

S.H. COWELL
FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

S. H. COWELL FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
S. H. Cowell Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of S. H. Cowell Foundation, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of S. H. Cowell Foundation as of December 31, 2019 and 2018, 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.

Marcum LLP

San Francisco, California
August 28, 2020

S. H. COWELL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
Assets		
Cash	\$ 6,631,369	\$ 5,801,552
Interest and other receivables	3,965,880	544,582
Prepaid expenses	29,479	27,758
Investments	109,009,617	104,750,547
Notes receivable, net	8,306,745	8,192,158
Property and equipment, net	<u>81,924</u>	<u>32,939</u>
Total Assets	<u>\$ 128,025,014</u>	<u>\$ 119,349,536</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 146,612	\$ 136,496
Deferred rent	62,124	86,724
Deferred excise tax	<u>766,000</u>	<u>690,000</u>
Total Liabilities	974,736	913,220
Net Assets		
Without donor restrictions	<u>127,050,278</u>	<u>118,436,316</u>
Total Liabilities and Net Assets	<u>\$ 128,025,014</u>	<u>\$ 119,349,536</u>

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

S. H. COWELL FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net Investment Income (Loss)		
Net realized gain on investments	\$ 11,174,728	\$ 5,930,762
Net unrealized gain (loss) on investments	3,800,718	(9,949,245)
Dividends, net of investment and advisory fees of \$197,959 and \$204,069, for 2019 and 2018, respectively	434,039	334,894
Interest	528,233	236,194
Net Investment Income (Loss)	<u>15,937,718</u>	<u>(3,447,395)</u>
Expenses		
Grant programs	6,274,126	6,088,122
Management and general	793,630	792,711
Total Expenses	<u>7,067,756</u>	<u>6,880,833</u>
Change in net assets before federal excise tax provision	8,869,962	(10,328,228)
Federal Excise Tax Provision	<u>(256,000)</u>	<u>(368,000)</u>
Change in Net Assets	8,613,962	(10,696,228)
Net Assets - Beginning	<u>118,436,316</u>	<u>129,132,544</u>
Net Assets - Ending	<u>\$ 127,050,278</u>	<u>\$ 118,436,316</u>

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

S. H. COWELL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019

	Grant Programs	Management & General	Total
Grants authorized-current year	\$ 4,963,840	\$ --	\$ 4,963,840
Grants cancelled	(40,520)	--	(40,520)
Personnel	996,587	497,572	1,494,159
Occupancy expenses	107,456	68,658	176,114
Meetings and other business expenses	149,464	5,791	155,255
Legal and accounting	--	129,300	129,300
Materials, equipment and supplies	40,712	15,375	56,087
Professional fees	17,245	36,689	53,934
Travel and auto	26,056	22	26,078
Depreciation and amortization	--	18,244	18,244
Communication	11,339	4,414	15,753
Property and liability insurance	--	14,752	14,752
Taxes and licenses	--	1,782	1,782
Dues and publications	1,423	189	1,612
Miscellaneous expenses	260	687	947
Printing and advertising	264	155	419
Total Expenses	<u>\$ 6,274,126</u>	<u>\$ 793,630</u>	<u>\$ 7,067,756</u>

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

S. H. COWELL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Grant Programs	Management & General	Total
Grants authorized-current year	\$ 5,039,242	\$ --	\$ 5,039,242
Grants cancelled	(46,856)	--	(46,856)
Personnel	870,398	496,673	1,367,071
Occupancy expenses	100,263	63,995	164,258
Legal and accounting	--	134,428	134,428
Meetings and other business expenses	57,412	5,830	63,242
Materials, equipment and supplies	40,870	14,482	55,352
Professional fees	237	46,224	46,461
Communication	11,608	5,145	16,753
Property and liability insurance	--	14,587	14,587
Travel and auto	13,568	--	13,568
Depreciation and amortization	--	9,653	9,653
Dues and publications	969	189	1,158
Miscellaneous expenses	278	661	939
Taxes and licenses	--	844	844
Printing and advertising	133	--	133
Total Expenses	<u>\$ 6,088,122</u>	<u>\$ 792,711</u>	<u>\$ 6,880,833</u>

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

S. H. COWELL FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 8,613,962	\$ (10,696,228)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on investments	(11,174,728)	(5,930,762)
Net unrealized (gain) loss on investments	(3,800,718)	9,949,245
Discount on notes receivable	(114,587)	58,856
Depreciation and amortization	18,244	9,653
Deferred federal excise tax	76,000	246,000
Changes in operating assets and liabilities:		
Excise tax receivable	--	179,298
Interest and other receivables	(3,421,298)	(246,530)
Prepaid expenses	(1,721)	(491)
Accounts payable and accrued expenses	10,116	15,995
Deferred rent	(24,600)	(20,280)
Net Cash Used in Operating Activities	<u>(9,819,330)</u>	<u>(6,435,244)</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	25,607,578	11,099,965
Purchase of investments	(16,593,294)	(10,144,218)
Partnership distributions	1,702,092	6,262,867
Purchase of property and equipment	(67,229)	(19,875)
Net Cash Provided by Investing Activities	<u>10,649,147</u>	<u>7,198,739</u>
Net Increase in Cash	829,817	763,495
Cash - Beginning	<u>5,801,552</u>	<u>5,038,057</u>
Cash - Ending	<u>\$ 6,631,369</u>	<u>\$ 5,801,552</u>

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

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

S. H. Cowell Foundation (the “Foundation”) is a nonprofit public benefit corporation established in 1956 through a bequest by Samuel H. Cowell. The mission of the Foundation is to improve the quality of life of children living in poverty in Northern and Central California by providing support that strengthens families and communities. The Foundation’s grantmaking focuses on five complementary program areas: Families and Communities, Education, Youth Development, Leadership Development, and Opportunity Fund.

BASIS OF PRESENTATION

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of cash flows.

CLASSIFICATION OF NET ASSETS

U. S. GAAP requires that the Foundation report information regarding its financial position and activities according to two classes of net assets: without donor restriction and with donor restrictions. Accordingly, the net assets of the Foundation are classified and reported as described below:

Without Donor Restrictions

Those net assets and activities which represent the portion of expendable funds that are available to support the Foundation’s operation. A portion of these net assets may be designated by the Board of Directors for specific purposes.

With Donor Restrictions

Donor restricted net assets represent those net assets which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) acquisition of long-lived assets; (e) assets donated with stipulations by the donor that they be used for a specified purpose, be preserved, not be sold; or (f) be invested to provide a permanent source of income. There were no net assets with donor restrictions as of December 31, 2019 and 2018 and for the years then ended.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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 carrying amounts of cash and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables earn interest based on the Foundation's assessment of the borrower's credit worthiness.

INVESTMENTS

Investments traded on national exchanges are recorded at fair value as determined by the exchanges' quoted prices; unrealized gains and losses are included in the statements of activities and changes in net assets.

The Foundation also has investments in limited companies, limited liability companies, and limited partnerships (Notes 2 and 3) which are valued at their estimated fair value as reported to the Foundation by the general partners of the limited partnerships and investment managers under the supervision of the respective funds' Boards or Managers of those entities. Because these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The estimated fair values are reviewed and evaluated by the Foundation's Investment Committee, which is responsible for establishing investment criteria and overseeing the Foundation's investments.

Certain mineral rights have been retained in property sold. Carrying values have been assigned to these interests based upon capitalization of estimated royalty income.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NOTES RECEIVABLE

Notes receivable are stated at the principal amount or net present value if due beyond one accounting cycle. Interest on notes receivable is recognized over the term of the note and is calculated using the simple interest method on principal amounts outstanding. Management evaluates the collectability of notes receivable annually and at December 31, 2019 and 2018, no allowance was considered necessary.

PROPERTY AND EQUIPMENT

The Foundation capitalizes acquisitions of property and equipment with a cost or value in excess of \$2,500 and with an estimated useful life beyond one year. Purchased assets are recorded at cost. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of the asset's useful life or the lease term. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statements of activities and changes in net assets.

DEFERRED RENT

The Foundation leases office space under a lease agreement that is subject to scheduled rent increases. Rent expense is recognized on the straight-line basis over the term of the lease and the difference between the average rental amount charged and amount payable under the lease is included in deferred rent in the accompanying statements of financial position. At December 31, 2019 and 2018, deferred rent was \$62,124 and \$86,724, respectively.

REVENUE RECOGNITION

Revenue is recognized in the period in which it is earned. The Foundation derives its revenues from the interest and dividends earned from its investments, notes receivable, and from the change in fair value of its investments. Realized and unrealized gains (losses) and investment income (losses) derived from investment transactions are included as income (loss) in the year earned.

GRANT AWARDS

Grants are characterized as either conditional or unconditional. Conditional grants are those that depend upon the occurrence of a specified future and uncertain event to bind the Foundation. These grants are not reflected in the financial statements until the period in which the conditions upon which they depend are substantially met, that is, when they become unconditional.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GRANT AWARDS (CONTINUED)

Grant awards of \$100,000 or more must be approved by the Board of Directors. Grant awards of less than \$100,000 can be approved by the President of the Foundation.

INCOME TAXES

The Foundation is a qualified organization exempt from federal income and state franchise taxes under §501(c)(3) of the Internal Revenue Code (“IRC”) and §23701d of the California Revenue and Taxation Code. The Foundation also qualifies as a private foundation under §509(a) of the IRC, and, as such, is subject to either a 1% or 2% federal excise tax on its net investment income based upon the Foundation’s history of contributions paid. For tax years beginning after December 20, 2019, the federal excise tax on net investment income for private foundation’s is a flat 1.39% and there is no longer a 1% or 2% federal excise tax.

Federal excise tax expense includes taxes currently payable and those deferred because of temporary differences between the estimated future tax effects of financial statement carrying amounts and the tax bases of existing assets and liabilities.

U.S. GAAP requires management to evaluate the tax positions taken and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more-likely-than-not would not be sustained upon examination by taxing authorities. Management evaluated the Foundation’s tax positions and concluded that it maintained its tax-exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for unknown income taxes has been included in the financial statements. The Foundation’s tax returns are subject to examination by federal and state taxing authorities. However, there are no examinations in progress nor are there any pending.

CONCENTRATIONS OF RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to this concentration.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF RISK (CONTINUED)

The Foundation invests in various investments that are not covered by federal insurance. These investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Foundation's balances and the amounts reported in the statements of financial position. To minimize its exposure to these risks, the Foundation's Investment Committee closely monitors all investments in accordance with the Foundation's policies.

FUNCTIONAL EXPENSE ALLOCATIONS

The costs of providing grant programs and management and general services have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among grant programs and management and general services benefited based on an allocation of time, square footage, and estimates made by management.

ADOPTED ACCOUNTING PRONOUNCEMENT

In June 2018, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, related to revenue recognition for contributions received and made. The update addresses determining whether a transaction should be accounted for as a contribution or as an exchange transaction and clarifies determination of contributions as conditional or unconditional. The Foundation adopted ASU 2018-08 as of January 1, 2019 and it had minimal impact.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. This ASU's effective date had two one-year delays and is now effective for fiscal years beginning after December 15, 2021. Early application is permitted. Management is evaluating the impact of this guidance.

NOTE 2 - FAIR VALUE MEASUREMENTS

The Foundation's financial assets and liabilities that are carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset or a liability's classification is based on the lowest level input that is significant to its measurement.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 1

Inputs are unadjusted quoted prices for identical assets or liabilities in active markets accessible at the measurement date.

Level 2

Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities from those willing to trade in markets that are not active, or inputs that are derived principally from or corroborated by observable market data by correlation or other means for the term of the instrument.

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

ALTERNATIVE INVESTMENTS

Alternative investments consist of investments in various funds, whose underlying investments are aggregated into equities, absolute return, equity hedge funds, hybrid, private equity fund of funds, and buyout/growth. The fair value of such investments is determined using the net asset value (“NAV”) per share as a practical expedient.

MUTUAL FUNDS

Direct investment in equity securities and mutual funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. The Foundation’s interests in such investments are categorized as real assets, equity and fixed income funds. Such securities are classified within Level 1 of the fair value hierarchy.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

MINERAL RIGHTS

The fair value of mineral rights are based on inputs that are not observable in the market; thus, the Foundation has categorized these investments as Level 3 in the fair value hierarchy. The otherwise required disclosures are not included due to the immateriality of mineral rights.

In accordance with the fair value hierarchy, investments at fair value are as follows:

	Investments at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 19,041,548	\$ --	\$ --	\$ 19,041,548
Mineral rights	--	--	165,000	165,000
Investments valued at net asset value ⁽¹⁾				
Limited partnerships and limited liability companies	--	--	--	89,803,069
Total Investments at Fair Value	\$ 19,041,548	\$ --	\$ 165,000	\$ 109,009,617

	Investments at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 23,502,505	\$ --	\$ --	\$ 23,502,505
Mineral rights	--	--	165,000	165,000
Investments valued at net asset value ⁽¹⁾				
Limited partnerships and limited liability companies	--	--	--	81,083,042
Total Investments at Fair Value	\$ 23,502,505	\$ --	\$ 165,000	\$ 104,750,547

⁽¹⁾ In accordance with Accounting Standards Codification Subtopic 820-10, certain investments measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth additional disclosures of the Foundation's investments whose fair value is estimated using NAV per share or ownership percentage as of December 31, 2019:

	Total Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equities:				
Generation IM Fund PLC	\$ 18,094,421	\$ --	Quarterly ^(a)	30 days
Mission Value Global Fund, L.P.	8,821,983	--	Monthly	4 business days
Darlington Partners II L.P.	6,759,916	--	Quarterly ^(b)	45 days
Acacia Conservation Fund (Offshore), Ltd.	6,436,962	--	Semi-annually	30 days ^(c)
Tybourne Long Opportunities (Offshore) Fund	5,633,480	--	Quarterly ^(d)	60 days ^(d)
FPR Partners L.P.	5,322,724	--	Quarterly ^(e)	60 days
WGI Emerging Markets Fund, LLC	4,540,951	--	Monthly	30 days
Cevian Capital II Ltd USD Class A	4,252,329	--	Quarterly ^(f)	90 days ^(f)
	<u>59,862,766</u>	<u>--</u>		
Absolute Return:				
Canyon Value Realization Fund (Cayman), Ltd.	5,069,456	--	Quarterly ^(g)	60 days ^(g)
Aurelius Capital International, Ltd.	5,023,275	--	Semi-annually	65 days ^(h)
Centerbridge Credit Partners TE, L.P.	1,032,746	--	Annually ⁽ⁱ⁾	90 days ⁽ⁱ⁾
Luxor Capital Partners Liquidity SPV, Ltd.	87,199	--	None	None ^(j)
Eton Park Overseas Fund, Ltd.	7,684	--	None ^(k)	None ^(k)
	<u>11,220,360</u>	<u>--</u>		
Equity Hedge:				
Steadfast International, Ltd.	6,097,090	--	Quarterly	60 days
Fosse Capital Fund Limited	3,071,214	--	Quarterly ^(l)	60 days ^(l)
Bayberry Offshore Ltd.	1,808,933	--	Quarterly ^(m)	60 days ^(m)
	<u>10,977,237</u>	<u>--</u>		
Hybrid:				
Fortress Credit Opportunities Fund II (B), L.P.	1,035,964	445,891	None	None
Mount Kellett Capital Partners (Cayman) II, L.P.	206,752	46,436	None	None
Mount Kellett Capital Partners (Cayman), L.P.	120,715	--	None	None
	<u>1,363,431</u>	<u>492,327</u>		
Private Equity Fund of Funds:				
HCP Private Equity Fund VI (Cayman), L.P.	4,754,634	400,000	None	None
Buyout/Growth:				
Oaktree European Principal Fund III (U.S.), L.P.	1,624,641	673,769	None	None
Total	<u>\$ 89,803,069</u>	<u>\$ 1,566,096</u>		

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

- (a) Redemption provision includes a 1% early withdrawal penalty prior to the third anniversary of contribution.
- (b) Redemption frequency is quarterly after initial one-year lock-up. Next liquidity date was March 31, 2020. Proceeds will be distributed upon occurrence of realization events.
- (c) Partial redemption as of December 31, 2019.
- (d) Redemptions within the commitment period of three years are subject to a 2% redemption fee.
- (e) Redemption frequency is quarterly, as of fiscal quarter end, with a 33%, three-year investor-level gate and a 3% early withdrawal fee for off-schedule redemptions.
- (f) Redemption frequency is quarterly, with three-year rolling restrictions and a three-year initial lock-up. Investments have four liquidity dates based on initial purchase dates, December 31, 2021 and 2022, and June 30, 2022 and 2023.
- (g) Redemption frequency is quarterly, with maximum 25% withdrawal per quarter. The investment requires 60 days' notice for withdrawals of up to 10% of outstanding shares and 75 days' notice for withdrawals of more than 10% of outstanding shares.
- (h) Full redemption is in process as of December 31, 2019, paid in a tiered structure throughout 2020.
- (i) Full redemption is in process, with a two-year lock-up on 50% of investment with a rolling two-year lock-up thereafter. There is a three-year lock-up on remaining 50% with a two-year rolling lock-up thereafter. The eligible tranche payout will be withdrawn as it becomes eligible over time.
- (j) The Foundation requested full liquidation of its investment in this fund and currently only holds side pocket classes.
- (k) The fund is currently in full liquidation. Partial balance reflects holdbacks and reserves associated with Class S shares.
- (l) Redemption frequency is quarterly with a 25% investor gate. Full redemption will take four quarters of maximum withdrawal requests. Fund has a one-year lock-up. The first quarterly liquidation is allowed September 30, 2020.
- (m) Redemption frequency is quarterly with a 16.7% investor gate. Full redemption will take six quarters of maximum withdrawal requests. Fund has a one-year soft lock-up expired July 31, 2020. The first quarterly liquidation is allowed September 30, 2020.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth additional disclosures of the Foundation's investments whose fair value is estimated using NAV per share or ownership percentage as of December 31, 2018:

	Total Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equities:				
Generation IM Fund PLC	\$ 20,004,839	\$ --	Quarterly ^(a)	30 days
Mission Value Global Fund, L.P.	7,658,708	--	Monthly	4 business days
Acacia Conservation Fund (Offshore), Ltd.	8,370,549	--	Semi-annually	30 days ^(b)
Tybourne Long Opportunities (Offshore) Fund	4,804,999	--	Quarterly ^(c)	60 days ^(c)
WGI Emerging Markets Fund, LLC	4,101,063	--	Monthly	30 days
Cevian Capital II Ltd USD Class A	<u>3,612,960</u>	--	Quarterly ^(d)	90 days ^(d)
	<u>48,553,118</u>	--		
Absolute Return:				
Canyon Value Realization Fund (Cayman), Ltd.	4,633,065	--	Quarterly ^(e)	60 days ^(e)
Aurelius Capital International, Ltd.	6,651,916	--	Semi-annually	65 days ^(f)
Fir Tree International Value Fund, Ltd.	3,856,494	--	Bi-annually ^(g)	60 days ^(g)
Centerbridge Credit Partners TE, L.P.	2,217,773	--	Annually ^(h)	90 days ^(h)
Luxor Capital Partners Liquidity SPV, Ltd.	118,350	--	None	None ⁽ⁱ⁾
Eton Park Overseas Fund, Ltd.	<u>13,210</u>	--	None ⁽ⁱ⁾	None ⁽ⁱ⁾
	<u>17,490,808</u>	--		
Equity Hedge:				
Steadfast International, Ltd.	<u>7,842,684</u>	--	Quarterly	60 days
Hybrid:				
Fortress Credit Opportunities Fund II (B), L.P.	1,060,331	464,417	None	None
Mount Kellett Capital Partners (Cayman) II, L.P.	331,133	46,436	None	None
Mount Kellett Capital Partners (Cayman), L.P.	<u>240,889</u>	--	None	None
	<u>1,632,353</u>	<u>510,853</u>		
Private Equity Fund of Funds:				
HCP Private Equity Fund VI (Cayman), L.P.	<u>3,880,898</u>	<u>400,000</u>	None	None
Buyout/Growth:				
Oaktree European Principal Fund III (U.S.), L.P.	<u>1,683,181</u>	<u>673,769</u>	None	None
Total	<u>\$ 81,083,042</u>	<u>\$ 1,584,622</u>		

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

- (a) Redemption provision includes a 1% early withdrawal penalty prior to the third anniversary of contribution.
- (b) Partial redemption as of December 31, 2019.
- (c) Redemptions within the commitment period of three years are subject to a 2% redemption fee.
- (d) Redemption frequency is quarterly, with three-year rolling restrictions and a three-year initial lock-up. Investments have four liquidity dates based on initial purchase dates, December 31, 2021 and 2022, and June 30, 2022 and 2023.
- (e) Redemption frequency is quarterly, with maximum 25% withdrawal per quarter. The investment requires 60 days' notice for withdrawals of up to 10% of outstanding shares and 75 days' notice for withdrawals of more than 10% of outstanding shares.
- (f) Full redemption is in process as of December 31, 2019, paid in a tiered structure throughout 2020.
- (g) Investment includes two tiers: redemption frequency on the first tier is as of each two-year anniversary of contribution with 60 days' notice. The redemption frequency on the second tier is as of each two-year anniversary of contribution with 90 days' notice. Ten percent of the capital available on December 31 of the previous year is available with 90 days' notice. The 10% redemption can be withdrawn at end of the calendar quarter and can be split across more than one quarter. This fund was fully liquidated during the year ended December 31, 2019.
- (h) Full redemption is in process, with a two-year lock-up on 50% of investment with a rolling two-year lock-up thereafter. There is a three-year lock-up on remaining 50% with a two-year rolling lock-up thereafter. The eligible tranche payout will be withdrawn as it becomes eligible over time.
- (i) The Foundation requested full liquidation of its investment in this fund, and currently only holds side pocket classes.
- (j) The fund is currently in liquidation. Partial balance reflects holdbacks and reserves associated with Class S shares.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 - INVESTMENTS

Investments consist of the following at December 31:

	2019	2018
Equities:		
Generation IM Fund PLC	\$ 18,094,421	\$ 20,004,839
Mission Value Global Fund, L.P.	8,821,983	7,658,708
Darlington Partners II L.P.	6,759,916	--
Acacia Conservation Fund (Offshore), Ltd.	6,436,962	8,370,549
Tybourne Long Opportunities (Offshore) Fund	5,633,480	4,804,999
FPR Partners L.P.	5,322,724	--
Dodge & Cox Global Stock Fund	4,786,625	3,864,978
WGI Emerging Markets Fund, LLC	4,540,951	4,101,063
Cevian Capital II Ltd USD Class A	4,252,329	3,612,960
	64,649,391	52,418,096
Absolute Return:		
Canyon Value Realization Fund (Cayman), Ltd.	5,069,456	4,633,065
Aurelius Capital International, Ltd.	5,023,275	6,651,916
Fir Tree International Value Fund, Ltd.	--	3,856,494
Centerbridge Credit Partners TE, L.P.	1,032,746	2,217,773
Luxor Capital Partners Liquidity SPV, Ltd.	87,199	118,350
Eton Park Overseas Fund, Ltd.	7,684	13,210
	11,220,360	17,490,808
Fixed Income Funds:		
Vanguard Total Bond Market Index	9,162,969	10,034,117
Vanguard Short-Term Investment-Grade Fund	5,091,954	9,603,410
	14,254,923	19,637,527
Equity Hedge:		
Steadfast International, Ltd.	6,097,090	7,842,684
Fosse Capital Fund Limited	3,071,214	--
Bayberry Offshore Ltd.	1,808,933	--
	10,977,237	7,842,684
Hybrid:		
Fortress Credit Opportunities Fund II (B), L.P.	1,035,964	1,060,331
Mount Kellett Capital Partners (Cayman) II, L.P.	206,752	331,133
Mount Kellett Capital Partners (Cayman), L.P.	120,715	240,889
	1,363,431	1,632,353

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 - INVESTMENTS (CONTINUED)

	<u>2019</u>	<u>2018</u>
Private Equity Fund of Funds:		
HCP Private Equity Fund VI (Cayman), L.P.	\$ 4,754,634	\$ 3,880,898
Buyout/Growth:		
Oaktree European Principal Fund III (U.S.), L.P.	<u>1,624,641</u>	<u>1,683,181</u>
Mineral Rights	<u>165,000</u>	<u>165,000</u>
Total	<u>\$ 109,009,617</u>	<u>\$ 104,750,547</u>

At December 31, 2019 and 2018, the Foundation had commitments outstanding to the following security investments, for which the Foundation had yet to be called upon for its full commitment at and through December 31, 2019 and 2018:

- Fortress Credit Opportunities Fund II (B), L.P., a limited partnership, invests in a range of distressed and undervalued credit investments primarily in North America and Western Europe. The Foundation is committed to invest \$3,500,000 to be called upon by the limited partnership, and through December 31, 2019 and 2018, had invested \$3,054,109 and \$3,035,583 respectively.
- Mount Kellett Capital Partners (Cayman) II, L.P., a limited partnership, focuses on making opportunistic investments in the debt and equity of private and public companies, bank loans and bonds, distressed and stressed investments, including control positions, portfolios of consumer receivables, mortgage loans, real estate and real estate related securities. The Foundation is committed to invest \$2,000,000 to be called upon by the limited partnership, and through December 31, 2019 and 2018, had invested \$1,953,564.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 - INVESTMENTS (CONTINUED)

- HCP Private Equity Fund VI (Cayman), L.P., a limited partnership, invests substantially all of its assets in, and conducts its operations through, HCP Private Equity Fund VI, L.P., a private equity fund that has the same investment objective, which is to realize long-term capital appreciation in excess of the long-term returns by investing in portfolio funds, direct investments, and secondary investments. The Foundation is committed to invest \$4,000,000 to be called upon by the limited partnership, and through December 31, 2019 and 2018, had invested \$3,600,000.
- Oaktree European Principal Fund III (U.S.), L.P., a limited partnership, which operates solely as a “feeder fund” to the “master fund” which invests in publicly traded or privately placed debt securities and other obligations such as bank loans and participations, equipment trust certificates and trade credits, equity securities, and options and warrants. The Foundation is committed to invest \$2,330,000 to be called upon by the limited partnership, and through December 31, 2019 and 2018, had invested \$1,656,231.

During the years ended December 31, 2019 and 2018, there were no investments for which the Foundation was fully called upon for its commitment.

NOTE 4 - NOTES RECEIVABLE

Notes receivable are comprised of the following:

- A \$5,500,000 note issued in August 2001 secured by a first deed of trust relating to the sale of real property. The 9th amendment, dated June 23, 2017, extended the note two years and calls for repayment of principal due June 23, 2019 with interest payable quarterly at 4.00% per annum. Effective June 23, 2019, the note was extended another two years and is due June 23, 2021. The extension also increased the interest rate from 4.00% per annum to 5.00% per annum with all other terms unchanged.
- A \$1,000,000 program-related investment loan, issued in September 2005, drawn down in three stages with the final draw in February 2008. The latest note amendment, dated November 2, 2017, calls for repayment of principal and accrued interest on October 31, 2022, with interest accrued at 2.50% per annum. In addition, interest payments of \$25,000 are due annually beginning October 31, 2018. The proceeds of a construction loan for the development of low income housing on the real property will be used to repay the note. The note is secured by real property. The principal amount outstanding at December 31, 2019 and 2018, net of unamortized discount of \$64,572 and \$102,834 at 2.25% per annum and 2.75% per annum, respectively, was \$935,428 and \$897,166, respectively.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 4 - NOTES RECEIVABLE (CONTINUED)

- A \$1,000,000 unsecured recoverable grant (a note receivable) issued in December 2006. The note receivable was renewed in December 2016, and calls for repayment of principal due December 31, 2023, with interest payable annually at 2.50% per annum. The principal amount outstanding at December 31, 2019 and 2018, net of unamortized discount of \$85,157 and \$126,846 at 2.25% per annum and 2.75% per annum, respectively, was \$914,843 and \$873,154, respectively.
- A \$1,000,000 unsecured recoverable grant (a note receivable) issued in December 2014 that calls for repayment of principal due December 23, 2021, with interest payable annually at 2.50% per annum. The principal amount outstanding at December 31, 2019 and 2018, net of unamortized discount of \$43,526 and \$78,162 at 2.25% per annum and 2.75% per annum, respectively, was \$956,474 and \$921,838 respectively.

Payments on notes receivable are due as follows:

For the Years Ending December 31,	Amount
2020	\$ --
2021	6,500,000
2022	1,000,000
2023	1,000,000
	8,500,000
Present value discount, based on applicable Federal Reserve rate of 2.25%	(193,255)
Notes Receivable, Net	\$ 8,306,745

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2019	2018
Office furniture and equipment	\$ 164,847	\$ 150,781
Computer equipment and software	89,772	59,741
Leasehold improvements	32,609	22,259
	287,228	232,781
Less: accumulated depreciation and amortization	(205,304)	(199,842)
Property and Equipment, Net	\$ 81,924	\$ 32,939

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 5 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense for the years ended December 31, 2019 and 2018, was \$18,244 and \$9,653, respectively.

NOTE 6 - FEDERAL EXCISE TAX PROVISION

The Foundation is subject to federal excise taxes at a rate of 1% or 2% for the years ended December 31, 2019 and 2018, on its net investment income. Deferred excise taxes arise primarily from the difference in the book and tax accounting bases of investments and this temporary difference is provided at the 2% tax rate, for the years ended December 31, 2019 and 2018.

For the years ended December 31, 2019 and 2018, the change in deferred excise taxes is due to the net market changes in investments. The deferred excise tax liability represents the tax outcome should all the investments be sold. The components of the federal excise tax expense are as follows:

	2019	2018
Current federal excise taxes	\$ 180,000	\$ 132,000
Adjustments to federal excise taxes	--	(10,000)
Change in deferred federal excise taxes	<u>76,000</u>	<u>246,000</u>
Total	<u>\$ 256,000</u>	<u>\$ 368,000</u>

The Tax Reform Act of 1984 requires that certain minimum distributions be made in accordance with a specified formula. As of December 31, 2019, the Foundation has estimated distribution carryforwards to meet future charitable distribution requirements, which expire as follows:

For the Years Ending December 31,	Amount
2020	\$ 819,000
2021	918,000
2022	733,000
2023	<u>365,000</u>
Total	<u>\$ 2,835,000</u>

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 7 - RETIREMENT PLANS

The Foundation has a defined contribution retirement plan (the “Plan”) established under IRC §403(b). All employees are eligible to participate in the Plan and make voluntary contributions by salary reductions to the Plan up to the limit allowed by the IRC.

The Foundation also has a money purchase pension plan and contributes up to 15% of each eligible employee’s annual compensation following three months of service. For the years ended December 31, 2019 and 2018, the Foundation contributed \$143,157 and \$133,998, respectively, to the money purchase pension plan.

NOTE 8 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31, 2019 and 2018, are comprised of the following:

	2019	2018
Undesignated accumulated earnings and corpus	\$ 126,968,354	\$ 118,403,377
Net investment in property and equipment	<u>81,924</u>	<u>32,939</u>
Total	<u>\$ 127,050,278</u>	<u>\$ 118,436,316</u>

NOTE 9 - CONDITIONAL GRANTS

Conditional grants, which have not been recorded at December 31, 2019 and 2018, amounted to \$1,490,000 and \$1,080,000 respectively.

The conditions associated with these grants are anticipated to be satisfied and paid in the following years:

For the Years Ending December 31,	Amount
2020	\$ 1,305,000
2021	<u>185,000</u>
Total	<u>\$ 1,490,000</u>

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 10 - RELATED PARTY TRANSACTIONS

Various members of the Board of Directors and employees of the Foundation are also board members or officers of organizations that have been awarded grants from the Foundation. For the years ended December 31, 2019 and 2018, the Foundation paid \$75,000 each year, to an organization, of which a Foundation board member or employee was also a board member or officer of the grantee. The Foundation's board members and employees do not receive any compensation from grantees when serving as a board member or officer of the grantee. The Foundation's board members also recuse themselves from decisions to award grants to organizations on whose boards they serve. The Foundation's board members are not compensated for their services.

The Foundation has a Conflict of Interest Policy, whereby directors and employees are expected to make full disclosure whenever a prospective grantee is one with which they have a close professional or family relationship, and they are expected to abstain from making decisions relating to that grantee. All members of the Board of Directors are prohibited from benefiting from any grants awarded by the Foundation.

The Foundation also has a matching grant policy that will match up to \$3 for every \$1 donated by directors or employees, up to a maximum of \$20,000 for the years ended December 31, 2019 and 2018, respectively, for each individual. For the year ended December 31, 2019, the board approved an increase to \$30,000 in matching grants for the executive director. For the years ended December 31, 2019 and 2018, the Foundation made matching grants of \$144,090 and \$164,492, respectively.

NOTE 11 - COMMITMENTS

Beginning on December 31, 2011, the Foundation entered into a lease agreement for office space in San Francisco, California, with a monthly base rent ranging from \$11,506 to \$14,743. This lease expires in December 2021.

The minimum lease commitments are as follows:

For the Years Ending December 31,	Amount
2020	\$ 172,600
2021	<u>176,915</u>
Total	<u>\$ 349,515</u>

For the years ended December 31, 2019 and 2018, rent expense was \$173,940 and \$161,089, respectively.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 11 - COMMITMENTS (CONTINUED)

The Foundation is also committed under various equipment lease agreements and contracts covering future periods, which collectively are not material to its financial position or change in net assets.

NOTE 12 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation regularly monitors liquidity to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on investment of its funds. The Foundation's financial assets available within one year of the statement of financial position date for general expenditures were as follows:

	2019	2018
Cash	\$ 6,631,369	\$ 5,801,552
Interest and other receivables	3,965,880	544,582
Investments	<u>24,064,823</u>	<u>29,576,772</u>
Total	<u>\$ 34,662,072</u>	<u>\$ 35,922,906</u>

The Foundation has more than \$6,000,000 in cash and over \$24,000,000 in investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Foundation throughout the year. This is done through monitoring and reviewing the Foundation's cash flow needs on a weekly basis. As part of its liquidity plan, the Foundation maintains enough cash to cover annual grants and operating costs. The investments in the table above are available to meet cash flow needs, because they are either scheduled to liquidate within the year or can be liquidated at any time.

NOTE 13 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2019	2018
Cash paid for federal excise taxes	<u>\$ 180,000</u>	<u>\$ 122,000</u>

Noncash investing transactions for the year ended December 31, 2018, consist of a transfer of 507 Class A Series 03-17-2 shares of Canyon Value Realization Fund (Cayman), Ltd. valued at \$4,758,481 for 508 shares of Canyon Class A Series Initial shares.

S. H. COWELL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 14 - SUBSEQUENT EVENTS

The Foundation has evaluated all subsequent events through August 28, 2020, the date the financial statements were available to be issued and except for the change in the federal excise tax rate for private foundations (Note 1), liquidation of investment in Aurelius (Note 2), and the COVID-19 disclosure below, there are no further events identified requiring recognition or disclosure in the financial statements.

Subsequent to December 31, 2019, the global economy has been impacted by a pandemic outbreak of the COVID-19 virus, including the United States of America during March 2020. This has resulted in many businesses temporarily closing or working in remote environments. The Foundation does not yet know the full extent of the potential impact, if any, this may have on their business operations; however, as of the date the financial statements were available to be issued, no specific material adverse matters have been identified or estimable. The Foundation will continue to monitor the COVID-19 situation closely and revise their estimates in future periods, as necessary.

The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, was enacted March 27, 2020. Among the business provisions, the CARES Act provided for various payroll tax incentives, changes to net operating loss carryback and carryforward rules, business interest expense limitation increases, and bonus depreciation on qualified improvement property. The Foundation is evaluating the impact of the CARES Act.