

OWEN J. FLANAGAN & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS
60 EAST 42ND STREET, SUITE 2810
NEW YORK, NEW YORK 10165

OWEN J. FLANAGAN, CPA
(1925-1996)

KEVIN C. SUNKEL, CPA
JOHN L. CORCORAN, CPA
MEREDITH A.F. KORN, CPA
LAUREN A. MARCIN, CPA

(212) 682-2783
FACSIMILE (212) 697-5843
WWW.OJFLANAGAN.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

Independent Auditor's Report

The Board of Directors of
The Tinker Foundation, Incorporated

We have audited the accompanying financial statements of The Tinker Foundation, Incorporated (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tinker Foundation, Incorporated as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, The Tinker Foundation, Incorporated adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investments as of December 31, 2018 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



New York, NY
June 11, 2019

THE TINKER FOUNDATION, INCORPORATED
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUE (LOSS)		
Net investment return	\$ (5,479,203)	\$ 12,982,689
Tax recovery (expense)	<u>165,814</u>	<u>(258,400)</u>
	(5,313,389)	12,724,289
Donated services	<u>17,841</u>	<u>-</u>
Total Revenue (Loss)	<u>(5,295,548)</u>	<u>12,724,289</u>
EXPENSES		
Program	4,409,282	3,341,301
Management and governance	474,086	594,857
Investment oversight	<u>109,608</u>	<u>122,283</u>
Total Expenses	<u>4,992,976</u>	<u>4,058,441</u>
Change in Net Assets for Year	<u>(10,288,524)</u>	<u>8,665,848</u>
		-
NET ASSETS		
Beginning of year	<u>89,162,250</u>	<u>80,496,402</u>
End of Year	<u>\$ 78,873,726</u>	<u>\$ 89,162,250</u>

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

THE TINKER FOUNDATION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 4,796,063	\$ 3,813,902
Investments	73,763,553	85,455,600
Proceeds receivable	-	5,000
Prepaid expenses and other assets	191,339	23,346
Prepaid taxes	17,676	15,809
Property and equipment, net	<u>451,594</u>	<u>452,149</u>
 Total Assets	 <u>\$ 79,220,225</u>	 <u>\$ 89,765,806</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 14,551	\$ 27,096
Post-retirement liability	128,000	142,000
Taxes payable	-	12,000
Deferred federal excise tax payable	<u>203,948</u>	<u>422,460</u>
 Total Liabilities	 346,499	 603,556
 Net assets without donor restriction	 <u>78,873,726</u>	 <u>89,162,250</u>
 Total Liabilities and Net Assets	 <u>\$ 79,220,225</u>	 <u>\$ 89,765,806</u>

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

THE TINKER FOUNDATION, INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (10,288,524)	\$ 8,665,848
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	59,378	56,437
Deferred federal excise tax (recovery) expense	(218,512)	179,575
Realized gain and change in unrealized appreciation on investments	7,175,314	(11,348,973)
Change in operating assets and liabilities		
Prepaid expenses and other assets	(167,993)	(16,123)
Prepaid taxes	(1,867)	25,330
Proceeds receivable	5,000	2,104,144
Accounts payable and accrued expenses	(12,545)	10,837
Post-retirement liability	(14,000)	(3,000)
Taxes payable	(12,000)	12,000
<u>Net Cash Used In Operating Activities</u>	<u>(3,475,749)</u>	<u>(313,925)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(58,823)	-
Purchase of investments	(4,726,212)	(8,006,663)
Proceeds from sale of investments	9,242,945	10,775,916
<u>Net Cash Provided By Investing Activities</u>	<u>4,457,910</u>	<u>2,769,253</u>
Net Change in Cash and Cash Equivalents	982,161	2,455,328
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,813,902</u>	<u>1,358,574</u>
End of Year	<u>\$ 4,796,063</u>	<u>\$ 3,813,902</u>
Supplemental disclosure:		
Taxes Paid	<u>\$ 66,565</u>	<u>\$ 41,000</u>

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

THE TINKER FOUNDATION, INCORPORATED
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>			<u>2017</u>				
	<u>Program</u>	<u>Management and Governance</u>	<u>Investment Oversight</u>	<u>Total</u>	<u>Program</u>	<u>Management and Governance</u>	<u>Investment Oversight</u>	<u>Total</u>
Grants	\$ 3,703,250			\$ 3,703,250	\$ 2,728,972			\$ 2,728,972
Salaries, benefits and post-retirement	479,055	\$ 288,259	\$ 76,727	844,041	431,027	\$ 318,669	\$ 94,486	844,182
Consulting and professional fees	36,880	66,015	9,000	111,895	-	151,268	-	151,268
Directors fees	-	28,000	-	28,000	-	29,158	-	29,158
Occupancy	48,140	28,200	7,710	84,050	42,124	29,798	9,234	81,156
Office expenses	66,957	39,135	10,724	116,816	55,393	39,187	12,142	106,722
Travel	40,991	4,555	-	45,546	54,492	6,055	-	60,547
Depreciation	34,009	19,922	5,447	59,378	29,293	20,722	6,421	56,436
	<u>\$ 4,409,282</u>	<u>\$ 474,086</u>	<u>\$ 109,608</u>	<u>\$ 4,992,976</u>	<u>\$ 3,341,301</u>	<u>\$ 594,857</u>	<u>\$ 122,283</u>	<u>\$ 4,058,441</u>

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

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 1 Organization

The Tinker Foundation, Incorporated (the “Foundation”) is a private foundation which supports activities to promote the development of an equitable, sustainable and productive society in Latin America.

Note 2 New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which became effective for fiscal years beginning after December 15, 2017. As of January 1, 2018, the Foundation adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Foundation’s financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 8).
- Investment income is presented on the statement of activities as one line, net of direct investment expenses. The underlying details are presented in the footnotes (Note 7).
- Expenses are now presented by nature and function on the Statement of Functional Expenses. The methodology used in allocating expenses between program and supporting activities is disclosed as part of the accounting policies.

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Note 3 Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in accordance with United States generally accepted accounting principles. Revenue is recorded when earned and expenses are recorded when incurred. Net assets are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Foundation are considered net assets without donor restriction.

Cash and Cash Equivalents

Cash and cash equivalents represent short-term investments with 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.

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 3 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Allocation of Expenses

The financial statements report certain categories of expenses, such as rent, general office, travel and depreciation expenses that are attributable to one or more program or supporting functions of the Foundation. Those expenses are allocated based on time and effort in addition to salary and benefit costs. Other expenses incurred are allocated directly to the applicable program or supporting service.

Fair Value Measurements

The Foundation follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuation

Investments are carried at fair value. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein. These investments have been excluded from classification within the fair value hierarchy as required under U.S. GAAP.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 3 Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method. The office space of the Foundation, a condominium, is being depreciated over a forty-year period. Furniture and fixtures purchased prior to January 1, 2002 are being depreciated over a fifteen-year period. Subsequent additions are being depreciated over seven years. Computer equipment is being depreciated over a three-year period. The Foundation capitalizes all property and equipment items purchased over \$10,000.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is June 11, 2019.

Note 4 Federal Excise Taxes

The Foundation is a nonprofit organization exempt from Federal income taxes under the provisions of 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. The Foundation is subject to a federal excise tax of 2% on its net investment income, as defined, for tax purposes. However, the excise tax is reduced to 1% if certain conditions are met. The Foundation estimates it will be subject to the 1% rate in 2018 and has met its minimum distribution requirement. The tax rate was 2% for 2017. Excise tax expense totaled approximately \$50,600 and \$77,000 for 2018 and 2017, respectively.

Deferred excise taxes principally arise from differences between the cost and fair value of investments. At December 31, 2018 and 2017, the fair value of the Foundation's investments exceeded the total cost; accordingly, provisions for deferred federal excise tax were made for the tax on the net appreciation of investments using the 2% rate. Deferred excise tax (recovery) expense totaled (\$218,512) and \$179,575 for 2018 and 2017, respectively.

Note 5 Unrelated Business Income Tax

In December 2017, the Tax Cuts and Jobs Act was enacted by the IRS. This law imposes unrelated business income tax on transit benefits provided to employees at the corporate rates. As such, the Foundation is subject to UBIT totaling \$1,598 for 2018.

The Foundation is also subject to unrelated business income tax on certain income generated through its investment vehicles. The Foundation's investments generated unrelated business losses in 2018 and 2017, resulting in no federal tax for the respective years.

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 6 Fair Value Measurements (Continued)

Information regarding the investments reported at NAV at December 31, 2018 is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds (a)	\$ 7,596,115	\$ -	Quarterly	65 days
Hedge Funds (b)	3,143,487	-	Quarterly	60 days
Hedge Funds (c)	4,616,469	-	Quarterly	90 days
Fixed income funds (d)	3,215,913	-	Monthly	10 days
International equity funds (e)	16,763,164	-	Monthly	10 days
Private equity limited partnership (f)	227,421	20,000	Not eligible	
Real estate limited partnership (g)	<u>182,285</u>	<u>-</u>	Not eligible	
	<u>\$35,744,854</u>	<u>\$20,000</u>		

- a. The investment objective of this fund is to achieve capital appreciation through event-driven investments which seek to exploit situations in which announced or anticipated events create inefficiencies in the pricing of investments. The fund primarily invests in the securities and financial instruments of issuers (i) that are experiencing financial distress, that are attempting to complete an out-of-court restructuring, are involved in a bankruptcy or similar proceedings and/or involved in substantial litigation or (ii) that are the subject of proposed changes in corporate structure or control, such as tender or exchange offers, mergers, unsolicited merger proposals, spin-offs, split-offs, liquidations and recapitalizations. In making event-driven investments, the fund may invest at any or all levels of an issuer's capital structure. The fund also engages in convertible arbitrage and volatility arbitrage.
- b. The fund's investment objective is to generate positive absolute returns on capital through investments, long and short, in the securities and other financial instruments including, without limitation, senior, secured and unsecured bank debt and public debt, junior debt, trade claims, equities, convertible securities, options, swaps, credit default swaps and other derivatives of companies that are (i) experiencing financial distress; (ii) attempting to complete an out-of-court restructuring, including spin-offs and recapitalization; (iii) involved in bankruptcy, liquidation, or similar proceeding; and/or (iv) involved in substantial litigation. This fund has liquidity limitations of up to 1/3 of the fair value at the time of any redemption.
- c. The investment objective of this fund is to generate long-term, superior, risk-adjusted returns by investing primarily in publicly traded equity securities. The investment manager seeks to achieve the investment objective by employing a strict fundamentals-based investment approach. The fund generally invests in companies that appear to be trading at a discount to their intrinsic value, and short companies that it believes are trading at a premium to their intrinsic value. It looks at any situation that could result in a security being mis-priced, including overlooked businesses, spin-offs, security offerings, mergers and acquisitions, restructuring, management changes, business inflection points, and public leveraged buyouts.

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 6 Fair Value Measurements (Continued)

- d. The fund was organized with the objective of achieving interest income and long-term capital appreciation by investing in non-U.S. debt securities. The fund concentrates its investments in bonds of countries having the best value in the form of high real interest rates.
- e. The investment objective of the fund is to maximize the earnings, assets and dividends of the fund over time. The fund is a traditional long-only value-driven investor. It invests in publicly traded equity securities. The fund is typically invested in about 100-150 investments with a reasonable diversification by country and industry. It will periodically undertake hedging transactions, but such activity is limited to 20% of the portfolio and is not intended as a major part of the overall investment strategy.
- f. This limited partnership was formed to invest in a select group of private equity funds in the venture capital, buyout and capital restructuring sectors. The partnership began operations on November 12, 2004 and will dissolve and terminate upon the later to occur of, (i) December 31, 2014, (ii) one year after the date by which all of the partnership investments have been liquidated (which is estimated to be July 1, 2021) or (iii) the occurrence of another liquidating event, as defined by the partnership agreement.
- g. This limited partnership was formed on September 14, 2007 to invest in real estate assets, with a goal of achieving superior risk-adjusted returns. The investment period, as defined by the partnership agreement, terminated in 2012.

Note 7 Net Investment Return

Net investment return as of December 31, 2018 and 2017 consists of the following:

	2018	2017
Interest and dividends	\$ 2,208,732	\$ 2,035,366
Realized gains	3,750,276	2,370,209
Unrealized gains (losses)	<u>(10,925,590)</u>	<u>8,978,764</u>
	(4,966,582)	13,384,339
Direct investment expenses	<u>(512,621)</u>	<u>(401,650)</u>
	<u>\$ (5,479,203)</u>	<u>\$ 12,982,689</u>

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 8 Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditures within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investing.

Cash and cash equivalents	\$ 4,796,063
Investments	<u>73,763,553</u>
	78,559,616
 Illiquid investments	 <u>(409,706)</u>
 Total financial assets available for general expenditure within next 12 months	 <u><u>\$ 78,149,910</u></u>

In order to maintain spending power and the original corpus of the Foundation, the Board has enacted a spending policy for budgeting purposes of 5.3% of a three-year trailing average of its assets.

Note 9 Property and Equipment

Property and equipment consist of the following as of December 31:

	2018	2017
Office condominium	\$2,152,757	\$2,093,934
Furniture and fixtures	<u>130,099</u>	<u>130,099</u>
	2,282,856	2,224,033
 Accumulated depreciation	 <u>1,831,262</u>	 <u>1,771,884</u>
	<u><u>\$ 451,594</u></u>	<u><u>\$ 452,149</u></u>

Note 10 Retirement Benefits

The Foundation provides a 401(K) Plan covering all of its employees who are 21 years of age or older. Employees are permitted to contribute to this plan from pre-tax compensation up to the dollar limit established annually by the Internal Revenue Service as well. Employees who have 12 months of service at the Foundation are eligible for the Foundation's discretionary contribution benefit. The Foundation contributed 15% of eligible compensation, 3% as a safe harbor contribution and 12% as a discretionary contribution, to each eligible participant. This benefit totaled \$55,580 and \$67,944 in 2018 and 2017, respectively.

THE TINKER FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 11 Grant Activity

Grants are recognized in accordance with defined payment schedules and as the related contractual conditions are met. Grants are subject, on an annual basis, to revocation rights by the Foundation and the continued qualification of grantees, among other things. Not reflected in these financial statements are \$2,957,000 of contingent grants that are expected to be paid over the next two years.

Note 12 Concentration of Risk

The Foundation maintains cash in banks, which at times exceed federally insured limits. The Foundation uses only large well-established banks to minimize this risk and has not experienced any losses on its cash deposits.

Note 13 Post-Retirement Liability

In 2016, the Tinker Foundation adopted a formal post-retirement medical policy for long-time employees that either were approaching retirement or retired from the Foundation at that time. Under the policy the employees will receive \$6,000 per year for medical costs for the first five years and \$3,000 per year for the next five years, ending at 10 years of benefits. There is one elderly past-employee whom the Foundation has promised to cover up to \$6,000 per year of medical costs for the remainder of her life.

	2018
Benefit obligation at December 31	\$ 161,000
Accrued benefit costs recognized in the statement of financial position	\$ 128,000
Benefit cost	\$ 7,626
Employer contributions	\$ 21,626
Benefit paid	\$ 21,626

A 6% discount rate was used in determining the current accrued benefit obligation. This plan is not funded.

The expected benefit payments over the next ten years are as follows:

2019	\$	25,000
2020		25,000
2021		25,000
2022		19,000
2023		16,000
2023-2026		51,000
		\$161,000

THE TINKER FOUNDATION, INCORPORATEDSCHEDULE OF INVESTMENTSDECEMBER 31, 2018

	<u>Fair Value</u>
Treasury Notes	
US Treasury Note, 1% due on 6/30/19	\$ 992,500
US Treasury Note, 1.375% due on 12/15/19	988,080
Mutual Funds	
Independent Franchise Partners	5,934,592
PIMCO Total Return Fund	10,061,363
PIMCO All Asset Fund	2,293,239
The Vanguard Group Institutional Index Fund	9,423,410
The Vanguard Group Small Cap Value Index Fund	2,811,964
The Vanguard Group Emerging Markets Equity Index Fund	5,513,551
Hedge Funds	
Davidson Kempner Institutional Partners, L.P.	7,596,115
Davidson Kempner Distressed Opportunities International Ltd.	4,616,469
Valinor Capital Partners	3,143,487
Fixed Income Funds	
Brandywine International Fixed Income Portfolio	3,215,913
International Equity Funds	
Highclere International Investors	2,429,400
Silchester International Value Equity Fund	14,333,764
Limited Partnerships	
Park Street Capital Private Equity VI, LP	227,421
Westbrook Real Estate	<u>182,285</u>
Total Investments	<u>\$ 73,763,553</u>

See accompanying independent auditor's report.