

The California Endowment and Subsidiary

(A California nonprofit public benefit corporation)

Consolidated Financial Statements

March 31, 2016 and 2015

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(A California nonprofit public benefit corporation)

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Independent Auditor's Report

To the Board of Directors of
The California Endowment:

We have audited the accompanying consolidated financial statements of The California Endowment ("The Endowment"), which comprise the consolidated statements of financial position as of March 31, 2016 and March 31, 2015, and the related consolidated statements of activities and changes in net assets, and statements of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to The Endowment'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 Endowment'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 The Endowment at March 31, 2016 and March 31, 2015, 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.

Emphasis of Matter

As more fully described in Note 2 to the consolidated financial statements, The Endowment adopted the provisions of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

July 26, 2016

The California Endowment and Subsidiary
(A California non-profit public benefit corporation)
Consolidated Statements of Financial Position
March 31, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 14,090	\$ 29,709
Dividends, interest and other receivables	2,952	3,639
Investment sales receivable	21,445	1,012
Investments	3,317,431	3,618,422
Program-related investments, net	39,365	41,364
Other assets	4,592	1,604
Property and equipment, net	85,581	72,692
Total assets	<u>\$ 3,485,456</u>	<u>\$ 3,768,442</u>
Liabilities and Unrestricted Net Assets		
Liabilities		
Accounts payable and other liabilities	\$ 7,087	\$ 6,269
Investment purchases payable	2,599	5,952
Bank borrowing	17,000	-
Grants payable, net	50,648	43,215
Accrued post retirement obligation	4,954	3,692
Deferred taxes	1,491	11,106
Total liabilities	83,779	70,234
Unrestricted net assets	<u>3,401,677</u>	<u>3,698,208</u>
Total liabilities and unrestricted net assets	<u>\$ 3,485,456</u>	<u>\$ 3,768,442</u>

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

The California Endowment and Subsidiary
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Consolidated Statements of Activities and Changes in Net Assets
Years Ended March 31, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Investment return		
Net realized and unrealized (loss) gain on investments	\$ (99,977)	\$ 315,305
Dividends, interest and other investment income	31,009	34,175
	<u>(68,968)</u>	<u>349,480</u>
Less: Investment expenses	(5,592)	(5,134)
Net investment (loss) gain	(74,560)	344,346
Rent and other income	4,647	4,383
Total (loss) income	<u>(69,913)</u>	<u>348,729</u>
Expenses		
Grants awarded	176,216	153,227
Direct charitable expenses	27,015	31,747
Program operating expenses	18,801	18,077
General and administrative expenses	14,259	13,576
Program-related investment (provision)	(369)	(1,209)
Interest expense	15	19
Tax (benefit) provision		
Current	(651)	3,081
Deferred	(9,615)	(221)
Total expenses	<u>225,671</u>	<u>218,297</u>
Change in unrestricted net assets before minimum pension liability adjustment	(295,584)	130,432
Minimum pension liability adjustment	(947)	(1,382)
Change in unrestricted net assets after minimum pension liability adjustment	(296,531)	129,050
Unrestricted net assets		
Beginning of year	<u>3,698,208</u>	<u>3,569,158</u>
End of year	<u>\$ 3,401,677</u>	<u>\$ 3,698,208</u>

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

The California Endowment and Subsidiary
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Consolidated Statements of Cash Flows
Years Ended March 31, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Cash flows from operating activities		
Change in unrestricted net assets	\$ (296,531)	\$ 129,050
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net realized and unrealized (loss) gain on investments	(99,977)	315,305
Depreciation and amortization	(1,360)	(581)
Provision for loss and discount on program related investments	87	(102)
Change in operating assets and liabilities		
Dividends, interest, and other receivables	688	(544)
Program-related investments	5,820	(4,314)
Other assets	(2,987)	(550)
Accrued post retirement obligation	1,262	1,640
Accounts payable and other liabilities	818	(1,365)
Grants payable	7,433	(31,642)
Deferred taxes	(9,615)	(221)
Net cash (used in) provided by operating activities	<u>(394,362)</u>	<u>406,676</u>
Cash flows from investing activities		
Purchase of property and equipment	(15,438)	(740)
Purchase of investments	(146,520)	(1,300,426)
Proceeds from sale of investments	523,701	859,114
Net cash provided by (used in) investing activities	<u>361,743</u>	<u>(442,052)</u>
Cash flows from financing activities		
Proceeds from line of credit borrowing	17,000	-
Net cash provided by financing activities	<u>17,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(15,619)	(35,376)
Cash and cash equivalents		
Beginning of year	29,709	65,085
End of year	<u>\$ 14,090</u>	<u>\$ 29,709</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for federal excise taxes	\$ 2,200	\$ 4,800
Cash paid during the year for interest	-	19
Cash paid during the year for agency transactions	1,555	2,002
Cash received during the year from agency transactions	200	1,072

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

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Notes to Consolidated Financial Statements

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1. Organization

The California Endowment ("The Endowment"), a California non-profit 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.

In May 2009, 800 N. Main LLC (the "LLC") was organized and operates for charitable purposes described in section 501(c)(3) of the Internal Revenue Code of 1986 and sections 214 and 23701d of the California Revenue and Taxation Code. The LLC operates exclusively for the benefit of The Endowment, with The Endowment as the sole member of the LLC. The LLC holds title to land located adjacent to The Endowment's premises.

The Endowment and the LLC are consolidated for financial statement presentation. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of funds held in a commercial checking account and money market funds used for operating expenses. Cash also includes \$853,000 and \$2,000,000 of restricted use funds for March 31, 2016 and 2015, respectively, in connection with certain agency transactions as discussed in Note 9.

Investments

Investments in publicly traded securities and government bonds are valued using quoted market prices. Investments in fixed income securities are valued based on relevant broker quotes, observable market prices for similar securities or discounted cash flows. Investments in mutual fund and hedge fund shares are valued using net asset value per share. Derivatives are used to hedge risks of (or gain exposure to) interest rates, foreign currencies, equities or commodities and are recorded at fair market value using the value of the underlying asset. Changes in fair value are recorded in the consolidated statements of activities. As of March 31, 2016, The Endowment did not directly hold any material derivative positions and did not recognize any significant gains and losses on derivatives for the years ended March 31, 2016 and 2015.

Alternative investments consist of hedge funds, buyout funds, venture capital and other limited partnership interests. Typically, such investments are illiquid and not publicly listed or traded. The Net Asset Value ("NAV") is used to determine the fair value of all investments which (a) do not have readily determinable fair values and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. These investments are carried at estimated fair value and their value is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable public company trade data, stipulated in the respective limited partnership agreements. Limited partnerships are audited annually by independent certified public accounting firms. The Endowment reviews and evaluates the values provided by the investments' managers and agrees with the valuation methods and assumptions used in determining the fair value of these alternative investments. Management may make specific or general valuation reserves based on portfolio analysis. 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.

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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 investments and the fair value of the investments at the financial statement date.

Cash equivalents categorized as investments include short-term investment funds, commercial paper and U.S. treasury bills that may be used by managers for collateral and pending trades with original or remaining maturities of three months or less at time of purchase and not immediately available for the operating expense of The Endowment.

Property and Equipment

Property and equipment consist of buildings, land, leasehold improvements, furnishings, equipment, and software 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 seven years for furnishings, equipment and software, 15 years for machinery, 39 years for buildings, and the shorter of 10 years or the related lease term for leasehold improvements.

Grants Awarded

Unconditional grants awarded are recognized as an expense in the period in which they are approved. Grants payable in future years are discounted using rates effective at the time the grants were awarded ranging between 0.53% to 0.98% for 2016 and 0.12% and 0.39% for 2015. Grants awarded that are conditioned on future uncertain events are expensed when those conditions are substantially met. There were no conditional grants awarded at March 31, 2016 and 2015, which were conditioned 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 the administration and operation of conference centers in Los Angeles, Oakland and Sacramento, in addition to 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, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value

Fair value is defined as 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.

The Endowment uses NAV to determine the fair value of all the investments which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their consolidated financial statements consistent with the measurement principles of an investment company.

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Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

- *Market Approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost Approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income Approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 includes listed equities held in the name of The Endowment, and excludes securities held indirectly through commingled funds.
- Level 2 Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The carrying amounts of cash and cash equivalents (not included in investments), dividends, interests, and other receivables, and accounts payable and other liabilities approximate fair value due to the highly liquid or short-term nature of these instruments.

Recent Accounting Pronouncements

Effective April 1, 2015, The Endowment elected to retrospectively implement as allowed by the guidance Accounting Standards Update (“ASU”) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at NAV, as a practical expedient for fair value, are excluded from the fair value hierarchy. The effects of adopting this amendment are addressed in Note 5 and the 2015 presentation has been adjusted to conform to this new presentation.

In June 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-10, *Technical Corrections and Improvements* which amended the definition of Readily Determinable Fair Value (“RDFV”). The definition now includes a reference to equity securities in structures similar to mutual funds where the fair value per share is determined and published on a regular basis and is the basis for current transactions. The new guidance is effective for The Endowment beginning April 1, 2016, with early adoption permitted. The change in the definition of RDFV under this new

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standard was considered in connection with The Endowment's election to implement ASU 2015-07 beginning in April 2015.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*. Under the new guidance, a reporting entity is required to classify deferred tax assets and liabilities as noncurrent in a classified statement of financial position. The guidance is effective for The Endowment beginning April 1, 2018, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new guidance requires the recognition of lease assets and lease liabilities by lessees for those leases otherwise classified as operating leases under previous Generally Accepted Accounting Principles ("GAAP"). The new guidance is effective for The Endowment beginning April 1, 2020, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

3. Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments, which potentially subject The Endowment to concentrations of credit risk, consist primarily of cash and cash equivalents; investments; and program related investments.

The Endowment maintains its cash and cash equivalents primarily with its custodian bank, BNY Mellon. The cash and cash equivalent balances are generally not federally insured; however, The Endowment has not experienced any losses in such positions and believes that they do not represent any significant credit risk.

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 investment securities, it is possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the value of The Endowment's investments and total net assets balance.

With respect to program-related investments, The Endowment routinely assesses the financial strength of its debtors and believes that the related credit risk exposure is limited or appropriately reserved for.

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4. Investments

At March 31, 2016 and 2015, investments consist of the following at fair value:

<i>(in thousands)</i>	2016	2015
Commercial paper and U.S. treasury bills	\$ 16,570	\$ 23,816
Government and corporate obligations	288,998	334,995
Equity securities	1,179,976	1,351,203
Private equity, real assets, real estate and hedge funds	<u>1,831,887</u>	<u>1,908,408</u>
Total investments	<u>\$ 3,317,431</u>	<u>\$ 3,618,422</u>

Net realized and unrealized gains and losses on investments are reflected in the statements of activities and changes in net assets. The net (loss) gain on The Endowment's investment portfolio for the years ended March 31, 2016 and 2015 consists of the following:

<i>(in thousands)</i>	2016	2015
Net realized gain	\$ 155,408	\$ 164,629
Net unrealized (loss) gain	<u>(255,385)</u>	<u>150,676</u>
	<u>\$ (99,977)</u>	<u>\$ 315,305</u>

The Endowment has entered into certain agreements with various investment funds to make future investments in such funds. As of March 31, 2016, the unfunded commitments related to these investments totaled \$605,728,000.

The investment goal of The Endowment is to maintain or grow its asset size and spending power in real (inflation adjusted) terms with risk at a level appropriate to The Endowment's program objectives. The Endowment diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, financial assets of The Endowment are managed by external investment management firms selected by The Endowment. All financial assets of The Endowment are held in custody by BNY Mellon except for assets invested with partnerships and commingled funds, which have separate arrangements related to their legal structure.

Derivative Instruments

The Endowment applies the provisions of Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*, which requires enhanced disclosures to provide additional information regarding the accounting treatment for derivatives and hedging activities, the reasons The Endowment's managers invest using derivative instruments, and the effect derivatives have on The Endowment's consolidated financial statements. It requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk-related contingent features in derivative agreements. The Endowment does not designate any derivative instruments as hedging instruments under ASC 815.

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The Endowment transacts in a variety of derivative instruments including futures, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, currency, equity or commodity risk. The fair value of these derivative instruments is included in the investments line item in the consolidated statements of financial position with changes in fair value included in as net realized and unrealized gain (loss) on investments within the consolidated statements of activities.

Some investment managers retained by The Endowment have been authorized to use certain financial derivative instruments in a manner set forth by either The Endowment's written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, financial derivative instruments are used for the following purposes: (1) currency forward contracts and options are used to hedge nondollar exposure in foreign investments, or to take positions in managed currency portfolios; (2) futures and swap contracts are used to rebalance asset categories within the portfolio and to manage market exposures in managed portfolios; and (3) futures contracts, swaps and options are used to hedge or leverage positions in managed portfolios.

Certain of The Endowment's managers purchase or sell fixed income securities on a delayed delivery or forward settled basis. These transactions involve a commitment by The Endowment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period, from about 1 to 3 months. When purchasing a security on a delayed delivery basis, The Endowment assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and reflects such fluctuations in its changes in net assets. Changes in fair value are reflected as net realized and unrealized gain (loss) on investments within the consolidated statements of activities. The manager may dispose of or renegotiate a delayed delivery transaction after it is entered into, and may sell the securities before they are delivered, which may result in a capital gain or loss.

In the opinion of The Endowment's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed. These instruments do involve investment and counterparty risk in amounts greater than what are reflected in The Endowment's consolidated financial statements, however, management does not anticipate that losses, if any, from such instruments would materially affect the financial position of The Endowment.

Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of The Endowment's derivative activity; however, they do not represent anticipated losses.

As of March 31, 2016 and 2015, The Endowment held derivative positions of \$5,233,000 and \$3,536,000, respectively, which are included in investments on the consolidated statements of financial position. The Endowment recognized a realized loss of \$640,000 and a realized gain of \$246,000 on foreign exchange contract derivatives for the years ended March 31, 2016 and 2015, respectively. Such amounts are included in the net realized and unrealized gain (loss) on investments in the consolidated statements of activities and changes in net assets.

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5. Fair Value

Product/instrument	Valuation methodology, inputs and assumptions
Equities	Quoted market prices are used where available. In the absence of quoted market prices, securities are valued based on: <ul style="list-style-type: none">- observable market prices for similar securities- relevant broker quotes- discounted cash flows
Fixed income	Securities are valued based on: <ul style="list-style-type: none">- relevant broker quotes- observable market prices for similar securities- discounted cash flows
Fund investments (i.e., mutual funds, commingled funds, private equity funds, real assets, real estate and hedge funds)	Net asset value ("NAV") <ul style="list-style-type: none">- NAV is validated by sufficient level of observable activity (i.e., purchases, and Level 1 sales)- adjustments to the NAV as required, for restrictions on Redemption (e.g., lock up periods or withdrawal limitations) or where observable activity is limited

Level 3 investments are primarily limited partnerships and certain securities associated with managed accounts. These investments are classified as Level 3 due to the fact that they are valued utilizing unobservable inputs. The frequency of withdrawals from these investments varies widely, with some limited partnerships offering liquidity on a monthly basis while others do not provide liquidity for a number of years. Equity and hedge fund limited partnerships are open ended vehicles where inflows and outflows occur in perpetuity. In private equity partnerships, limited partners may not transfer, or withdraw, from the partnership prior to partnership termination. Most private equity investment partnerships have an original term of ten years.

The limited partnership investments are presented in the accompanying consolidated financial statements at fair value, as determined by the General Partner. The General Partner's determination of fair value is based upon the best available information and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Such value generally represents the partnership's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. Accordingly, the value of the investment in the partnerships is generally increased by additional contributions to the partnerships and partnership's share of net earnings from the partnership's underlying investments and decreased by distributions from the partnerships and the partnership's share of net losses from the partnership's underlying investments.

The underlying limited partnership investments and managed account securities are valued based on the following policies. For securities traded on readily available exchanges, market prices are utilized at the last closing price. For over-the-counter securities with a readily available market, dealer quotes are utilized to the extent that the general partner deems the quote as being representative of fair market value. In certain situations, the general partner may adjust pricing based on information that they believe has an impact on the security price. Securities with no readily available market are generally valued according to the market approach, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations and/or the income approach. Consideration is also given to the financial

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condition and operating results of the issuer, the amount that the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. A security can be carried at acquisition price (cost) if little has changed since the initial investment of the company and is most representative of fair value.

Sensitivity of Fair Value Measurements to Changes in Significant Unobservable Inputs

The Endowment considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following is a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each individual relationship described below, the inverse relationship would also generally apply.

Discount rates and spreads

Yield – the yield of an asset is the interest rate used to discount future cash flows in a discounted cash flow calculation. An increase in the yield, in isolation, would result in a decrease in a fair value measurement.

Credit spread – the credit spread is the amount of additional annualized return over the market interest rate that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the discount rate used in a discounted cash flow calculation. Generally, an increase in the credit spread would result in a decrease in a fair value measurement.

Market inputs

The significant unobservable inputs used in the fair value measurement of The Endowment's investments include the following inputs: industry multiples (primarily based on revenue or Earnings Before Income Tax, Depreciation and Amortization "EBITDA"), public comparables, transactions in similar instruments, discounted cash flow techniques, and third party appraisals. Managers also consider changes in the outlook for relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include market and transaction multiples, discount rates, long-term growth rates, and capitalization rates. For equity instruments with debt-like features, inputs include market yields, current performance and recovery assumptions, and duration. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurements, respectively.

The following table summarizes the valuation of The Endowment's investments by ASC 820 fair value hierarchy levels as of March 31, 2016:

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<i>(in thousands)</i>	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash equivalents	\$ 16,570	\$ -	\$ -	\$ -	\$ 16,570
Equities					
Domestic	90,801	4,728	-	238,318	333,847
International	139,555	-	-	171,657	311,212
Emerging markets	76,889	-	-	71,265	148,154
Global	51,627	-	-	335,136	386,763
Fixed income					
Corporates	-	66,858	10,776	-	77,634
Mortgage/asset backed securities	-	107,066	883	-	107,949
Government related	18,376	7,392	-	-	25,768
Commingled funds	-	7,380	-	49,175	56,555
Municipal bonds	-	21,093	-	-	21,093
Hedge funds					
Relative value	-	-	-	252,470	252,470
Absolute return	-	-	-	216,166	216,166
Event driven	-	-	-	228,211	228,211
Global macro	-	-	-	60,336	60,336
Private equity					
Venture capital	-	-	-	185,057	185,057
Buyout	-	-	-	427,161	427,161
Real estate	-	-	-	248,937	248,937
Real assets	-	-	-	213,548	213,548
	<u>\$ 393,818</u>	<u>\$ 214,517</u>	<u>\$ 11,659</u>	<u>\$ 2,697,437</u>	<u>\$ 3,317,431</u>

The following table summarizes The Endowment's Level 3 reconciliation by ASC 820 standards as of March 31, 2016:

<i>(in thousands)</i>	Beginning Balances April 1, 2015	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases and Other Acquisitions	Sales and Other Dispositions	Transfers Into Level 3	Transfers (Out) of Level 3	Ending Balances March 31, 2016
Fixed income								
Corporates	\$ 12,782	\$ (127)	\$ (407)	\$ 4,758	\$ (6,230)	\$ -	\$ -	\$ 10,776
Mortgage/Asset backed securities	-	(13)	(3)	-	(1,430)	2,329	-	883
	<u>\$ 12,782</u>	<u>\$ (140)</u>	<u>\$ (410)</u>	<u>\$ 4,758</u>	<u>\$ (7,660)</u>	<u>\$ 2,329</u>	<u>\$ -</u>	<u>\$ 11,659</u>

The following table summarizes the valuation of The Endowment's investments by ASC 820 fair value hierarchy levels as of March 31, 2015:

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<i>(in thousands)</i>	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash equivalents	\$ 23,816	\$ -	\$ -	\$ -	\$ 23,816
Equities					
Domestic	113,882	16,207	-	270,674	400,763
International	216,788	-	-	143,943	360,731
Emerging markets	81,054	-	-	79,357	160,411
Global	48,668	-	-	380,630	429,298
Fixed income					
Corporates	-	78,403	12,782	-	91,185
Mortgage/asset backed securities	-	131,374	-	-	131,374
Government related	17,472	767	-	-	18,239
Commingled funds	-	9,841	-	52,237	62,078
Municipal bonds	-	32,119	-	-	32,119
Hedge funds					
Relative value	-	-	-	271,978	271,978
Absolute return	-	-	-	266,848	266,848
Event driven	-	-	-	271,817	271,817
Global macro	-	-	-	67,296	67,296
Private equity					
Venture capital	-	-	-	169,665	169,665
Buyout	-	-	-	422,904	422,904
Real estate	-	-	-	235,376	235,376
Real assets	-	-	-	202,524	202,524
	<u>\$ 501,680</u>	<u>\$ 268,711</u>	<u>\$ 12,782</u>	<u>\$ 2,835,249</u>	<u>\$ 3,618,422</u>

The following table summarizes The Endowment's Level 3 reconciliation by ASC 820 standards as of March 31, 2015:

<i>(in thousands)</i>	Beginning Balances April 1, 2014	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases and Other Acquisitions	Sales and Other Dispositions	Transfers Into Level 3	Transfers (Out) of Level 3	Ending Balances March 31, 2015
Fixed income								
Corporates	\$ 15,682	\$ 162	\$ (293)	\$ 6,497	\$ (9,266)	\$ -	\$ -	\$ 12,782
	<u>\$ 15,682</u>	<u>\$ 162</u>	<u>\$ (293)</u>	<u>\$ 6,497</u>	<u>\$ (9,266)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,782</u>

Transfers into Level 3 include investments which have been reclassified from Level 2 due to changes in pricing inputs that became unavailable during the year. Transfer amounts are based on the fair value as of the date of the change in pricing inputs that caused the transfer.

The amount of unrealized losses related to Level 3 investments that were held at March 31, 2016 and 2015 was (\$412,000) and (\$50,000), respectively.

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The Endowment uses Net Asset Value (“NAV”) as a practical expedient to determine the fair value of all the underlying investments, which (a) do not have readily determinable fair values and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies by major category as of March 31, 2016:

<i>(dollars in millions)</i>	Strategy	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity*	Venture and buyout, in the U.S. and international	\$ 612.2	1 to 15 years	\$ 219.4	N/A	N/A
Real estate*	Real estate primarily in the U.S.	248.9	1 to 15 years	222.4	N/A	N/A
Real assets*	Natural resources primarily in the U.S.	213.5	1 to 15 years	164.0	N/A	N/A
Hedge funds- Absolute returns	Global macro, event driven, long/short, relative value hedge funds	757.2	N/A	-	Ranges between monthly redemption to a redemption with a 3-year lock up period	Some funds limit redemption to 25% of capital per period
Commingled funds- Equities	Long-only equities	816.4	N/A	-	Ranges between daily redemption to a redemption with a 3-year lock up period	1 fund limits redemption to a maximum of 33% of capital per year
Commingled funds- Fixed income	Long-only fixed income funds	49.2	N/A	-	Ranges between daily to annual redemption	None
		<u>\$ 2,697.4</u>		<u>\$ 605.8</u>		

* These funds are in private equity structures with no ability to be redeemed.

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<i>(dollars in millions)</i>	Strategy	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity*	Venture and buyout, in the U.S. and international	\$ 592.6	1 to 15 years	\$ 250.6	N/A	N/A
Real estate*	Real estate primarily in the U.S.	235.4	1 to 15 years	194.3	N/A	N/A
Real assets*	Natural resources primarily in the U.S.	202.5	1 to 15 years	151.5	N/A	N/A
Hedge funds- Absolute returns	Global macro, event driven, long/short, relative value hedge funds	877.9	N/A	-	Ranges between monthly redemption to a redemption with a 3-year lock up period	Some funds limit redemption to 25% of capital per period
Commingled funds- Equities	Long-only equities	874.6	N/A	-	Ranges between daily redemption to a redemption with a 4-year lock up period	1 fund limits redemption to an average of 20% of capital per period
Commingled funds- Fixed income	Long-only fixed income funds	52.2	N/A	-	Ranges between daily redemption to a redemption with a 2-year lock up period	None
		<u>\$ 2,835.2</u>		<u>\$ 596.4</u>		

* These funds are in private equity structures with no ability to be redeemed.

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6. Program-Related Investments

The Endowment invests a portion of its funds in projects that advance its philanthropic purposes by providing noninterest-bearing or low-interest bearing loans to certain organizations. Loans are either in the form of direct loans or loan participations. At March 31, 2016 and 2015, these loans including interest receivable totaled \$39,365,000 and \$41,364,000, respectively, and have been recorded net of potentially uncollectible amounts of \$3,145,000 and \$3,504,000 at March 31, 2016 and 2015, respectively, and net of discount of \$14,604,000 and \$18,060,000 at March 31, 2016 and 2015, respectively. The loans have stated rates of 0% - 7.74% with effective rates of 4% - 11.0% based on the credit risk of these organizations. The loans have maturities ranging from January 2018 through March 2029 and are expected to be repaid in various installments over the terms. The table below represents the expected future repayments from these organizations based on the terms of the loans:

(in thousands)

Years Ending March 31,	
2017	\$ 3,808
2018	8,347
2019	5,934
2020	6,437
2021	8,236
Thereafter	<u>18,759</u>
	51,521
Less: Discount and reserves for uncollectible amounts	<u>(12,156)</u>
Program related investments, net	<u>\$ 39,365</u>

As of March 31, 2016 and 2015, The Endowment had an unfunded commitment of \$11 million and \$0, respectively, related to certain program-related investments.

7. Property and Equipment

At March 31, 2016 and 2015, property and equipment consist of the following:

(in thousands)

	2016	2015
Building, easement and leasehold improvements	\$ 77,125	\$ 77,068
Land	23,599	14,106
Furnishings and equipment	12,713	12,066
Software	721	721
Construction-in-progress	<u>5,507</u>	<u>478</u>
	119,665	104,439
Less: Accumulated depreciation	<u>(34,084)</u>	<u>(31,747)</u>
	<u>\$ 85,581</u>	<u>\$ 72,692</u>

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Depreciation expense was \$2,511,000 and \$2,552,000 for the years ended March 31, 2016 and 2015, respectively.

8. Grants Payable

At March 31, 2016 and 2015, grants payable are as follows:

<i>(in thousands)</i>	2016	2015
Amounts due in		
Less than one year	\$ 49,001	\$ 40,438
One year to five years	<u>1,664</u>	<u>2,796</u>
Gross grants payable	50,665	43,234
Less: Discount to present value	<u>(17)</u>	<u>(19)</u>
Grants payable, net	<u>\$ 50,648</u>	<u>\$ 43,215</u>

9. Commitments and Contingencies

The Endowment leases its regional office facilities under various agreements. Rental expense was \$1,289,000 and \$1,193,000 for the years ended March 31, 2016 and 2015, respectively. Future minimum rental payments related to noncancelable operating leases as of March 31, 2016, are as follows:

<i>(in thousands)</i>	
Years Ending March 31,	
2017	\$ 1,183
2018	636
2019	650
2020	552
2021	<u>242</u>
Total minimum future rentals	<u>\$ 3,263</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.

In January 2011, The Endowment and the Watts Health Foundation (WHF), a California non-profit public benefit corporation, entered into an agreement whereby The Endowment agreed to receive from WHF approximately \$6.5 million for the purpose of establishing a 5-year fund to benefit the community of South Los Angeles. Under the terms of the agreement, The Endowment agreed to certain specific minimum timing and distribution requirements of the funds. In addition, The Endowment agreed to expend from its own funds an amount that matches the total amount of funds received from WHF up to \$6.5 million.

For the year ended March 31, 2016 and 2015, The Endowment received \$200,000 and \$203,000, respectively, of additional funding from WHF, of which \$418,000 and \$85,000 were expended in

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years ended March 31, 2016 and 2015, respectively. In addition, The Endowment expended \$203,000 and \$200,000 for the years ended March 31, 2016 and 2015, respectively, for its matching obligation. At March 31, 2016 and 2015, The Endowment's matching obligation was \$0 and \$3,000, respectively.

In September 2011, The Endowment and members of the Coalition Organizations (the "Coalition") reached an agreement whereby The Endowment agreed to receive proceeds from a settlement benefiting the Coalition to be used toward supporting a community-serving health and wellness center, community health promotion, affordable housing, small business support and jobs training opportunities for local residents and at-risk youth. The Coalition is comprised of various non-profit corporations. Under the terms of the agreement, The Endowment agreed to receive the settlement proceeds and then distribute such funds as directed by the members of the Coalition.

Since the inception of the agreement through March 31, 2016, The Endowment has received \$4,253,000 in cash of which \$3,400,000 has been expended. At March 31, 2016 and 2015, The Endowment's obligation under the terms of the agreement was \$853,000 and \$1,852,000, respectively.

10. Credit Facility

In March 2011, The Endowment entered into a Commercial Credit Agreement ("LOC") with Union Bank, N.A. The LOC had a credit limit of \$30 million with an interest rate of LIBOR plus 100 basis points on all outstanding balances.

In May 2014, The Endowment and Union Bank agreed to amend and restate the LOC. Under the that agreement, the committed revolving loan was reduced to \$20 million while a new uncommitted revolving loan was extended for \$20 million.

In May 2015, The Endowment and Union Bank entered into a second amendment and restated the LOC. While the amended LOC maintains the \$20 million committed line, the previous uncommitted portion of the loan was not renewed. All outstanding balances on the loans incur an interest rate either at LIBOR plus 100 basis points or at a reference rate as announced by Union Bank, at The Endowment's option. No securities have been pledged to secure the LOC. Subsequent to fiscal year ending March 31, 2016, in April 2016, the termination date of the amended and restated LOC was extended to August 2016.

In March 2016, The Endowment drew \$17,000,000 from the LOC and incurred interest expense of \$22,000 through April 2016. The full outstanding principal balance plus accrued interest was settled in April 2016 subsequent to fiscal year ended March 31, 2016.

As of March 31, 2016, The Endowment was in compliance with all covenants related to the line of credit.

11. Taxes

The Endowment is exempt from federal income taxes under Internal Revenue Code (IRC) 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.

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The Endowment is also subject to income tax on unrelated business income. An operating loss carry forward of approximately \$23,957,000 is available to offset future taxable income of The Endowment through the year ending March 31, 2029.

The components of the deferred tax asset and liability recognized in the consolidated statements of financial position were as follows as of March 31:

<i>(in thousands)</i>	2016	2015
Net operating loss/deferred tax asset	\$ 9,762	\$ 5,251
Deferred excise taxes payable	(11,253)	(16,357)
Total liabilities	<u>\$ (1,491)</u>	<u>\$ (11,106)</u>

The components of the (benefit) provision for federal and state income taxes recognized in the consolidated statements of activities for the years ended March 31, 2016 and 2015 were as follows:

<i>(in thousands)</i>	2016	2015
Current excise tax (benefit) provision	\$ (651)	\$ 3,081
Deferred excise tax (benefit) provision	(5,105)	3,015
Deferred income tax (benefit)	(4,510)	(3,236)
	<u>\$ (10,266)</u>	<u>\$ 2,860</u>

The Endowment believes that it has appropriate support for tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on The Endowment's consolidated financial position or consolidated statement of activities.

12. Distribution Requirements

The Endowment is subject to the distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, a minimum of 5% of the 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 2010 through March 2014, The Endowment exceeded the minimum distribution requirements by \$210 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.

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13. Retirement Plan

The Endowment maintains a qualified 401(k) Employee Investment Plan that provides for uniform employer contributions of one dollar for every dollar contributed by a participant up to 7% of the participant's salary deferral contribution. The Endowment's contribution to this plan for the years ended March 31, 2016 and 2015 was \$988,000 and \$1,060,000, 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. Each employee's account is credited with 8% of eligible wages for each year in which employees work more than 1,000 hours, with additional credits based on age. The employees are vested 20% each year for the first two years after entering the Plan, with full vesting at the end of three years or upon reaching the age of 65 while employed by The Endowment. In addition, 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 benefit cost for the fiscal year ending March 31, 2017 is estimated to be \$1,461,000. This benefit cost assumes no contributions in the upcoming fiscal year. 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 (ERISA), plus additional amounts as deemed to be appropriate. The Plan had a total ERISA funding shortfall as of January 1, 2015 of \$825,000 thereby requiring quarterly contributions for the 2016 plan year of \$260,000. The Endowment may fulfil the quarterly contribution requirements either through cash contributions or the use of its ERISA prefunding balance.

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's investment policy allows assets to be allocated to various asset classes, which include cash and liquid investments, income and equity investments, balanced investments, real estate and real estate trusts, sector-based, and alternative investments. The Plan's assets are invested with the goal of providing both a reasonable level of income and long-term growth of capital and income, along with achieving a broadly diversified holding of stocks and bonds.

The Plan's assets are fully invested in a collective investment trust, which allows for a broader diversity of the investment types, share class availability and active management of all employee investment vehicles. At March 31, 2016, the collective investment trust was comprised of 59% equities, 39% fixed income and 2% cash and cash equivalents. At March 31, 2015, the collective investment trust was comprised of 59% equities, 39% fixed income and 2% cash and cash equivalents. Employer contributions receivable of \$800,000 was included in plan assets at March 31, 2015

The changes in accumulated post retirement benefit obligation, plan assets, and the amounts recognized in the consolidated financial statements are as follows at March 31 and for the year ended:

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	2016	2015
Projected benefit obligation at beginning of the year	\$ 14,684,286	\$ 11,979,744
Service cost	1,214,759	1,090,169
Interest cost	509,913	491,941
Actuarial loss	310,911	1,470,168
Benefits paid by employer	<u>(376,387)</u>	<u>(347,736)</u>
Projected benefit obligation at end of the year	<u>\$ 16,343,482</u>	<u>\$ 14,684,286</u>

	2016	2015
Fair value of Plan assets at beginning of the year	\$ 10,992,683	\$ 9,928,460
Actual return on Plan assets	(126,445)	611,959
Employer contributions	900,000	800,000
Benefits paid	<u>(376,387)</u>	<u>(347,736)</u>
Fair value of Plan assets at end of the year	<u>\$ 11,389,851</u>	<u>\$ 10,992,683</u>
(Unfunded) status of the Plan	\$ (4,953,631)	\$ (3,691,603)

	2016	2015
Amounts recognized in the consolidated statements of financial position		
Assets	\$ -	\$ -
Liabilities	<u>(4,953,631)</u>	<u>(3,691,603)</u>
Net (liability)	<u>\$ (4,953,631)</u>	<u>\$ (3,691,603)</u>

	2016	2015
Amounts recognized in unrestricted net assets		
Prior service cost	\$ 39,913	\$ 44,258
Net actuarial loss	<u>5,798,149</u>	<u>4,846,300</u>
Total amounts recognized in unrestricted net assets	<u>\$ 5,838,062</u>	<u>\$ 4,890,558</u>

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	2016	2015
Net periodic pension cost and amounts recognized in the change in unrestricted net assets		
Service cost	\$ 1,214,759	\$ 1,090,169
Interest cost	509,913	491,941
Expected return on plan assets	(756,403)	(692,382)
Amortization of prior service cost	4,345	4,345
Amortization of net loss	241,910	163,910
	<u>\$ 1,214,524</u>	<u>\$ 1,057,983</u>

	2016	2015
Other changes in Plan assets and benefit obligation recognized in the change in unrestricted net assets		
Net actuarial loss	\$ 1,193,759	\$ 1,550,591
Amortization of prior service cost	(4,345)	(4,345)
Amortization of actuarial loss	(241,910)	(163,910)
	<u>\$ 947,504</u>	<u>\$ 1,382,336</u>

The estimated prior service cost and actuarial loss for the Plan that will be amortized from unrestricted net assets into net periodic benefit cost during the following fiscal year are \$4,345 and \$301,231, respectively.

Weighted-average assumptions used to determine benefit obligations at March 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	3.78 %	3.70 %
Expected return on plan assets	6.50 %	7.50 %
Rate of compensation increase	5.00 %	5.00 %

Weighted-average assumptions used to determine net periodic pension costs at March 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	3.70 %	4.36 %
Expected return on plan assets	7.50 %	7.50 %
Rate of compensation increase	5.00 %	5.00 %

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Net periodic benefit cost, employer contributions, and benefits paid for the years ended March 31, 2016 and 2015, are as follows:

<i>(in thousands)</i>	2016	2015
Net periodic benefit cost	\$ 1,215	\$ 1,058
Employer contributions	900	800
Benefits paid from plan assets	(376)	(348)

The accumulated benefit obligation for the Plan was \$15,645,000 and \$14,051,000 at March 31, 2016 and 2015, respectively.

The estimated future benefit payments are as follows:

<i>(in thousands)</i>	
Years Ending March 31,	
2017	\$ 2,510
2018	628
2019	756
2020	1,157
2021	1,479
Years 2022 through 2026	5,515

The following is a description of the valuation methodologies used for Plan assets measured at fair value. There have been no changes in the methodologies used at March 31, 2016 and 2015.

Collective Investment Trust

Units of participation may be purchased or redeemed on the valuation dates at the fair value per unit on such valuation dates using NAV. All funds are valued in an active market on a daily basis.

The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2016:

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Collective Investment Trust	\$ -	\$ -	\$ -	\$ 10,470,159	\$ 10,470,159
Cash and cash equivalents	919,692	-	-	-	919,692
	<u>\$ 919,692</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,470,159</u>	<u>\$ 11,389,851</u>

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The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2015:

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Collective Investment Trust	\$ -	\$ -	\$ -	\$ 10,192,288	\$ 10,192,288
Cash and cash equivalents	800,395	-	-	-	800,395
	<u>\$ 800,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,192,288</u>	<u>\$ 10,992,683</u>

14. Related Parties

In September 2009, the LLC engaged The Endowment to provide various management and administrative services, equipment, supplies, and other goods and services on its behalf under an administrative services agreement. Under the terms of the agreement, The Endowment shall be compensated annually by the LLC for \$1 and the agreement shall have a term of one year, with an automatic annual renewal unless otherwise terminated by either party for cause. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

15. Subsequent Events

The Endowment has evaluated subsequent events to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated by The Endowment through July 26, 2016, the date the consolidated financial statements were made available for issuance.