

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
John Simon Guggenheim Memorial Foundation

We have audited the accompanying financial statements of John Simon Guggenheim Memorial Foundation (a nonprofit organization), 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of John Simon Guggenheim Memorial 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.

Lotz + Carr, LLP

New York, New York
October 9, 2018

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (Notes 2b and 12)	\$ 269,399	\$ 1,314,707
Investments (Notes 2c, 2d and 4)	289,056,267	249,655,296
Pledges receivable - unrestricted (Notes 2e and 5)	99,959	108,551
Accrued interest and dividends receivable	163,123	160,926
Due from Broker	284,058	-
Prepaid federal excise taxes (Note 10)	222,960	196,020
Prepaid expenses	106,552	20,427
Property and equipment, at cost, net of accumulated depreciation (Notes 2f and 6)	<u>636,391</u>	<u>710,795</u>
Total Assets	<u><u>\$290,838,709</u></u>	<u><u>\$252,166,722</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 8)	\$ 192,898	\$ 353,091
Deferred lease incentive (Note 11)	1,037,381	1,044,320
Fellowship grant appropriations payable (Note 2g)	5,786,500	5,883,500
Unrelated business income tax payable (Note 10)	186,000	-
Federal excise tax payable - deferred (Note 10)	1,948,716	1,129,831
Postretirement benefit liability (Note 7)	3,874,519	3,540,026
Pension account liability (Note 7)	<u>1,892,604</u>	<u>2,119,389</u>
Total Liabilities	<u>14,918,618</u>	<u>14,070,157</u>
Commitments (Notes 4, 7 and 11)		
Net Assets		
Unrestricted	275,763,588	237,940,062
Temporarily restricted (Note 3)	<u>156,503</u>	<u>156,503</u>
Total Net Assets	<u>275,920,091</u>	<u>238,096,565</u>
Total Liabilities and Net Assets	<u><u>\$290,838,709</u></u>	<u><u>\$252,166,722</u></u>

See notes to financial statements.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Revenue		
Interest and dividends	\$ 1,363,283	\$ 607,886
Unrealized appreciation in fair value of investments and other nontaxable transactions, net of deferred federal excise tax of \$818,885 in 2017 and \$68,405 in 2016 (Note 10)	43,330,336	3,429,374
Realized net loss on sale of investments	(1,275,114)	(1,554,789)
Revenue from Limited Partnership investments, net of unrelated business income tax of \$187,250 (2017) and \$250 (2016) (Note 10)	7,999,554	2,521,960
Less: Investment management and custody fees	(154,007)	-
Less: Provision for current federal excise tax (Note 10)	(67,060)	(18,770)
Net Investment Income	<u>51,196,992</u>	<u>4,985,661</u>
Contributions	438,876	440,506
Net assets released from restrictions - program restrictions	<u>-</u>	<u>100,000</u>
Total Revenue	<u>51,635,868</u>	<u>5,526,167</u>
Grants and Other Expenses		
Fellowship grants and program expenses	12,052,672	12,160,602
Support services - administration and fundraising	<u>1,082,702</u>	<u>1,056,455</u>
Total Grants and Other Expenses	<u>13,135,374</u>	<u>13,217,057</u>
Increase (Decrease) in Net Assets Before Item Below	38,500,494	(7,690,890)
Pension and postretirement benefit related changes other than periodic benefits costs (Note 7)	<u>(676,968)</u>	<u>8,494,275</u>
Increase in Unrestricted Net Assets	37,823,526	803,385
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	<u>-</u>	<u>(100,000)</u>
Increase in net assets	37,823,526	703,385
Net assets, beginning of year	<u>238,096,565</u>	<u>237,393,180</u>
Net Assets, End of Year	<u><u>\$275,920,091</u></u>	<u><u>\$238,096,565</u></u>

See notes to financial statements.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 37,823,526	\$ 703,385
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Unrealized appreciation in fair value of investments and other nontaxable transactions	(44,149,221)	(3,420,245)
Realized net loss on sale of investments	1,275,114	1,554,789
Deferred federal excise tax	818,885	68,405
Deferred lease incentive	(6,939)	281,030
Depreciation	74,404	74,404
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	8,592	(34,513)
Accrued interest and dividends receivable	(2,197)	(44,985)
Prepaid federal excise taxes	(26,940)	183,770
Prepaid expenses	(86,125)	75,563
Increase (decrease) in:		
Accounts payable and accrued expenses	(160,193)	(382,509)
Fellowship grant appropriations payable	(97,000)	220,645
Unrelated business income tax payable	186,000	-
Postretirement benefit liability	334,493	(10,011,625)
Pension account liability	(226,785)	942,004
Net Cash Used By Operating Activities	<u>(4,234,386)</u>	<u>(9,789,882)</u>
Cash Flows From Investing Activities		
Purchases of investments	(80,962,589)	(30,033,991)
Proceeds from sales of investments	84,151,667	37,345,325
Net Cash Provided By Investing Activities	<u>3,189,078</u>	<u>7,311,334</u>
Net decrease in cash and cash equivalents	(1,045,308)	(2,478,548)
Cash and cash equivalents, beginning of year	<u>1,314,707</u>	<u>3,793,255</u>
Cash and Cash Equivalents, End of Year	<u>\$ 269,399</u>	<u>\$ 1,314,707</u>
Supplemental Disclosure		
Cash paid during the year for excise tax	<u>\$ 95,000</u>	<u>\$ 135,000</u>
Cash paid during the year for unrelated business income tax	<u>\$ 250</u>	<u>\$ 250</u>

See notes to financial statements.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****Note 1 - Organization**

The John Simon Guggenheim Memorial Foundation (the “Foundation”) was established in 1925 by United States Senator Simon Guggenheim and Mrs. Guggenheim as a memorial to a son who died in 1922. The Foundation offers Fellowship grants to further the development of scholars and artists by assisting them to engage in research in any field of knowledge and creation in any of the arts, under the freest possible conditions and irrespective of race, color, or creed.

Note 2 - Summary of Significant Accounting Policies**a - Basis of Presentation**

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

b - Cash Equivalents

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

c - Investments

The Foundation reflects investments with determinable fair values at their fair value in the statement of financial position. Investment income, including unrealized gains and losses on investments, is reflected in the statement of activities.

Alternative investments, which do not have readily determinable fair values, are reported based upon the underlying net asset value per share or its equivalent as a practical expedient. Net asset value per share is estimated at fair value by the fund manager or general partner in a manner consistent with accounting principles generally accepted in the United States for investment companies. The Foundation reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the net asset values of these investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

d - Fair Value Measurements

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Fair value measurements are not adjusted for transaction costs. The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****Note 2 - Summary of Significant Accounting Policies (continued)****d - Fair Value Measurements (continued)**

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the assumptions developed based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3. Reporting entities that measure the fair value of an investment using the net asset value per share or its equivalent as a practical expedient are not required to be categorized within the fair value hierarchy.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

e - Contributions and Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the calendar year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible promises to give. The allowance, when necessary, is based on prior years' experience and management's analysis of specific promises made.

f - Property and Equipment

Additions to the property and equipment of the Foundation, consisting primarily of leasehold improvements, office furnishings, equipment and website, are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset.

g - Fellowship Grants

Fellowship grants are recognized as liabilities when awarded.

h - Estimates

The Foundation uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****Note 2 - Summary of Significant Accounting Policies (continued)****i - Subsequent Events**

The Foundation has evaluated subsequent events through October 9, 2018, the date that the financial statements are considered available to be issued.

j - Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.”* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two net asset classes now entitled “net assets without donor restrictions” and “net assets with donor restrictions;” (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Foundation is currently evaluating the impact of ASU 2016-14 on its 2018 financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statements of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact of ASU 2016-02 on its financial statements.

Note 3 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds related to charitable gift annuity agreements held at December 31, 2017 and 2016 (Note 8).

Note 4 - Investments

Equity securities and mutual funds are reported on the basis of quoted market values. Alternative investments are reported at fair value as determined by the general partners or fund managers. Capital commitment limited partnership investments are recorded at adjusted cost since a fair value cannot be readily determined. Losses have been recognized for impairment in value that is not considered temporary.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 4 - Investments (continued)

At December 31, 2017 and 2016, investments consisted of the following:

	2017		2016	
	Carrying Value	Cost	Carrying Value	Cost
Short-term investments	\$ 218,901	\$ 218,901	\$ 68,383	\$ 68,383
Cash waiting to be invested *	-	-	2,500,000	2,500,000
Equities - Domestic	17,892,108	16,954,866	6,841,975	6,059,659
Equities - International	-	-	7,308,284	12,565,825
Mutual funds and exchange traded funds	58,321,124	47,852,598	40,967,441	34,774,924
Alternative Investments				
Hedge Funds	115,573,782	70,797,414	87,851,987	62,068,473
Distressed Opportunities	<u>90,788,745</u>	<u>49,535,052</u>	<u>93,291,456</u>	<u>64,300,723</u>
Investments, carried at fair value	282,794,660	185,358,831	238,829,526	182,337,987
Capital commitment limited partnership investments, valued at adjusted cost basis	<u>6,261,607</u>	<u>6,261,607</u>	<u>10,825,770</u>	<u>14,030,701</u>
Total Investments	<u>\$289,056,267</u>	<u>\$191,620,438</u>	<u>\$249,655,296</u>	<u>\$196,368,688</u>

* At December 31, 2016, cash waiting to be invested represented amounts transferred to one alternative investment as of January 1, 2017.

The Foundation is committed to invest \$51,380,000 in limited partnerships which make periodic capital calls. As of December 31, 2017, the Foundation had made investments as required by the partnerships of approximately \$46,200,000, leaving outstanding commitments of approximately \$5,180,000.

The following summarizes the Foundation's investments carried at fair value by the levels within the fair value hierarchy used to measure their respective fair values at December 31, where applicable:

	2017		2016	
	Total	Level 1	Total	Level 1
Short-term investments	\$ 218,901	\$ 218,901	\$ 68,383	\$ 68,383
Cash waiting to be invested	-	-	2,500,000	2,500,000
Equities - Domestic	17,892,108	17,892,108	6,841,975	6,841,975
Equities - International	-	-	7,308,284	7,308,284
Mutual funds and exchange traded funds	<u>58,321,124</u>	<u>58,321,124</u>	<u>40,967,441</u>	<u>40,967,441</u>
Total Assets in Fair Value Hierarchy	76,432,133	<u>\$76,432,133</u>	57,686,083	<u>\$57,686,083</u>
Investments measured at net asset value	<u>206,362,527</u>		<u>181,143,443</u>	
Total Investments, Carried at Fair Value	<u>\$282,794,660</u>		<u>\$238,829,526</u>	

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 4 - Investments (continued)

The alternative investments included in the Foundation's investment portfolio, valued using the net asset value, are redeemable based on the following terms and conditions at December 31, 2017:

Hedge Funds:	
Quarterly redemption with 30 days notice	\$ 24,427,486
Quarterly redemption with 45 days notice	20,768,134
Quarterly redemption with 60 days notice	7,595,022
Quarterly redemption with 90 days notice	7,716,986
Quarterly redemption with 95 days notice	23,731,903
Rolling Annual redemption with 45 days notice	19,352,883
Two-year Lockup; quarterly with 90 days notice	2,694,266
Rolling 3-year Lockup with 90 days notice	<u>9,287,102</u>
	<u>115,573,782</u>
Distressed Opportunities:	
Quarterly redemption with 65 days notice	10,785,017
Annual redemption with 45 days notice	11,139,681
Annual redemption with 90 days notice	50,655,241
Three-year rolling lockup; quarterly redemption with 60 days notice	7,444,724
Five-year lockup; annual redemption with 90 days notice	<u>10,764,082</u>
	<u>90,788,745</u>
	<u>\$206,362,527</u>

Note: Some earlier redemptions are permitted upon payment of a fee.

The following are descriptions of the investment strategies of these investments:

Hedge Funds

These hedge funds invest in equity, fixed income, and derivative investments and vary their investment strategies in response to changing market opportunities.

Distressed Opportunities

These funds invest in debt, equity, or other securities or obligations of mis-valued, leveraged, or financially distressed companies and in event-oriented and other special situations.

At December 31, 2017, the Foundation's approximate ownership share of these investments ranges from .09% to 8.59%.

Note 5 - Pledges Receivable

Pledges receivable are due within one year. Uncollectible pledges are expected to be insignificant.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 6 - Property and Equipment

Property and equipment consists of the following:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Leasehold improvements	Life of lease	\$ 588,709	\$ 588,709
Computer equipment, office equipment and furniture	3-7 years	396,232	396,232
Website development costs	3 years	<u>810,172</u>	<u>810,172</u>
		1,795,113	1,795,113
Less: Accumulated depreciation		<u>(1,158,722)</u>	<u>(1,084,318)</u>
Net Book Value		<u>\$ 636,391</u>	<u>\$ 710,795</u>

Depreciation expense for each of the years ended December 31, 2017 and 2016 was \$74,404.

Note 7 - Employee Benefit Plans

The Foundation has a noncontributory defined benefit pension plan (the "Pension Plan") which provides retirement, disability and death benefits to all employees based on their credited service and final average pay. Effective January 20, 2016, the Foundation no longer offers current employees with life insurance upon retirement. The Foundation's policy is to contribute the minimum amount required under ERISA.

The Foundation sponsors a defined benefit health care plan that provides postretirement medical insurance benefits to those employees hired before January 1, 2012, and who meet other eligibility requirements under the pension plan of the Foundation. The Foundation funds its post-retirement medical benefits cost on a pay-as-you-go basis.

The funded status of the defined benefit pension and other postretirement plans must be fully recognized in the statements of financial position.

Obligations and funded status at December 31 are as follows:

	<u>Pension Benefits</u>		<u>Medical Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Benefit obligation	\$(14,288,225)	\$(13,548,872)	\$(3,874,519)	\$(3,540,026)
Plan assets at fair value	<u>12,395,621</u>	<u>11,429,483</u>	-	-
Funded Status	<u>\$ (1,892,604)</u>	<u>\$ (2,119,389)</u>	<u>\$(3,874,519)</u>	<u>\$(3,540,026)</u>
Accumulated benefit obligation	<u>\$(12,998,802)</u>	<u>\$(12,233,098)</u>	<u>\$(3,874,519)</u>	<u>\$(3,540,026)</u>
Employer contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,496</u>	<u>\$ 282,071</u>
Plan participant contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Benefits paid	<u>\$ 729,028</u>	<u>\$ 447,958</u>	<u>\$ 136,496</u>	<u>\$ 282,071</u>

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 7 - Employee Benefit Plans (continued)

The amounts recognized in the Statements of Financial Position at December 31, 2017 and 2016 consist of:

	<u>Pension Benefits</u>		<u>Medical Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Pension liability - noncurrent	<u>\$1,892,604</u>	<u>\$2,119,389</u>		
Postretirement Benefit Liability				
- Current liability			<u>\$ (154,605)</u>	<u>\$ (138,653)</u>
- Noncurrent liability			<u>\$(3,719,914)</u>	<u>\$(3,401,373)</u>

Amounts recognized in the statements of activities for the years ended December 31, 2017 and 2016 consist of:

	<u>Pension Benefits</u>		<u>Medical Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net loss (gain)	\$(214,118)	\$920,553	\$(235,355)	\$(1,613,778)
Prior service cost (credit)	-	-	<u>1,126,441</u>	<u>(7,801,050)</u>
Total pension and post-retirement benefit related changes other than periodic benefit cost	(214,118)	920,553	891,086	(9,414,828)
Net periodic benefit cost (benefit)	<u>(12,667)</u>	<u>21,451</u>	<u>(420,097)</u>	<u>(314,726)</u>
	<u>\$(226,785)</u>	<u>\$942,004</u>	<u>\$470,989</u>	<u>\$(9,729,554)</u>

Other changes in plan assets and benefit obligations previously recognized in changes in unrestricted net assets as of December 31, 2017 and 2016 are as follows:

	<u>Pension Benefits</u>		<u>Medical Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net gain	\$1,993,260	\$2,207,378	\$ 4,466,778	\$ 4,702,133
Prior service cost (credit)	-	-	<u>(7,036,834)</u>	<u>(8,163,275)</u>
Amounts Previously Recognized in Unrestricted Net Assets, Not Yet Reclassified as Components of Net Periodic Benefit Cost at December 31	<u>\$1,993,260</u>	<u>\$2,207,378</u>	<u>\$(2,570,056)</u>	<u>\$(3,461,142)</u>

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 7 - Employee Benefit Plans (continued)

The following weighted-average assumptions were used to determine benefit obligations at December 31:

	<u>Pension Benefits</u>		<u>Medical Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	3.75%	4.00%	3.75%	4.25%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

The following weighted-average assumptions were used to determine net periodic benefit cost for the years ended December 31:

	<u>Pension Benefits</u>		<u>Medical Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	4.00%	4.25%	4.25%	4.50%
Expect return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

For the years ended December 31, 2017 and 2016, the Pension Plan assets were invested in money market funds (6%) and the American Balanced Fund (94%), a mutual fund and a Level 1 asset. American Balanced Fund, managed by Capital Research and Management Company, seeks conservation of capital, current income and long-term growth of both capital and income by investing in stocks and fixed-income securities. The fund approaches the management of its investments as if they constituted the complete investment program of the prudent investor. The overall expected long-term rate of return on assets was determined as a result of an extensive survey of major U.S commercial banks.

No plan assets are expected to be returned to the Foundation during the year ended December 31, 2017.

As of December 31, 2017, the amount of benefits expected to be paid are as follows:

<u>Year Ended December 31,</u>	<u>Pension Benefits</u>	<u>Medical Benefits</u>
2018	\$1,074,149	\$ 157,000
2019	1,025,047	170,000
2020	1,153,778	180,000
2021	1,259,015	189,000
2022	990,052	197,000
2023-2027	4,739,569	1,079,000

As of December 31, 2017, no contributions are expected to be made to the pension plan during the year ended December 31, 2018.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****Note 7 - Employee Benefit Plans (continued)**

For medical benefits, the assumed health care cost trend rate is 7.00 % for 2017 and is assumed to decrease to 4.5% by 2027 and remain at that level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported.

The "Thrift Plan for Employees of John Simon Guggenheim Memorial Foundation" (the "Thrift Plan"), a defined contribution plan, was established for eligible employees effective January 1, 1983. According to plan rules, participants electing to make voluntary contributions to the Thrift Plan are matched by the Foundation up to 3% of base compensation for the plan year. Additionally, the Foundation contributes 5% of participants' base compensation for the plan year to the Pension Mirror Fund, as specified in the Thrift Plan. The total amount contributed to the Thrift Plan was \$135,936 and \$119,847 in 2017 and 2016, respectively.

Note 8 - Charitable Gift Annuity Agreements

In past years, the Foundation received contributions under charitable gift annuity agreements, which provided for the payment of distributions to each donor over the donor's lifetime. At the end of the term of each annuity, the remaining assets are available for the Foundation's general purposes. The portion of the assets received under each agreement attributable to the present value of the future benefits to be received by the Foundation is included in temporarily restricted net assets. At December 31, 2017 and 2016, the Foundation's liability under these agreements approximated \$7,500 and \$14,500, respectively, and is included in accounts payable and accrued expenses in the Statements of Financial Position.

Note 9 - Expenses

Expenses are allocated between the Fellowship Grant program and supporting services in reasonable ratios determined by the Foundation.

Note 10 - Tax Status

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, but is subject to a 1% or 2% Federal excise tax on net investment income, as defined, which includes gains realized on the sale of investments. Deferred taxes represent 2% on the unrealized appreciation in market value of investments. Also, certain investments held by the Foundation can generate unrelated business income. This income is taxed at regular corporate tax rates.

The Tax Reform Act of 1969 and subsequent amendments require that certain minimum distributions be made in accordance with a specified formula. As of December 31, 2017, the Foundation has distributed approximately \$1,940,000 more than the required minimum. Such excess distributions can be applied against future years' required distributions.

JOHN SIMON GUGGENHEIM MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 11 - Lease Commitment

The Foundation entered into a new lease agreement for its existing office space which will expire on April 30, 2031. The lease included a rent free period through April 30, 2017. The Foundation will make minimum annual payments, excluding escalations for operating charges, as follows:

<u>Year Ended December 31,</u>	
2018	\$ 1,151,874
2019	1,151,874
2020	1,151,874
2021	1,203,917
2022	1,221,264
Thereafter, through April 30, 2031	10,422,378

Rental expense was \$1,179,585 (2017) and \$1,151,598 (2016).

Note 12 - Concentration of Credit Risk

The Foundation maintains its cash balances in a financial institution located in New York, New York, which at times exceeds federally insured limits.