

The California Endowment and Subsidiary

(A California Nonprofit Public Benefit Corporation)

Consolidated Financial Statements as of and for
the Years Ended March 31, 2023 and 2022, and
Independent Auditor's Report

THE CALIFORNIA ENDOWMENT AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The California Endowment:

Opinion

We have audited the accompanying consolidated financial statements of The California Endowment ("The Endowment") and its subsidiary, which comprise the consolidated statements of financial position as of March 31, 2023 and 2022, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Endowment as of March 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of The Endowment and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Endowment's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will

always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Endowment's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Deloitte & Touche LLP

August 14, 2023

THE CALIFORNIA ENDOWMENT AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2023 AND 2022
(In thousands of dollars)

	2023	2022
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 269,962	\$ 330,732
INVESTMENTS	3,849,794	4,260,875
PROGRAM-RELATED INVESTMENTS—Net	72,538	61,452
OTHER ASSETS	28,456	6,888
DEFERRED TAX ASSET	20,928	13,813
PROPERTY AND EQUIPMENT—Net	<u>77,167</u>	<u>79,001</u>
TOTAL ASSETS	<u>\$ 4,318,845</u>	<u>\$ 4,752,761</u>
 LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS		
LIABILITIES:		
Accounts payable and other liabilities	\$ 55,119	\$ 12,786
Grants payable—net	176,348	18,466
Long-term debt	298,712	298,666
Accrued postretirement obligation	<u>323</u>	<u>1,078</u>
Total liabilities	<u>530,502</u>	<u>330,996</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>3,788,343</u>	<u>4,421,765</u>
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 4,318,845</u>	<u>\$ 4,752,761</u>

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

THE CALIFORNIA ENDOWMENT AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022
(In thousands of dollars)

	2023	2022
INVESTMENT RETURN:		
Net (loss) gain on investments	\$ (234,636)	\$ 324,571
Program-related investment interest and other income	<u>10,666</u>	<u>3,927</u>
Total (loss) income	<u>(223,970)</u>	<u>328,498</u>
EXPENSES:		
Grants awarded	351,088	150,203
Direct charitable expenses	17,218	13,345
Program operating expenses	26,824	23,331
General and administrative expenses	6,806	6,022
Program-related investment expenses	1,700	(461)
Interest expense	7,707	7,390
Tax provision:		
Current	5,179	6,693
Deferred	<u>(7,115)</u>	<u>(1,138)</u>
Total expenses	<u>409,407</u>	<u>205,385</u>
(DEFICIT) EXCESS OF (LOSS) INCOME OVER EXPENSES	(633,377)	123,113
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	<u>(45)</u>	<u>611</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(633,422)	123,724
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Beginning of year	<u>4,421,765</u>	<u>4,298,041</u>
End of year	<u>\$ 3,788,343</u>	<u>\$ 4,421,765</u>

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

THE CALIFORNIA ENDOWMENT AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022
(In thousands of dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets without donor restrictions	\$ (633,422)	\$ 123,724
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:		
Net realized and unrealized loss (gain) on investments	279,253	(294,504)
Dividends, interest, and other investment income—net of fees	(1,321)	(921)
Amortization of program-related investment discount	(1,258)	(2,180)
Depreciation on property and equipment	2,959	2,993
Provision on program-related investments	1,453	(290)
Net periodic pension cost	(137)	697
Deferred taxes	(7,115)	(1,138)
Change in operating assets and liabilities:		
Program-related investments	(11,281)	3,177
Other assets	(405)	(1,336)
Contributions into postretirement plan	(1,306)	(1,516)
Accrued postretirement obligation	689	(914)
Accounts payable and other liabilities	(484)	2,840
Grants payable	<u>157,881</u>	<u>(15,037)</u>
Net cash used in operating activities	<u>(214,494)</u>	<u>(184,405)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,079)	(1,130)
Purchases of investments	(1,009,386)	(875,643)
Proceeds from sales of investments	<u>1,164,189</u>	<u>1,062,307</u>
Net cash provided by investing activities	<u>153,724</u>	<u>185,534</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit borrowing	20,000	-
Repayments from line of credit borrowing	<u>(20,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(60,770)	1,129
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>330,732</u>	<u>329,603</u>
End of year	<u>\$ 269,962</u>	<u>\$ 330,732</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for federal excise taxes	<u>\$ 5,900</u>	<u>\$ 5,500</u>
Cash paid during the year for interest	<u>\$ 7,707</u>	<u>\$ 7,494</u>
Cash paid during the year for agency transactions	<u>\$ 350</u>	<u>\$ -</u>
Noncash investing activities—pending investment trades	<u>\$ 24,966</u>	<u>\$ (8,622)</u>

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

THE CALIFORNIA ENDOWMENT AND SUBSIDIARY (A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

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.

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 (IRC) of 1986 and Sections 214 and 23701h 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 financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which require The Endowment to report information regarding its statements of financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions—Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of The Endowment’s management and the board of directors consistent with The Endowment’s mission.

Net Assets with Donor Restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Endowment has no net assets with donor restrictions as of March 31, 2023 and 2022.

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. At March 31, 2023 and 2022, the balance consists primarily of undistributed proceeds from The Endowment’s social bond offering as discussed in Note 11. Cash also includes \$73,000 of restricted use funds as of March 31, 2023 and \$423,000 as of March 31, 2022, in connection with certain agency transactions as discussed in Note 9.

Investments—Investments in publicly traded securities 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 funds are valued using net asset value (NAV) 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 value using quoted market prices or relevant broker quotes. Changes in fair values are recorded in the consolidated statements of activities.

Long-only commingled funds, hedge funds, private equity, and other limited partnership interests are typically illiquid and not publicly listed or traded and are valued using NAV per share, as a practical expedient, as provided by The Endowment’s investment managers. Such valuations are generally 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. The Endowment reviews and evaluates the values provided by the investments’ managers and assesses the valuation methods and assumptions used. Management may make specific or general valuation reserves based on portfolio analysis. Investment sales and purchases are recorded on trade date, which may result in receivables and payables on trades that have not yet settled at the financial statement date. Unsettled trade purchases and sales are reported in accounts payable and other liabilities and other assets in the consolidated statements of financial position.

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 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.

The Endowment had unsettled trade purchases payable of approximately \$45,610,000 and \$1,543,000 as of March 31, 2023 and 2022, respectively. Unsettled trade sales receivable was approximately \$17,099,000 and \$715,000 as of March 31, 2023 and 2022, respectively.

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 and amortization. Depreciation and amortization is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 7 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. When items are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any profit or loss on such retirements or disposal is recognized in the year of disposal.

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 to present value using rates ranging between 2.15% and 4.68% for 2023 and 0.20% and 2.15% for 2022. Grants awarded that are conditioned on future uncertain events are expensed when those conditions are substantially met. There were no conditional grants outstanding as of March 31, 2023 and 2022. The value of grants awarded increased in the year ended March 2023, reflecting a shift in grantmaking practices towards more multi-year commitments, along with deployment of the Social Bonds described in Note 11.

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, content creation, and marketing on health issues; policy and advocacy work; and health-related research, publishing, and dissemination of research. Program operating expenses pertain to the general grantmaking 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 US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value—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.

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.

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 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.

The following are descriptions of valuation inputs and techniques that The Endowment utilize to determine fair value of each major category of assets:

Cash Equivalents—Cash equivalents primarily consist of amounts held in actively traded interest-bearing money market accounts and are categorized as Level 1.

Equity Securities (Domestic, International, Emerging Markets, and Global)—Equity securities actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. To the extent valuation adjustments are not applied to these securities, the values are categorized as Level 1.

Government Related Fixed Income and Municipal Bonds—Government related and municipal bonds include US Treasury notes and government bonds. US Treasury notes are valued based on prices provided by third-party vendors that obtain feeds from a number of live data sources, including active market makers and interdealer brokers. To the extent that the values are actively quoted, they are categorized as Level 1. To the extent the values are not actively quoted, the securities are categorized as Level 2. Government bonds are valued using inputs and techniques, which include identification of

similar issues and bond market activity. Prices are determined taking into account the bond's terms and conditions, including any features specific to that issue, which may influence risk and, thus, marketability. The values of government bonds are categorized as Level 2.

Corporate Fixed Income—The estimated fair values are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Due to the nature of pricing of fixed-income securities, management classifies the majority of corporate debt securities as Level 2.

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. For those securities that management classifies as Level 3, significant unobservable inputs include the following: industry multiples (primarily based on revenue or earnings before interest, taxes, 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. There were no transfers in or out of Level 3 during the years ended March 31, 2023 or 2022.

Mortgage- and Asset-Backed Securities—Mortgage- and asset-backed securities include US government agency issues and mortgage- and asset-backed securities, which are valued using price quotes from pricing services. To the extent that these inputs are observable and timely, the values of US government agency issues and mortgage- and asset-backed securities are categorized as Level 2.

Hedge Funds (Relative value, Long/Short, and Event Driven), Private Equity (Venture Capital and Buyout/Growth), Real Estate, and Real Assets—The Endowment values these investments based on NAV as a practical expedient. Such value generally represents the limited partner's proportionate share of the investment partnerships as reported by their general partners. Accordingly, the value of the investment in these limited partnerships is generally increased by additional contributions and the limited partner's share of net earnings from the underlying investments and decreased by distributions and the limited partner's share of net losses from the underlying investments.

3. CONCENTRATIONS OF CREDIT RISK

Credit risk is the potential 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, Bank of New York Mellon ("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 significant credit risk.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. The Endowment will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. The Endowment minimizes concentrations of credit risk by undertaking transactions with a large number of investment managers and counterparties on recognized and reputable exchanges, where applicable. The Endowment could lose money if the issuer

or guarantor of an investment is unable or unwilling to make timely payments or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings. 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 and appropriately reserved for.

4. INVESTMENTS

At March 31, 2023 and 2022, investments consist of the following at fair value (in thousands of dollars):

	2023	2022
Cash equivalents	\$ 10,645	\$ 23,361
Fixed income	286,901	289,783
Equities	1,325,799	1,469,935
Private equity, real assets, real estate, and hedge funds	<u>2,226,449</u>	<u>2,477,796</u>
Total investments	<u>\$ 3,849,794</u>	<u>\$ 4,260,875</u>

Net realized and unrealized gains and losses on investments are included in net gain on investments in the consolidated statements of activities. The net gains on The Endowment's investment portfolio for the years ended March 31, 2023 and 2022, consists of the following (in thousands of dollars):

	2023	2022
Net realized gain	\$ 298,100	\$ 420,295
Net unrealized loss	<u>(577,353)</u>	<u>(125,791)</u>
Total (loss) gain	<u>\$ (279,253)</u>	<u>\$ 294,504</u>

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 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 net gain on investments within the consolidated statements of activities.

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

As of March 31, 2023 and 2022, The Endowment held derivative positions with notional amounts of \$9,537,000 and \$14,576,000, respectively. The Endowment records the assets or liabilities associated with derivative instruments at fair value based on Level 1 inputs in the consolidated statement of financial position. The Endowment had a related payable of \$29,427,000 and \$215,000 as of March 31, 2023 and 2022, respectively, which is reported in accounts payable and other liabilities on the statements of financial position. The Endowment recognized a realized loss of \$518,000 and \$756,000 on foreign exchange contract derivatives for the years ended March 31, 2023 and 2022, respectively. Such amounts are included in the net gain on investments in the consolidated statements of activities.

5. FAIR VALUE

The following table summarizes the valuation of The Endowment's investments fair value hierarchy levels according to Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, as of March 31, 2023 (in thousands of dollars):

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash equivalents	\$ 10,645	\$ -	\$ -	\$ -	\$ 10,645
Equities:					
Domestic	-	-	-	127,373	127,373
International	38,884	-	-	85,600	124,484
Emerging markets	-	-	-	97,776	97,776
Global	118,580	-	-	857,586	976,166
Fixed income:					
Corporates	-	68,777	7,296	-	76,073
Mortgage/asset-backed securities	-	118,623	-	-	118,623
Government related	68,599	3,082	-	-	71,681
Municipal bonds	-	20,524	-	-	20,524
Hedge funds:					
Relative value	-	-	-	314,737	314,737
Long/short	-	-	-	192,088	192,088
Event driven	-	-	-	76,827	76,827
Private equity:					
Venture capital	-	-	-	358,195	358,195
Buyout/growth	-	-	-	582,528	582,528
Real estate	-	-	-	349,428	349,428
Real assets	-	-	-	352,646	352,646
Total investment valuation	<u>\$236,708</u>	<u>\$211,006</u>	<u>\$7,296</u>	<u>\$3,394,784</u>	<u>\$3,849,794</u>

The following table summarizes the valuation of The Endowment's investments fair value hierarchy levels according to ASC 820 as of March 31, 2022 (in thousands of dollars):

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash equivalents	\$ 23,361	\$ -	\$ -	\$ -	\$ 23,361
Equities:					
Domestic	53,884	-	-	248,259	302,143
International	78,112	-	-	81,342	159,454
Emerging markets	-	-	-	189,659	189,659
Global	139,391	-	-	679,288	818,679
Fixed income:					
Corporates	-	123,068	10,614	-	133,682
Mortgage/asset-backed securities	-	95,565	-	-	95,565
Government related	28,432	4,127	-	-	32,559
Municipal bonds	-	27,977	-	-	27,977
Hedge funds:					
Relative value	-	-	-	237,138	237,138
Long/short	-	-	-	290,478	290,478
Event driven	-	-	-	109,598	109,598
Private equity:					
Venture capital	-	-	-	439,510	439,510
Buyout/growth	-	-	-	682,831	682,831
Real estate	-	-	-	350,669	350,669
Real assets	-	-	-	367,572	367,572
Total investment valuation	<u>\$323,180</u>	<u>\$250,737</u>	<u>\$10,614</u>	<u>\$3,676,344</u>	<u>\$4,260,875</u>

The Endowment uses 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, 2023 (in millions of dollars):

	Strategy	Fair Value	Remaining Life	Unfunded Commitment	Redemption Terms	Redemption Restrictions
Private equity*	Venture and buyout/growth in the United States and international	\$ 940.7	1 to 15 years	\$ 254.9	N/A	N/A
Real estate*	Real estate primarily in the United States	349.4	1 to 15 years	134.8	N/A	N/A
Real assets*	Natural resources primarily in the United States	352.7	1 to 15 years	52.4	N/A	N/A
Hedge funds	Relative value, long-/short-, event-driven, and global macro hedge funds	583.7	N/A	-	Ranges between monthly redemption to a redemption with a three-year lock-up period	Some funds limit redemption to 16.7% capital per period
Commingled funds—equities	Long-only equities	1,168.3		15.9	Ranges between daily redemption to a redemption every three years	One fund limits redemption to a maximum of 33% of capital per year
Fixed Income Private Credit	Private lending primarily in the United States	-	N/A	3.0	N/A	N/A
Total partnership and commingled fund investments		<u>\$ 3,394.8</u>		<u>\$ 461.0</u>		

* These investments are in private fund structures with no ability to be redeemed.

The Endowment uses 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, 2022 (in millions of dollars):

	Strategy	Fair Value	Remaining Life	Unfunded Commitment	Redemption Terms	Redemption Restrictions
Private equity*	Venture and buyout/growth in the United States and international	\$ 1,122.3	1 to 15 years	\$ 253.7	N/A	N/A
Real estate*	Real estate primarily in the United States	350.7	1 to 15 years	172.7	N/A	N/A
Real assets*	Natural resources primarily in the United States	367.6	1 to 15 years	88.5	N/A	N/A
Hedge funds	Relative value, long-/short-, event-driven, and global macro hedge funds	637.2	N/A	-	Ranges between monthly redemption to a redemption with a three-year lock-up period	Some funds limit redemption to 16.7% capital per period
Commingled funds—equities	Long-only equities	-		-	Ranges between daily redemption to a redemption every three years	One fund limits redemption to a maximum of 33% of capital per year
		<u>1,198.5</u>	N/A	<u>-</u>		
Total partnership and commingled fund investments		<u>\$ 3,676.3</u>		<u>\$ 514.9</u>		

* These investments are in private fund structures with no ability to be redeemed.

6. PROGRAM-RELATED INVESTMENTS—NET

The Endowment invests a portion of its funds in projects that advance its philanthropic purposes by providing non-interest-bearing or low-interest-bearing loans, guarantees, and equity investments to organizations with proceeds to be expended by the recipients in furtherance of The Endowment's charitable purpose. Loans are either in the form of direct loans or loan participations. At March 31, 2023 and 2022, these loans, including interest receivables, totaled \$72,538,000 and \$61,452,000, respectively, and have been recorded net of potentially uncollectible amounts of \$4,408,000 and \$3,514,000 at March 31, 2023 and 2022, respectively, and net of discount of \$9,088,000 and \$9,787,000 at March 31, 2023 and 2022, respectively. The loans have stated rates of 0%–2.5%, with effective rates of 2%–6.5% based on the credit risks of these organizations, which represent Level 3 inputs. The loans have maturities ranging from September 2023 through July 2035 and are expected to be repaid in various installments over their terms. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. The table below represents the expected future loan repayments from these organizations as of March 31, 2023 (in thousands of dollars):

Years Ending March 31

2024	\$ 4,375
2025	4,554
2026	9,098
2027	12,496
2028	18,466
Thereafter	<u>36,354</u>
Program-related investments receivable	85,343
Interest receivable	691
Less discount and reserves for uncollectible amounts	<u>(13,496)</u>
Program-related investments—net	<u>\$ 72,538</u>

The table below represents the expected future loan repayments from these organizations as of March 31, 2022 (in thousands of dollars):

Years Ending March 31	
2023	\$ 3,819
2024	4,273
2025	4,693
2026	9,237
2027	12,634
Thereafter	<u>39,136</u>
Program-related investments receivable	73,792
Interest receivable	961
Less discount and reserves for uncollectible amounts	<u>(13,301)</u>
Program-related investments—net	<u>\$ 61,452</u>

As of March 31, 2023 and 2022, The Endowment had unfunded loan commitments of \$9,000,000 and \$5,583,000, respectively, related to certain program-related investments.

The Endowment's guarantee commitments were \$5,000,000 as of March 31, 2023 and 2022. In December 2019, The Endowment entered into a third-party loan guarantee agreement with a 15-year term totaling \$5,000,000, of which loss exposure related to the guarantee was \$750,000 as of March 31, 2023 and 2022. No losses were incurred on guarantee commitments for the years ended March 31, 2023 and 2022. The Endowment recorded a contingent liability at the larger of the net present value of the guarantee or the minimum amount of probable loss. These contingencies amounted to \$60,000 and \$65,000 as of March 31, 2023 and 2022, respectively.

7. PROPERTY AND EQUIPMENT—NET

At March 31, 2023 and 2022, property and equipment consist of the following (in thousands of dollars):

	2023	2022
Building, easement, and leasehold improvements	\$ 86,906	\$ 86,880
Land	23,599	23,599
Furnishings and equipment	12,717	12,985
Software	651	689
Work in progress	<u>1,401</u>	<u>890</u>
Total property and equipment	125,274	125,043
Less accumulated depreciation and amortization	<u>(48,107)</u>	<u>(46,042)</u>
Property and equipment—net	<u>\$ 77,167</u>	<u>\$ 79,001</u>

Depreciation expense was \$2,959,000 and \$2,993,000 for the years ended March 31, 2023 and 2022, respectively.

8. GRANTS PAYABLE—NET

At March 31, 2023 and 2022, grants payable are as follows (in thousands of dollars):

	2023	2022
Amounts due in:		
Less than one year	\$ 118,460	\$ 12,865
One year to six years	<u>62,380</u>	<u>5,847</u>
 Gross grants payable	 180,840	 18,712
 Less discount to present value	 <u>(4,492)</u>	 <u>(246)</u>
 Grants payable—net	 <u>\$ 176,348</u>	 <u>\$ 18,466</u>

The Endowment made grant payments of \$192,050,000 and \$164,418,000 for the years ended March 31, 2023 and 2022, respectively.

9. COMMITMENTS AND CONTINGENCIES

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 consolidated statements of financial position of The Endowment.

In September 2011, The Endowment and members of a coalition of nonprofit organizations (the “Coalition”) reached an agreement whereby The Endowment agreed to receive proceeds from a settlement benefiting the Coalition to be used towards 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 composed of various nonprofit 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, 2023, The Endowment has received from the Coalition \$4,253,000 in cash, of which \$4,180,000 has been expended. At March 31, 2023, The Endowment’s obligation under the terms of the agreement was \$73,000.

10. CREDIT FACILITY

The Endowment has an unsecured line of credit (LOC) totaling \$20,000,000 as of March 31, 2023 and 2022. Drawdowns on the LOC incur an interest rate either at the Secured Overnight Financing Rate, plus 100 basis points or at a reference rate as announced by the lender, at The Endowment’s option. The LOC contains no unused commitment fee and was previously set to expire in November 2022, however, has been extended to November 2024.

In December 2022, The Endowment drew \$20,000,000 from the LOC and incurred interest expense of \$213,000 through February 2023. The full outstanding principal balance, plus accrued interest was paid in February 2023 prior to fiscal year ended March 31, 2023.

As of March 31, 2023, there were no amounts due and The Endowment believes it was in compliance with all covenants related to the LOC.

11. BONDS PAYABLE

On January 27, 2021, The Endowment issued \$300 million of Social Bonds, Series 2021 (taxable). The Endowment intends to use the proceeds to fund grants to stabilize and strengthen the infrastructure and capacity of nonprofit organizations within six priority areas: power building, health coverage, health and wellness, health workforce, resilient communities, and research and evaluation. The bonds were sold at par with a coupon rate of 2.498%, interest payable semiannually on April 1 and October 1, and a balloon payment of the principal at maturity date of April 1, 2051. No principal payments are required until maturity in 2051. Bonds payable as of March 31, 2023, consists of principal of \$300 million less \$1.3 million of debt issuance costs. The fair value of the bond payable, based on quoted broker prices, which are considered Level 2 inputs, is \$197 million as of March 31, 2023. As of March 31, 2023, The Endowment believes it was in compliance with all covenants related to the bonds.

12. TAXES

The Endowment is exempt from federal income taxes under IRC Section 501(c)(3). As a private foundation, The Endowment is subject to a federal excise tax of 1.39% 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.

The Endowment is also subject to income tax on unrelated business income. An operating loss carryforward of approximately \$98,069,000 is available to offset future taxable income of The Endowment.

The components of the deferred tax asset and liability recognized in the consolidated statements of financial position were as follows as of March 31, 2023 and 2022 (in thousands of dollars):

	2023	2022
Deferred tax asset	\$ 29,264	\$ 30,174
Deferred excise taxes payable	<u>(8,336)</u>	<u>(16,361)</u>
Total deferred taxes	<u>\$ 20,928</u>	<u>\$ 13,813</u>

The components of the provision (benefit) for federal and state income taxes recognized in the consolidated statements of activities for the years ended March 31, 2023 and 2022, were as follows (in thousands of dollars):

	2023	2022
Current excise tax provision	\$ 5,179	\$ 6,693
Deferred excise tax benefit	(8,026)	(1,748)
Deferred income tax provision	<u>911</u>	<u>610</u>
Total tax provision	<u>\$ (1,936)</u>	<u>\$ 5,555</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 statements of financial position or statements of activities.

The federal income tax return has a three-year statute of limitation and the California return has a four-year statute of limitation from the latter of a) the due date of the return or b) the date the return is filed. During this time period, the income tax returns could be subject to examination. The federal income tax returns are subject to examination from 2020 through 2022 and state income tax returns are subject to examination from 2019 through 2022.

13. 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 non-charitable-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 2017 through March 2021, The Endowment exceeded the minimum distribution requirements by \$133 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.

14. RETIREMENT PLAN

The Endowment maintains a qualified 401(k) Employee Investment Plan that provides for uniform employer match and discretionary contributions to participants. The Endowment's contributions to this plan for the years ended March 31, 2023 and 2022, were \$1,411,000 and \$1,031,000, respectively.

The Endowment maintains a defined benefit cash balance plan (the "Plan") covering all employees with one year of service prior to 2022. The Plan is entirely funded by The Endowment. Under the Plan, each employee's account received an annual service credit equal to 8% of eligible wages for each year in which employees work more than 1,000 hours, with additional credits based on age. In addition, each employee's account receives an interest credit equal to the annual interest on 20-year Treasury bonds as of the last day of the previous Plan year, or 5%, if higher. At retirement, employees are paid their accumulated vested amount in the Plan, either as an annuity or lump sum, at their election. Upon termination of service, participants may withdraw or roll over their vested accumulated cash balance.

As of December 31, 2021, The Endowment amended the Plan document to freeze the defined benefit cash balance plan. Participants who were not fully vested at this date were brought to 100%. Going forward, interest credits will continue to accrue to participant balances; however, service credits will cease.

The benefit cost for the fiscal year ending March 31, 2024, is estimated to be a \$103,000. 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 overage as of January 1, 2022, of \$1,733,000, thereby requiring no quarterly contributions for the 2023 Plan year. The Endowment may fulfill 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's assets, 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, and 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 invested in a variety of equity and fixed-income mutual funds as of March 31, 2023, composed of 64% fixed income, 35% equities, and 1% cash and cash equivalents and, as of March 31, 2022, composed of 48% fixed income, 51% equities, and 1% cash and cash equivalents.

The changes in accumulated postretirement benefit obligation, Plan's assets, and the amounts recognized in the financial statements are as follows as of and for the years ended March 31, 2023 and 2022 (in thousands of dollars):

	2023	2022
Projected benefit obligation—beginning of the year	\$ 26,185	\$ 27,105
Service cost	-	1,341
Interest cost	912	829
Other assumption changes	(2,442)	(1,225)
Actuarial loss (gain)	838	(17)
Curtailment gain	-	(1,025)
Settlement	(3,168)	-
Benefits paid by employer	<u>(77)</u>	<u>(822)</u>
Projected benefit obligation—end of the year	<u>\$ 22,248</u>	<u>\$ 26,186</u>
	2023	2022
Fair value of Plan's assets—beginning of the year	\$ 25,108	\$ 24,294
Actual return on Plan's assets	(1,222)	120
Employer contributions	1,306	1,516
Expenses	(22)	-
Settlement	(3,168)	-
Benefits paid	<u>(77)</u>	<u>(822)</u>
Fair value of Plan's assets—end of the year	<u>\$ 21,925</u>	<u>\$ 25,108</u>
Unfunded status of the Plan	<u>\$ -</u>	<u>\$ (1,078)</u>
	2023	2022
Amounts recognized in the consolidated statements of financial position—liability	<u>\$ (323)</u>	<u>\$ (1,078)</u>
Net liability	<u>\$ (323)</u>	<u>\$ (1,078)</u>

	2023	2022
Amounts recognized in net assets without donor restrictions:		
Prior service credit	\$ -	\$ -
Net actuarial loss	<u>4,528</u>	<u>4,483</u>
Net amounts recognized in net assets without donor restrictions	<u>\$ 4,528</u>	<u>\$ 4,483</u>
	2023	2022
Net periodic pension cost and amounts recognized in the change in net assets without donor restrictions:		
Service cost	\$ -	\$ 1,341
Interest cost	912	829
Expected return on Plan's assets	(1,181)	(1,632)
Amortization of prior service cost	-	(28)
Amortization of net loss	<u>132</u>	<u>187</u>
Net periodic pension cost	(137)	697
Settlement charge	645	-
Curtailement charge	<u>-</u>	<u>(302)</u>
Total pension expense	<u>\$ 508</u>	<u>\$ 395</u>
	2023	2022
Pension-related changes other than net periodic pension cost:		
Net loss (gain)	\$ 689	\$ (941)
Prior service cost	-	302
Settlement charge	(644)	-
Amortization of prior service cost	<u>-</u>	<u>28</u>
Total pension-related changes other than net periodic pension cost	<u>\$ 45</u>	<u>\$ (611)</u>

The estimated prior service cost and actuarial loss for the Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost during the following fiscal year are \$0 and \$167,000, respectively.

Weighted-average assumptions used to determine benefit obligations at March 31, 2023 and 2022, are as follows:

	2023	2022
Discounts	4.63 %	3.54 %
Expected return on Plan's assets	4.70	6.50
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension costs at March 31, 2023 and 2022, are as follows:

	2023	2022
Discounts	3.54 %	3.11 %
Expected return on Plan's assets	4.70	6.50
Rate of compensation increase	N/A	5.00

The estimated future benefit payments as of March 31, 2023, are as follows (in thousands of dollars):

**Years Ending
March 31**

2024	\$ 989
2025	1,283
2026	1,535
2027	985
2028	1,053
Years 2029 through 2033	6,107

The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2023 (in thousands of dollars):

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Equities	\$ -	\$ 7,644	\$ -	\$ -	\$ 7,644
Fixed income	-	14,071	-	-	14,071
Cash and cash equivalents	<u>210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210</u>
Total Plan's assets	<u>\$ 210</u>	<u>\$ 21,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,925</u>

The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2022 (in thousands of dollars):

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Equities	\$ -	\$ 12,890	\$ -	\$ -	\$ 12,890
Fixed income	-	12,094	-	-	12,094
Cash and cash equivalents	<u>124</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124</u>
Total Plan's assets	<u>\$ 124</u>	<u>\$ 24,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,108</u>

15. ANALYSIS OF EXPENSES

The Endowment's expenses have been allocated between grantmaking, direct charitable, and operational support activities, based on estimates made by The Endowment's management of time spent by employees on various activities. Grantmaking expenses pertain to the general grantmaking activities of The Endowment, such as reviewing proposals and awarding, monitoring, and evaluating

grants. Direct charitable activities represent expenses incurred for the charitable benefit of others, initiated and conducted in whole or in part by The Endowment. Operational support expenses include costs related to managing The Endowment.

The Endowment's functional expenses, displayed by natural and functional expense classification, for the year ended March 31, 2023, were as follows (in thousands of dollars):

	Grantmaking Program	Direct Charitable Activities	General and Administrative	Total
Grants and contracts for program activities	\$351,088	\$10,926	\$ -	\$362,014
Salaries, benefits, and payroll taxes	18,695	2,360	4,355	25,410
Legal and accounting fees	508	631	58	1,197
Consulting and other professional fees	2,208	23	569	2,800
Depreciation	1,779	279	724	2,782
Occupancy	1,417	1,451	576	3,444
Travel, conference, and meetings	881	216	303	1,400
Information technology equipment, online services, and software	559	874	228	1,661
Interest	-	-	7,707	7,707
Taxes	-	-	(1,936)	(1,936)
Other expenses	<u>2,477</u>	<u>458</u>	<u>(7)</u>	<u>2,928</u>
Total functional expenses	<u>\$379,612</u>	<u>\$17,218</u>	<u>\$12,577</u>	<u>\$409,407</u>

The Endowment's functional expenses, displayed by natural and functional expense classification, for the year ended March 31, 2022, were as follows (dollars in thousands):

	Grantmaking Program	Direct Charitable Activities	General and Administrative	Total
Grants and contracts for program activities	\$150,203	\$ 8,705	\$ -	\$158,908
Salaries, benefits, and payroll taxes	16,840	2,085	3,965	22,890
Legal and accounting fees	474	281	(90)	665
Consulting and other professional fees	1,471	5	444	1,920
Depreciation	1,795	325	707	2,827
Occupancy	1,354	1,184	533	3,071
Travel, conference, and meetings	510	10	190	710
Information technology equipment, online services, and software	414	660	163	1,237
Interest	-	-	7,390	7,390
Taxes	-	-	5,555	5,555
Other expenses	<u>12</u>	<u>90</u>	<u>110</u>	<u>212</u>
Total functional expenses	<u>\$173,073</u>	<u>\$13,345</u>	<u>\$18,967</u>	<u>\$205,385</u>

16. LIQUIDITY

The Endowment structures its financial assets to be available and liquid as its grants, general expenditures, liabilities, and other obligations become due. In addition to the available financial assets listed below, The Endowment has a LOC agreement of \$20 million, which can be drawn upon to meet near-term liquidity needs. There are likely to be additional components of The Endowment's investments that may be available and liquid within one year, which is not included in the table below. These components include certain portions of marketable alternatives as well as return of capital from private equity, real estate, and real asset holdings. Although The Endowment does not intend to spend from these investments in the normal course of business, the amounts listed below could be made available, if necessary.

The following table summarizes The Endowment's financial assets available for general expenditure and grant obligations within one year of March 31, 2023 and 2022 (in thousands of dollars):

	2023	2022
Cash and cash equivalents	\$ 280,534	\$ 353,661
Interest and dividends receivable	4,063	3,235
Investment sales receivable (included in other assets)	17,099	298
Equities	1,198,910	1,376,783
Fixed income	261,462	276,809
Hedge funds	<u>423,739</u>	<u>456,193</u>
Total available financial assets	<u>\$ 2,185,807</u>	<u>\$ 2,466,979</u>

17. 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 financial statements.

The Endowment leases office space in its main building to certain tax-exempt organizations that may also be recipients of various grants awarded by The Endowment. Receivables from such leasing arrangements are not considered material and are not separately disclosed in the financial statements.

18. SUBSEQUENT EVENTS

The Endowment has evaluated subsequent events to assess the need for potential recognition or disclosure in the financial statements through August 14, 2023, the date the financial statements were available to be issued, and believes no additional disclosures are required in the financial statements.

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