balances in the consolidated statement of activites and the notes to the consolidated financial statements for the prior year have been reclassified for comparative purposes to conform with the financial statements presentation in the current year. These reclassifications had no impact on the consolidated statements of financial position and statements of cash flows for the years ended December 31, 2018 and 2017.

Recent Accounting Pronouncements

In June 2018, the FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and accounting guidance around contributions received and made by not-for-profit organizations. This guidance is effective for resource providers for annual periods beginning after December 15, 2019, with early application permitted. Anne Ray is currently assessing the impact this guidance will have on its financial statements.

NOTE 2 – INVESTMENTS

Investments are stated at fair value and consisted of the following at December 31, 2018 and 2017:

	2018	
	Cost	Fair Value
Cash and Cash Equivalents	$ 226,235,857	$ 226,241,250
Equity	1,258,294,564	1,364,062,698
Credit	1,193,547,023	1,257,111,157
Private Credit	146,849,251	169,135,526
Private Equity	202,602,375	294,368,317
Real Assets	545,249,289	729,373,939
	$ 3,572,778,359	$ 4,040,292,887

	2017	
	Cost	Fair Value
Cash and Cash Equivalents	$ 213,769,502	$ 214,085,753
Equity	1,343,534,487	1,670,529,817
Credit	1,238,929,022	1,341,516,035
Private Credit	94,224,195	111,542,323
Private Equity	163,226,329	233,603,635
Real Assets	543,506,438	705,814,674
	$ 3,597,189,973	$ 4,277,092,237

As of December 31, 2018, Anne Ray has committed approximately $763 million in capital to be called over the next 1 to 12 years.

NOTE 3 – FAIR VALUE MEASUREMENTS

Anne Ray values its investments as described in Note 1. The tables that follow set forth information about the level within the fair value hierarchy at which Anne Ray's investments are measured at December 31, 2018 and 2017:

December 31, 2018	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Investments:					
Securities:					
Equity	$ 395,216,322	$ 107,776	$ -	$ -	$ 395,324,098
Credit	-	535,025,075	-	-	535,025,075
Private Credit	-	-	1,815,400	-	1,815,400
Real Assets	-	-	63,640,700	-	63,640,700
Total	$ 395,216,322	$ 535,132,851	$ 65,456,100	$ -	995,805,273
Investments in Funds:					
Equity	$ 20,788,614	$ -	$ -	$ 942,423,141	$ 963,211,755
Credit	-	-	-	722,086,082	722,086,082
Private Credit	-	-	-	167,320,126	167,320,126
Private Equity	-	-	-	294,368,317	294,368,317
Real Assets	-	-	27,070,231	638,663,008	665,733,239
Money Market Funds	228,541,282	-	-	-	228,541,282
Total	$ 249,329,896	$ -	$ 27,070,231	$ 2,764,860,674	3,041,260,801
Derivatives:					
Futures	$ 393,484 *	$ -	$ -	$ -	$ 393,484
Options	-	(670,324)	-	-	(670,324)
Forward currency contracts-asset	-	30,023,532	-	-	30,023,532
Forward currency contracts-liability	-	(24,219,847)	-	-	(24,219,847)
Total	$ 393,484	$ 5,133,361	$ -	$ -	5,526,845
Cash					7,635,782
Accrued income					5,991,831
Receivable for pending sales					13,550,258
Payable for pending purchases					(34,177,225)
Subscriptions paid in advance					6,000,000
Accrued expenses					(1,300,678)
Total Investments					$ 4,040,292,887

* Futures are valued based on Level 1 inputs. Amount included above represents the variation margin on open futures positions with a cumulative unrealized loss of $4,504,106 at December 31, 2018.

NOTE 3 – FAIR VALUE MEASUREMENTS – Continued

December 31, 2017	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Investments:					
Securities:					
Equity	$ 483,199,726	$ -	$ 12,785	$ -	$ 483,212,511
Credit	-	569,906,292	-	-	569,906,292
Private Credit	-	-	701,250	-	701,250
Real Assets	-	-	65,038,316	-	65,038,316
Total	$ 483,199,726	$ 569,906,292	$ 65,752,351	$ -	1,118,858,369
Investments in Funds:					
Equity	$ 63,911,335	$ -	$ -	$ 1,127,952,400	$ 1,191,863,735
Credit	14,200,872	-	-	757,408,871	771,609,743
Private Credit	-	-	-	110,841,073	110,841,073
Private Equity	-	-	-	233,603,635	233,603,635
Real Assets	-	-	16,794,292	623,982,066	640,776,358
Money Market Funds	155,340,111	-	-	-	155,340,111
Total	$ 233,452,318	$ -	$ 16,794,292	$ 2,853,788,045	3,104,034,655
Derivatives:					
Futures	$ (194,651) *	$ -	$ -	$ -	$ (194,651)
Options	-	(432,200)	-	-	(432,200)
Forward currency contracts-asset	-	20,721,436	-	-	20,721,436
Forward currency contracts-liability	-	(24,641,014)	-	-	(24,641,014)
Total	$ (194,651)	$ (4,351,778)	$ -	$ -	(4,546,429)
Cash					10,398,932
Accrued income					6,451,324
Receivable for pending sales					17,247,740
Payable for pending purchases					(1,688,561)
Subscription paid in advance					29,500,000
Accrued expenses					(3,163,793)
Total Investments					$ 4,277,092,237

* Futures are valued based on Level 1 inputs. Amount included above represents the variation margin on open futures positions with a cumulative unrealized gain of $5,143,149 at December 31, 2017.

Subscriptions paid in advance, cash, accrued income and expense and investment payables and receivables are included in the tables above to reconcile to the investment amounts on the consolidated statements of financial position.

NOTE 3 – FAIR VALUE MEASUREMENTS – Continued

The following tables detail purchases and transfers into and out of Level 3 for the years ended December 31, 2018 and 2017.

	2018		
	Investments:		
	Private Credit	Real Assets	Total
Purchases	$ 76,363	783,858	860,221
Transfers In	-	-	-
Transfers Out	-	-	-

	Investments in Funds:	
	Real Assets	Total
Purchases	$ 18,796,056	18,796,056
Transfers In	-	-
Transfers Out	(5,114,057)	(5,114,057)

	2017			
	Investments:			
	Equity	Private Credit	Real Assets	Total
Purchases	$ 10,829	65,886	2,703,082	2,779,797
Transfers In	-	-	-	-
Transfers Out	-	-	-	-

	Investments in Funds:	
	Real Assets	Total
Purchases	$ 6,280,606	6,280,606
Transfers In	-	-
Transfers Out	-	-

During 2018, transfers out of Level 3 were due to certain Investments in Funds becoming eligble to use the practical expedient. Level 3 investments were valued using indicative broker quotes with no observable inputs, recent transaction prices or discounted projected cash flows.

NOTE 3 – FAIR VALUE MEASUREMENTS – Continued

The following tables list investment funds valued using NAV as a practical expedient by major category:

	2018			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity	$ 942,423,141	$ -	Daily to Quarterly*	Daily to 120 days
Credit	722,086,082	-	Daily to Not Available**	1 to 90 days
Private Credit	167,320,126	139,909,802	Not Available	Not Applicable
Private Equity	294,368,317	198,339,354	Not Available	Not Applicable
Real Assets	638,663,008	424,448,160	Quarterly to Not Available***	30 days to Not Applicable

* Approximately 11% is subject to rolling lock-ups ranging from 2-3 years.
** Approximately 4% is subject to a rolling 1 year lock-up.
*** Approximately 7% is subject to lock-up restrictions expiring in the next 1-2 years.

	2017			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity	$ 1,127,952,400	$ -	Daily to Quarterly*	Daily to 120 days
Credit	757,408,871	-	Daily to Not Available**	1 to 90 days
Private Credit	110,841,073	149,645,186	Not Available	Not Applicable
Private Equity	233,603,635	183,221,548	Not Available	Not Applicable
Real Assets	623,982,066	308,039,258	Daily to Not Available***	Daily to Not Applicable

* Approximately 13% is subject to rolling lock-ups ranging from 2-5 years.
** Less than 1% is subject to a 2 year rolling lock-up.
*** Approximately 20% is subject to lock-up restrictions expiring in the next 1-3 years.

For investment funds where redemptions are not available, the timing of expected liquidation is unknown.

Equity funds generally invest globally (U.S. and non-U.S. markets) in large-, mid- or small- capitalization common or preferred stocks or convertible bonds. Equity funds also include funds with equity long/short and market neutral strategies. Funds with these strategies generally invest in diversified portfolios, including equities, fixed income securities and derivatives; these funds may use leverage, sell financial instruments short and/or invest in illiquid investments.

Credit funds generally invest in interest-bearing securities that make periodic payments including bonds, Treasury issues, mortgage and other asset-backed securities, and non-U.S. dollar denominated debt instruments, all of which may be of varying maturity, currency exposure and credit quality. Credit funds also include funds with macro, relative value, and event driven strategies. Funds with these strategies generally invest in diversified portfolios, including equities, fixed income securities and derivatives; these funds may use leverage, sell financial instruments short and/or invest in illiquid investments.

Private credit funds generally invest in both public and private financial instruments, debt and equity securities, real estate assets, and their related instruments. These funds may also participate in the origination of loans. These investments are generally illiquid.

NOTE 3 – FAIR VALUE MEASUREMENTS – Continued

Private equity funds generally make investments, both global and domestic, directly into private companies or conduct buyouts of public companies that may result in a delisting of public equity. Capital can be used to fund new technologies, to expand working capital within an owned company, to make acquisitions or to strengthen a balance sheet, among other things.

Real assets funds generally make domestic and global investments in timber, real estate, commodities, infrastructure, agriculture, energy and energy-related investments. They may be public or private investments and may use leverage.

The fair value of Anne Ray's investments is based on available information and does not necessarily represent amounts that might ultimately be realized, which depend on changing circumstances and cannot be reasonably determined until the investments are actually liquidated. The fair value may differ significantly from the values which would have been used had a ready market for the investments existed.

NOTE 4 – DERIVATIVE INSTRUMENTS

Anne Ray retains investment managers who are authorized to use certain derivative instruments in accordance with specific manager guidelines. Anne Ray utilizes futures to gain market exposure to various equity indices, currencies and interest rates at a reasonable cost. Anne Ray sells options to collect premiums within certain equity strategies. Anne Ray utilizes forward currency contracts to facilitate purchases and sales of non-dollar securities and to hedge foreign currency exposure.

Anne Ray accounts for derivative financial instruments in accordance with ASC 815, *Derivatives and Hedging*. Anne Ray records all derivative instruments at fair value and these derivatives do not have hedge designation.

Upon entering into a futures contract, Anne Ray is required to deposit cash with the broker in an amount equal to the margin requirement for the contract. The fluctuations in fair value during the contract term are recognized as unrealized gains or losses and are settled daily with cash through a margin account held at the broker. When a contract is closed, Anne Ray recognizes a realized gain or loss.

Upon entering into a forward foreign currency contract, Anne Ray agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate. The fluctuations in fair value are recognized as unrealized gains or losses until the contract is settled at which time a realized gain or loss is recognized.

Upon entering into a written option contract, Anne Ray is obligated, in return for a premium, to buy or sell within a limited time, a financial instrument at a contracted price that may also be settled in cash, based on differentials between specified indices or prices. Fluctuations in fair value are recognized as unrealized gains or losses until the contract option is exercised or the contract is closed, at which time, Anne Ray recognizes a realized gain or loss.

Derivative instruments have market risks, including the risk that equity markets, interest rate markets and currency markets may change, resulting in a loss in the value of the investment. Credit risk associated with these instruments includes the risk of failure of the counterparty to pay based on the contractual terms of the agreement.

NOTE 4 – DERIVATIVE INSTRUMENTS – Continued

The fair value of the derivative instruments included in the investments line item on the consolidated statements of financial position as of December 31, 2018 and 2017 are listed in the table below:

	2018		
	Notional Value	Fair Value	
Equity Contracts			
Futures-Assets	$ 196,786,650	$ 393,484	*
Options-Liabilities	(77,496,000)	(670,324)	
Foreign Currency Contracts			
Futures-Assets	3,381,460	-	*
Forward Currency Contracts-Assets	833,095,693	30,023,532	
Forward Currency Contracts-Liabilities	(683,062,399)	(24,219,847)	

* Amount included above represents the variation margin on open futures positions. Open futures contracts consist of long equity futures with a cumulative unrealized loss of $4,453,242 and long foreign currency futures with a cumulative unrealized loss of $50,864, at December 31, 2018.

	2017		
	Notional Value	Fair Value	
Equity Contracts			
Futures-Assets	$ 187,684,293	$ (194,651)	*
Options-Liabilities	(85,892,000)	(432,200)	
Foreign Currency Contracts			
Futures-Assets	1,997,500	-	*
Forward Currency Contracts-Assets	676,593,369	20,721,436	
Forward Currency Contracts-Liabilities	(758,946,404)	(24,641,014)	

* Amount included above represents the variation margin on open futures positions. Open futures contracts consist of long equity futures with a cumulative unrealized gain of $5,176,951 and long foreign currency futures with a cumulative unrealized loss of $33,802, at December 31, 2017.

NOTE 4 – DERIVATIVE INSTRUMENTS – Continued

Net gains and losses from derivative instruments, included in the consolidated statements of activities for the years ended December 31, 2018 and 2017 are listed in the tables below:

	2018	
	Realized Gains (Losses)	Unrealized Gains (Losses)
Equity Contracts		
Futures	$ (21,140,624)	$ (9,630,192)
Options	(10,663,332)	1,074,009
Foreign Currency Contracts		
Futures	(192,785)	(17,062)
Forward Currency Contracts	1,494,737	9,722,065
Total	$ (30,502,004)	$ 1,148,820

	2017	
	Realized Gains (Losses)	Unrealized Gains (Losses)
Equity Contracts		
Futures	$ 37,866,300	$ 6,804,389
Options	5,582,471	(240,198)
Foreign Currency Contracts		
Futures	347,021	(8,372)
Forward Currency Contracts	(5,664,802)	(10,340,301)
Interest Rate Contracts		
Futures	(332)	-
Total	$ 38,130,658	$ (3,784,482)

The average notional values of derivative instruments (based on quarter-end balances) for the years ended December 31, 2018 and 2017 are listed in the table below:

	Average Notional Values	
	2018	2017
Equity Contracts		
Futures-Assets	$ 155,206,139	$ 167,825,191
Options-Liabilities	(83,492,300)	(44,299,600)
Foreign Currency Contracts		
Futures-Assets	2,198,728	1,701,464
Forward Currency Contracts-Assets	846,981,852	899,714,986
Forward Currency Contracts-Liabilities	(767,320,813)	(903,372,926)

NOTE 4 – DERIVATIVE INSTRUMENTS – Continued

Anne Ray holds over-the-counter derivative instruments that are subject to an enforceable master netting arrangement. Anne Ray presents these derivative instruments on a gross basis in Note 3, even though they may qualify for net presentation if they were executed with the same counterparty under the same master netting agreement.

The following table provides disclosure regarding the potential effect of offsetting of recognized assets and liabilities as of December 31, 2018 and 2017:

	2018		
	Gross Amounts Recognized	Amounts Not Offset	Net Amount
Foreign Currency Contracts			
Forward Currency Contracts-Assets	$ 30,023,532	(23,982,812)	6,040,720
Forward Currency Contracts-Liabilities	(24,219,847)	23,982,812	(237,035)

	2017		
	Gross Amounts Recognized	Amounts Not Offset	Net Amount
Foreign Currency Contracts			
Forward Currency Contracts-Assets	$ 20,721,436	(19,009,069)	1,712,367
Forward Currency Contracts-Liabilities	(24,641,014)	19,009,069	(5,631,945)

NOTE 5 – RELATED-PARTY TRANSACTIONS

During 2018 and 2017, Anne Ray was a party to a shared services agreement with a related party, Margaret A. Cargill Foundation (MAC Foundation), for certain services such as grantmaking, investment management and execution, financial, and general and administrative. Costs were allocated based on certain metrics such as time spent and square footage, and as a result, Anne Ray paid 47% and 45% of the total cost of these services for the years ended December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the net amounts reimbursable from Anne Ray to MAC Foundation were $16,141,088 and $18,729,779, respectively. The costs of these services are included in grantmaking, and management and general expense and are netted within investment return in the consolidated statements of activities. The net amount due at December 31, 2018 and 2017 under this arrangement was $9,307,612 and $7,725,798, respectively. The related party liability is included in accounts payable and other liabilities in the accompanying consolidated statements of financial position.

NOTE 6 – EXPENSES

The table below presents expenses by both their nature and their function for the years ended December 31, 2018 and 2017.

	2018		
	Grants and Grantmaking	Management and General	Total Expenses
Grants	$ 119,964,055	$ -	$119,964,055
Compensation and Benefits	4,382,820	2,590,182	6,973,001
Occupancy and Depreciation	1,219,600	601,825	1,821,425
Consulting and Professional Services	590,345	665,039	1,255,384
Travel and Conferences	633,707	121,326	755,033
Technology and Office Equipment	343,367	118,824	462,191
Other	244,636	213,322	457,957
Total Expenses	$ 127,378,530	$ 4,310,518	$131,689,048

	2017		
	Grants and Grantmaking	Management and General	Total Expenses
Grants	$ 143,320,462	$ -	$143,320,462
Compensation and Benefits	5,549,228	3,471,296	9,020,524
Occupancy and Depreciation	1,118,050	637,495	1,755,545
Consulting and Professional Services	1,306,736	861,418	2,168,154
Travel and Conferences	349,445	105,346	454,791
Technology and Office Equipment	385,150	129,869	515,019
Other	146,438	270,265	416,703
Total Expenses	$ 152,175,507	$ 5,475,690	$157,651,197

Costs are allocated to grantmaking and management and general based on certain metrics such as time spent and square footage.

NOTE 7 – INCOME TAX

Anne Ray is subject to federal and state income tax on unrelated business income activities of certain investments (UBI Tax), generally taxed at regular income tax rates. Anne Ray estimates that these activities will not produce income for the year ended December 31, 2018 and 2017. The UBI tax benefit is a result of changes in estimates.

	2018	2017
Expense (Benefit):		
Current UBI Tax	$ (984,722)	$ 887,177
Other Taxes	540	343,775
Total	$ (984,182)	$ 1,230,952
Current UBI Tax Receivable:	$ 476,277	$ 1,040,446
Current UBI Tax Liability:	$ -	$ 43,400

NOTE 8 – GRANTS PAYABLE

Anne Ray has future grant commitments as of December 31, 2018:

Year Payable	
2019	$ 48,988,216
2020	13,434,035
2021	300,000
Discount on Grants Payable	(339,446)
Total	$ 62,382,805

Discounts based on short-term interest rates were used to estimate the present value of grants payable.

NOTE 9 – LIQUIDITY

Anne Ray structures its financial assets to be available and liquid as its grants, general expenditures, liabilities, and other obligations become due. To achieve this, Anne Ray uses a rolling 12-month cash flow forecast and monitors its liquidity on a monthly basis. Consistent with its investment policy, Anne Ray holds at least 30% of the investment portfolio in assets that can be sold within one month and it invests excess cash in short-term investments such as money market funds.

Financial assets available within one year:		2018
Cash and Cash Equivalents	$	15,375,099
Receivables		476,277
Investments		2,769,298,281
Total financial assets available within one year	$	2,785,149,657

NOTE 10 – SUBSEQUENT EVENTS

In preparing these financial statements, Anne Ray has evaluated events and transactions for potential recognition or disclosure in these financial statements through September 12, 2019, the date the financial statements were available to be issued. During February 2019, Anne Ray entered into a line of credit agreement for $62,500,000 with an interest rate of either LIBOR plus 0.75% or the lender’s prime rate, elected by Anne Ray at the time of borrowing.

No other material events require recognition or disclosure in the financial statements.