

The California Endowment

(A California Nonprofit Public Benefit Corporation)

**Report on Audited Financial Statements
For the Years Ended February 29, 2008
and February 28, 2007**

Report of Independent Auditors

To the Board of Directors
of The California Endowment

In our opinion, the accompanying statement of financial position and the related statements of activities, and cash flows, present fairly, in all material respects, the financial position of The California Endowment ("The Endowment") at February 29, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Endowment's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of The Endowment as of February 28, 2007 and for the year then ended were audited by other auditors whose report dated June 26, 2007 expressed an unqualified opinion on those statements.

As discussed in Note 2 of the financial statements, the Endowment applied the provisions of FASB Statement No. 158 and changed its method of reporting for their defined benefit cash balance plan.

PricewaterhouseCoopers LLP

June 24, 2008

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
February 29, 2008 and February 28, 2007

(in thousands)

	2008	2007
Assets		
Cash and cash equivalents	\$ 78,390	\$ 37,742
Funds held by trustee	5	1,435
Dividends, interest and other receivables	7,578	6,037
Investments, at fair value	3,684,762	3,646,991
Collateral received under securities lending program	344,961	450,177
Investments lent under securities lending program	331,288	436,234
Investment sales receivable	98,638	83,930
Program-related investments, net	18,000	18,000
Property and equipment, net	88,889	91,649
Accrued postretirement benefits	1,368	76
Other assets	3,298	1,647
	<u>4,657,177</u>	<u>4,773,918</u>
Total assets	<u>\$ 4,657,177</u>	<u>\$ 4,773,918</u>
Liabilities and Unrestricted Net Assets		
Liabilities		
Accounts payable and other liabilities	\$ 10,566	\$ 8,134
Payable under securities lending program	344,961	450,177
Investment purchases payable	172,822	96,744
Grants payable, net	45,688	65,060
Long-term debt	82,999	84,351
Deferred excise taxes payable	8,644	17,781
	<u>665,680</u>	<u>722,247</u>
Total liabilities	665,680	722,247
Unrestricted net assets	<u>3,991,497</u>	<u>4,051,671</u>
Total liabilities and unrestricted net assets	<u>\$ 4,657,177</u>	<u>\$ 4,773,918</u>

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

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Statements of Activities
For the Years Ended February 29, 2008 and February 28, 2007

(in thousands)

	2008	2007
Investment return		
Net realized and unrealized gains on investments	\$ 36,777	\$ 411,656
Dividends, interest and other investment income	<u>99,769</u>	<u>84,239</u>
	136,546	495,895
Less: investment expenses	<u>(15,218)</u>	<u>(13,349)</u>
Net investment gain	121,328	482,545
Expenses		
Grants awarded	120,067	120,160
Direct charitable expenses	24,167	14,109
Program operating expenses	19,277	19,158
General and administrative expenses	11,893	11,600
Interest expense	3,988	3,880
Federal excise tax provision (benefit)		
Current	11,636	6,773
Deferred	<u>(9,137)</u>	<u>2,876</u>
Total expenses	<u>181,891</u>	<u>178,556</u>
Change in unrestricted net assets before effect of adoption of FAS 158	(60,563)	303,989
Effect of adoption of FAS 158	<u>389</u>	<u>-</u>
Change in unrestricted net assets after effect of adoption of FAS 158	(60,174)	303,989
Unrestricted net assets		
Beginning of period	<u>4,051,671</u>	<u>3,747,682</u>
End of period	<u>\$ 3,991,497</u>	<u>\$ 4,051,671</u>

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

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended February 29, 2008 and February 28, 2007

(in thousands)

	2008	2007
Cash flows from operating activities		
Change in unrestricted net assets	\$ (60,174)	\$ 303,989
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net realized and unrealized gain on investments	(36,777)	(411,656)
Depreciation and amortization	4,522	4,449
Loss from sale of property	-	(5)
Change in operating assets and liabilities		
Dividends, interest, and other receivables	(1,541)	523
Accrued postretirement benefit	(1,292)	-
Other assets	(1,687)	2,183
Accounts payable and other liabilities	2,746	(3,190)
Grants payable	(19,372)	(26,462)
Deferred excise taxes payable	(9,137)	2,876
	<u>(122,712)</u>	<u>(127,293)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Decrease in funds held by trustee	1,430	9,078
Purchase of property and equipment	(2,167)	(9,956)
Purchase of investments	(5,140,140)	(2,768,026)
Proceeds from sale of investments	5,305,462	2,880,361
	<u>164,585</u>	<u>111,457</u>
Net cash provided by investing activities		
Cash flows from financing activities		
Bond principal payment	(1,225)	-
	<u>(1,225)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	40,648	(15,836)
Cash and cash equivalents		
Beginning of year	<u>37,742</u>	<u>53,578</u>
End of year	<u>\$ 78,390</u>	<u>\$ 37,742</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for federal excise tax	<u>\$ 13,935</u>	<u>\$ 4,200</u>
Cash paid during the year for interest	<u>\$ 4,020</u>	<u>\$ 4,045</u>
Change in collateral received under securities lending program	<u>\$ 105,216</u>	<u>\$ 3,020</u>
Change in payable under securities lending program	<u>\$ (105,216)</u>	<u>\$ (3,020)</u>
Supplemental disclosures of noncash investing activities		
Other liabilities for the purchase of property and equipment	<u>\$ 6</u>	<u>\$ 320</u>

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

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

1. Organization

The California Endowment ("The Endowment"), a California nonprofit public benefit corporation, is a private foundation that began operations in May 1996. The Endowment's mission is to expand access to affordable, quality health care for underserved individuals and communities and to promote fundamental improvements in the health status of all Californians.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, liquid investments with maturities of three months or less at the date of purchase. Cash consists of funds held in commercial interest bearing accounts, for operating expenses.

Investments

Investments in debt and equity securities that are traded on national security exchanges are recorded at fair values as determined by quoted market prices. Nonmarketable securities, consisting of private equity funds, real estate funds, and hedge funds, for which there is no readily available market, are valued by The Endowment with assistance from external investments managers, using methods that The Endowment believes provide a reasonable estimate of fair value.

Alternative investments consist of hedge funds, buyout funds, venture capital, private direct and other limited partnership interests. Because no readily ascertainable market value exists for these investments, the value is based on the estimated fair value as determined in good faith by management, after consideration of available relevant financial, operational and economic data. Fair value is generally defined as the amount at which an investment could be exchanged in a current transaction between unrelated willing parties, other than in a forced liquidation sale. Because of the inherent uncertainty of valuations, however, these amounts may differ materially from values that would be determined if the investments were publicly traded.

Investment sales and purchases are recorded on trade date, which results in receivables and payables on trades that have not yet settled at the financial statement date.

Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on an accrual basis. Unrealized gains and losses are recorded for changes in the difference between the recorded costs of the investment and the fair value of the investments at the financial statement date.

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

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

2. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "*Fair Value Measurements*." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Endowment is currently evaluating the effect that the adoption of SFAS No. 157 will have on its financial statements, but does not expect it to have a material impact.

Securities Lending

The Endowment participates in securities lending transactions with their investment custodian, whereby The Endowment lends a portion of its investments to various approved borrowers in exchange for collateral for the securities loaned, usually on a short-term basis. Collateral provided by borrowers is maintained at levels of at least 100% of the fair value, plus accrued interest of the borrowed securities, and is adjusted daily for market fluctuations. The Endowment maintains effective control of the loaned securities through its investment custodian during the term of the arrangement wherein they may be recalled at any time. Under the terms of the agreement, the borrower must return equivalent securities of an identical type, nominal value, description, and amount as were borrowed. The market value of collateral held for loaned securities is reported as collateral received under securities lending program, and a corresponding obligation is reported for repayment of such collateral upon settlement of the lending transaction. At February 29, 2008 and February 28, 2007, the market value of the securities on loan was \$331,288,000 and \$436,234,000, respectively.

Property and Equipment

Property and equipment consist of buildings, land, leasehold improvements, autos, furnishings, and equipment for The Endowment's offices and are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to five years for furnishings, auto and equipment, 39 years for buildings, and the shorter of 10 years or the related lease term for leasehold improvements.

Deferred Financing Costs

Deferred financing costs are capitalized at cost and amortized using the straight-line method over the terms of the related financing to approximate the effective interest method. Such amortization is reflected as a component of interest expense.

Capitalized Interest

When qualifying assets are financed with the proceeds of restricted tax-exempt borrowings, the amount of interest cost is capitalized, less any interest earned on temporary investment of the proceeds of the borrowings, from the date of the borrowings until the assets constructed with those borrowings are ready for their intended use.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

2. Summary of Significant Accounting Policies (Continued)

Grants

Unconditional grants are recognized as an expense in the period in which they are approved. Grants due in future years are discounted using rates effective at the time the grants were awarded ranging between 1.97% – 4.98% for 2008 and 1.98% – 5.05% for 2007. Grants that are conditioned on future uncertain events are expensed when those conditions are substantially met. There were \$169,000 and \$1,375,000 in conditional grants at February 29, 2008 and February 28, 2007, respectively, which are conditioned principally on grantees raising certain matching gifts by a specified date.

Direct Charitable and Program Operating Expenses

Direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by The Endowment. The Endowment's direct charitable activities consist of program evaluation, social marketing on health issues, policy and advocacy work, health-related research, publishing, and dissemination of research. Program operating expenses pertain to the general grant making activities of The Endowment, such as reviewing grant applications, and awarding, monitoring, and evaluating grants. Certain program operating expenses are allocated based on employee ratios and estimates made by management.

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.

Accounting Changes

In September 2006, the FASB issued Statement No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*." SFAS No. 158 requires an employer to recognize in its statement of financial position an asset for a plan's over funded status or a liability for a plan's under funded status. It also requires an employer to measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes are to be reported as a separate line item within the statement of activities. FASB Statement No. 158 is effective for fiscal years ending after June 15, 2007.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation. Specifically, the over funded status of The Endowment's cash balance plan, which was presented as a component of other liabilities in the 2007 statement of financial position, has been reclassified to conform to the 2008 presentation in which it is presented as a separate caption in accordance with SFAS No. 158.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

3. Investments

At February 29, 2008 and February 28, 2007, investments consist of the following (in thousands):

2008	Fair Value
Commercial paper and treasury bills	\$ 151,316
Government and corporate obligations	593,719
Equity securities	2,300,929
Private equity and other	<u>970,087</u>
	4,016,051
Less investments lent under securities lending program	<u>(331,288)</u>
Total investments	<u>\$ 3,684,762</u>
2007	Fair Value
Commercial paper and treasury bills	\$ 151,108
Government and corporate obligations	460,299
Equity securities	2,742,021
Private equity and other	<u>729,797</u>
	4,083,225
Less investments lent under securities lending program	<u>(436,234)</u>
Total investments	<u>\$ 3,646,991</u>

The Endowment has entered into certain agreements with various private limited partnership investment funds to make future investments in such funds. As of February 29, 2008, the unfunded commitments related to these investments totaled \$387,125,000.

In the normal course of business, The Endowment uses various financial instruments, including derivative financial instruments, to maintain desired asset allocations, primarily in fixed income securities. Interest rate futures and options are purchased and sold to manage the interest rate risk on government and corporate obligations. The fair value of interest rate futures is included in investments. Derivative financial instruments are recorded at their current market value with any changes reflected as a change in net assets during the period of the change. The Endowment's investment managers are permitted, under the terms of individual investment guidelines, to utilize such financial instruments.

The Endowment has swap positions, futures, and foreign currency contracts with net fair values of \$3,825,000 and \$832,000 at February 29, 2008 and February 28, 2007, respectively. Delivery dates for futures contracts extend through December 2009 and maturity dates of underlying securities of swap contracts extend through June 2038. All of the instruments are supported by government obligations for fixed income derivatives or equity holdings for equity derivatives.

The California Endowment
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Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

4. Program-Related Investments

The Endowment invests a portion of its funds in projects that advance its philanthropic purposes by providing noninterest-bearing loans to certain organizations. At February 29, 2008 and February 28, 2007, these loans totaled \$18,000,000, which is net of potentially uncollectible amounts of \$3,150,000 at February 29, 2008 and February 28, 2007. The loans mature on September 2013 and March 2029 and are expected to be repaid in various installments over their terms beginning in July 2009 (in thousands).

Years Ending	
February 28,	
2009	\$ 322
2010	844
2011	844
2012	844
2013	844
Thereafter	<u>17,452</u>
	21,150
Less reserves	<u>(3,150)</u>
Program related investments, net	<u><u>\$ 18,000</u></u>

5. Property and Equipment

At February 29, 2008 and February 28, 2007, property and equipment consist of the following (in thousands):

	2008	2007
Building	\$ 73,224	\$ 73,200
Land and easement improvements	11,725	11,549
Leasehold improvements	3,492	3,468
Equipment	5,476	6,825
Furnishings	6,037	5,707
Software	1,556	1,743
Autos	16	-
Construction-in-Progress	<u>333</u>	<u>-</u>
Total	101,859	102,492
Less accumulated depreciation	<u>(12,970)</u>	<u>(10,843)</u>
Property and equipment, net	<u><u>\$ 88,889</u></u>	<u><u>\$ 91,649</u></u>

Depreciation expense of \$4,613,000 and \$4,413,000 was recorded for the fiscal year end February 29, 2008 and February 28, 2007, respectively.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

6. Grants Payable

At February 29, 2008 and February 28, 2007, grants payable are as follows (in thousands):

	2008	2007
Amounts due in		
Less than one year	\$ 40,397	\$ 57,503
One year to five years	5,623	8,178
	<u>46,020</u>	<u>65,681</u>
Gross grants payable		
	(332)	(621)
Less unamortized discount to present value	<u>(332)</u>	<u>(621)</u>
Grants payable, net	<u>\$ 45,688</u>	<u>\$ 65,060</u>

7. Long-Term Debt

In December 2003, the California Statewide Communities Development Authority (the "Authority") issued \$80,600,000 aggregate principal of Revenue Bonds, Series 2003 (the "Bonds") resulting in \$84,756,000 in bond proceeds. Concurrent with the issuance, the Authority and The Endowment executed an agreement under which the Authority loaned The Endowment the bond proceeds. The loan, which is uncollateralized, accrues interest at rates ranging between 4% and 5.25% per annum. Principal and interest are payable semiannually through July 2036. The Endowment recognized interest expense of \$3,988,000 and \$3,880,000 for the years ended February 29, 2008 and February 28, 2007, respectively. These amounts are net of interest of \$24,000 and \$165,000 earned on temporary investment of the bond proceeds for the years ended February 29, 2008 and February 28, 2007, respectively.

Annual future principal payments under the loan agreement, including the amortized premium, are as follows (in thousands):

Years Ending	
February 28,	
2009	\$ 1,403
2010	1,453
2011	1,513
2012	1,573
2013	1,648
Thereafter	<u>75,409</u>
Total future principal payments including amortized premiums	<u>\$ 82,999</u>

The California Endowment
 (A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

7. Long-Term Debt (Continued)

The Endowment incurred \$1,177,000 of costs in connection with the financing. These costs, which have been deferred, are included in other assets in the accompanying statements of financial position and are being amortized over the loan term using the straight-line method. As of February 29, 2008 and February 28, 2007, deferred financing costs were \$1,026,000 and \$1,063,000, respectively.

Net amortization of the premium and deferred issuance costs of \$92,000 was recorded for fiscal year end February 29, 2008 and February 28, 2007.

8. Funds Held by Trustee

Funds held by trustee consist of unexpended proceeds from the Bonds and are primarily invested in Guaranteed Investment Contracts and money market funds. These amounts are restricted for the construction of a community conference center and other facilities for The Endowment in downtown Los Angeles and for the payment of related interest and deferred financing costs.

9. Commitments and Contingencies

The Endowment leases its regional office facilities and certain equipment under various agreements. Rental expense was approximately \$1,678,000 and \$1,314,000 for the fiscal years ended February 29, 2008 and February 28, 2007, respectively, which is net of sublease income of \$700,000 and \$736,000. Future minimum rental payments related to noncancelable operating leases as of February 29, 2008, are as follows (in thousands):

Years Ending February 28,	
2009	\$ 1,245
2010	1,260
2011	1,130
2012	1,037
2013	288
Thereafter	<u>34</u>
Total minimum future rentals	<u><u>\$ 4,994</u></u>

The Endowment is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the financial position of The Endowment.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

10. Federal Excise Taxes

The Endowment is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3). The Endowment is subject to federal excise taxes imposed on private foundations at 2% or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal tax law, which includes interest and dividend income, and realized gains, net of investment expenses, among other items. Deferred excise taxes arise primarily from unrealized gains on investments and are calculated at the effective rate expected to be paid by The Endowment. At February 29, 2008 and February 28, 2007, \$8,644,000 and \$17,781,000 of deferred taxes were recorded, respectively.

11. Distribution Requirements

The Endowment is subject to distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, a minimum of 5% of net value of noncharitable-use assets, as defined. The assets that are to be included in the 5% distribution requirement are based on average monthly balances and are exclusive of those assets deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions.

For the period March 2002 through February 2007, The Endowment exceeded the minimum distribution requirements by \$229 million. The IRC allows The Endowment to utilize all or some of this excess to meet future years' distribution requirements. Each fiscal year's excess distributions carryover expires after five years.

12. Retirement Plan

The Endowment maintains a qualified 401(k) Employee Investment Plan that provides for uniform employer contributions of 75 cents for every dollar contributed by a participant up to 6% of the participant's salary deferral contribution. The Endowment's contribution to this plan for the years ended February 29, 2008 and February 28, 2007 was \$584,000 and \$534,000, respectively.

The Endowment has a defined benefit cash balance plan (the "Plan") covering all employees with one year of service. The Plan is entirely funded by The Endowment, with benefits based on a percentage of each employee's annual compensation. The employees are vested 20% each year, with full vesting at the end of five years. Each employee's account is credited each year with an interest factor, the higher of 5.25% or the interest rate on 20-year Treasury bonds. At retirement, employees are paid their accumulated amount in the Plan, either as an annuity or lump sum, at their election. Upon termination of service, employees may withdraw or roll over their vested accumulated cash balance.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

12. Retirement Plan (Continued)

The Endowment's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts as deemed to be appropriate. There are no required contributions to the Plan that must be paid in fiscal year 2008.

In order to determine the expected long-term rate of return for the Plan, The Endowment considered historical performance of various asset classes, investment community forecasts, and current economic and market conditions.

The Plan investment policy allows assets to be allocated to various asset classes including international investments. The Plan assets are invested with a long-term focus to provide appropriate liquidity as well as a reasonable rate of return while maintaining a prudent risk level.

The Endowment's year-end weighted-average Plan asset allocations by category were:

	Target	2008	2007
Equity securities	70–80%	70 %	75 %
Debt securities	20–30	22	25
Other	0–5	8	-

Effective March 1, 2007, The Endowment adopted SFAS No. 158 of the FASB, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," and recognizes the accumulated over-funded status as an asset for its defined benefit cash balance plan.

The incremental effect of adopting SFAS 158 is as follows:

	Before Application	SFAS 158 Adjustment	After Application
Prepaid pension costs	\$ 979,113	\$ -	\$ 979,113
Asset for pension benefits	\$ 979,113	\$ 388,735	\$ 1,367,848
Cumulative effect of change in accounting principle			
Net actuarial gain	\$ -	\$ 483,633	\$ 483,633
Prior service cost	-	(94,898)	(94,898)
	<u>\$ -</u>	<u>\$ 388,735</u>	<u>\$ 388,735</u>

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

12. Retirement Plan (Continued)

The changes in accumulated postretirement benefit obligation, plan assets, and the amounts recognized in the financial statements are as follows:

	2008	2007
Projected benefit obligation at beginning of the year	\$ 5,741,208	\$ 5,053,861
Service cost	816,361	784,448
Interest cost	311,980	274,590
Actuarial gain	(698,289)	(22,683)
Benefits paid by employer	<u>(657,548)</u>	<u>(349,008)</u>
Projected benefit obligation at end of the year	<u><u>\$ 5,513,712</u></u>	<u><u>\$ 5,741,208</u></u>
<hr/>		
Fair value of assets at end of the year		
Change in plan assets	\$ 5,969,466	\$ 3,645,114
Actual return on plan assets	(30,358)	442,291
Employer contributions	1,600,000	2,231,069
Benefits paid	<u>(657,548)</u>	<u>(349,008)</u>
Fair value of assets at end of the year	<u><u>\$ 6,881,560</u></u>	<u><u>\$ 5,969,466</u></u>
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Amounts recognized in the Statement of Financial Position		
Noncurrent assets	\$ 1,367,848	n/a
Current and noncurrent liabilities	<u>-</u>	<u>n/a</u>
Total assets	<u><u>\$ 1,367,848</u></u>	<u><u>n/a</u></u>
<hr/>		
Amounts recognized in unrestricted net assets		
Prior service cost	\$ (94,898)	n/a
Net actuarial gain	<u>483,633</u>	<u>n/a</u>
Total	<u><u>\$ 388,735</u></u>	<u><u>n/a</u></u>
<hr/>		
Net periodic pension cost		
Service cost	\$ 816,361	\$ 784,448
Interest cost	311,980	274,590
Expected return on plan assets	(442,547)	(268,786)
Amortization of prior service cost	<u>11,031</u>	<u>11,031</u>
Net periodic pension cost	<u><u>\$ 696,825</u></u>	<u><u>\$ 801,283</u></u>

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

12. Retirement Plan (Continued)

Weighted-average assumptions used to determine benefit obligations at February 29, 2008 and February 28, 2007 are as follows:

	2008	2007
Discount rate	6.64 %	5.50 %
Rate of compensation increase	5.00	5.00

Weighted-average assumptions used to determine net periodic pension costs at February 29, 2008 and February 28, 2007 are as follows:

	2008	2007
Discount rate	5.50 %	5.50 %
Expected return on Plan assets	7.50	7.50
Rate of compensation increase	5.00	5.00

Net periodic benefit cost, employer contributions, and benefits paid for fiscal years 2008 and February 28, 2007, are as follows (in thousands):

	2008	2007
Net periodic benefit cost	\$ 697	\$ 801
Employer contributions	1,600	2,231
Benefits paid	658	349

The accumulated benefit obligation for the Plan was \$4,343,000 and \$4,645,000 at February 29, 2008 and February 28, 2007, respectively.

The estimated future benefit payments are as follows (in thousands):

Years Ending February 28,	
2009	\$ 411
2010	344
2011	185
2012	158
2013	117
Thereafter	<u>1,763</u>
Total	<u>\$ 2,978</u>

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Years Ended February 29, 2008 and February 28, 2007

12. Retirement Plan (Continued)

In March 2002, The Endowment adopted a defined benefit Supplemental Executive Retirement Plan ("SERP"), which provides supplemental retirement benefits to certain key management employees and is funded solely from the general assets of The Endowment. SERP expense for the years ended February 29, 2008 and February 28, 2007 was \$19,000 and \$63,000, respectively. The Endowment terminated the SERP effective April 30, 2008.

In November 2002, The Endowment adopted a Section 457(b) Deferred Compensation Plan, which permits certain key management employees to make voluntary contributions on a pretax basis. Total compensation deferred for the years ended February 29, 2008 and February 28, 2007 was \$51,000 and \$75,000, respectively.