S.H. Cowell Foundation

Financial Statements

December 31, 2022 and 2021

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S.H. COWELL FOUNDATION

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of S.H. Cowell Foundation, which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of S.H. Cowell Foundation as of December 31, 2022 and 2021 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of S.H. Cowell Foundation 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 U.S. GAAP, 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 S.H. Cowell Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit 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 auditors' 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 U.S. 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit 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 S.H. Cowell Foundation'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 S.H. Cowell Foundation'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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BPM LLP

San Francisco, California
September 1, 2023

S.H. Cowell Foundation

Statements of Financial Position

As of December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	$ 371,712	$ 1,981,344
Net receivables from unsettled trades	1,572,876	-
Other assets	175,733	91,279
Investments	99,848,045	125,187,501
Program-related investments, net	1,272,219	1,257,386
Notes receivable, net	6,448,350	7,426,457
Operating lease right-of-use assets, net	2,038,325	-
Property and equipment, net	104,022	48,341
Total assets	$ 111,831,282	$ 135,992,308
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 186,828	$ 206,905
Operating lease liability	2,083,924	-
Deferred excise tax liability	388,000	660,000
Total liabilities	2,658,752	866,905
Net assets without donor restrictions	109,172,530	135,125,403
Total liabilities and net assets	$ 111,831,282	$ 135,992,308

S.H. Cowell Foundation

Statements of Activities

For the years ended December 31, 2022 and 2021

	2022	2021
Net investment (loss) income:		
Realized investment gain	$ 1,104,079	$ 3,431,985
Unrealized investment (loss) gain	(19,548,401)	6,123,116
Dividends and interest, net	591,289	345,921
Net investment (loss) income before federal excise and income taxes	(17,853,033)	9,901,022
Federal excise and income tax benefit (expense)	213,000	(96,087)
Total investment (loss) income	(17,640,033)	9,804,935
Expenses:		
Grant programs	7,074,580	6,484,001
Management and general	1,238,260	957,257
Total expenses	8,312,840	7,441,258
Change in net assets	(25,952,873)	2,363,677
Net assets without donor restrictions:		
Beginning of year	135,125,403	132,761,726
End of year	$ 109,172,530	$ 135,125,403

S.H. Cowell Foundation

Statements of Functional Expenses

For the years ended December 31, 2022 and 2021

	2022			2021		
	Grant Programs	Management and General	Total	Grant Programs	Management and General	Total
Grants	$ 5,692,071	$ -	$ 5,692,071	$ 4,927,639	$ -	$ 4,927,639
Personnel	977,677	865,090	1,842,767	1,226,620	620,987	1,847,607
Professional fees	78,830	216,616	295,446	52,703	200,485	253,188
Office expenses	159,288	54,526	213,814	144,312	51,960	196,272
Occupancy expenses	144,081	89,842	233,923	112,867	72,161	185,028
Depreciation and amortization	22,633	12,186	34,819	19,860	11,664	31,524
Total expenses	$ 7,074,580	$ 1,238,260	$ 8,312,840	$ 6,484,001	$ 957,257	$ 7,441,258

S.H. COWELL FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets without donor restrictions	$ (25,952,873)	$ 2,363,677
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	34,819	31,524
Amortization of operating righ-of-use asset	209,153	-
Net realized gain on investments	(1,104,079)	(3,431,985)
Net unrealized loss (gain) on investments	19,548,401	(6,123,116)
Net loss on disposition of fixed assets	-	3,379
Deferred federal excise tax	(272,000)	86,000
Changes in operating assets and liabilities:		
Program-related investments, net	(14,833)	-
Other assets	(84,454)	(60,900)
Notes receivable, net	978,107	52,209
Accounts payable and accrued expenses	(20,077)	48,557
Deferred rent	-	(33,216)
Operating lease liability	(163,554)	-
Net cash used in operating activities	(6,841,390)	(7,063,871)
Cash flows from investing activities:		
Proceeds from sale of investments	7,839,910	5,473,081
Net receivables from unsettled trades	(1,572,876)	15,572,989
Purchase of investments	(944,776)	(12,991,520)
Purchase of property and equipment	(90,500)	-
Net cash provided by investing activities	5,231,758	8,054,550
(Decrease) increase in cash	(1,609,632)	990,679
Cash, beginning of year	1,981,344	990,665
Cash, end of year	$ 371,712	$ 1,981,344
Supplemental disclosure of cash flow information:		
Taxes paid on excise taxes	$ 119,000	$ -
Non-cash investing and financing activities:		
Operating lease right-of-use asset obtained in exchange for operating lease liability	$ 2,247,478	$ -

1. Organization

The S.H. Cowell Foundation ("the Foundation" or "Cowell") is a nonprofit public benefit corporation established in 1956 through a bequest by Samuel H. Cowell. The mission of the Foundation is to invest in communities committed to achieving lasting positive change for children and families living in poverty. Recognizing that economic inequality intersects with racial injustice, Cowell promotes antiracist practices and equitable outcomes for people and communities of color. The Foundation's grantmaking focuses on place-based complementary grants in these program areas: families, education, youth, leadership and organizational health, and community resources.

2. Summary of Significant Accounting Policies

Basis of Presentation and Description of Net Assets

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent resources that are not subject to donor-imposed restrictions and are available to support all activities of the Foundation. All net assets of the Foundation are without donor restrictions.

Use of 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Foundation places its cash and cash equivalents with institutions that the Foundation considers to be of high credit quality. Periodically, such investments may be in excess of federally insured limits. The Foundation believes that it mitigates this risk by maintaining deposits with major financial institutions. There were no cash equivalents as of December 31, 2022 and 2021.

Other Assets

Other assets include prepaid expenses and interest receivable.

Investments

Investments include mutual funds. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statement of activities and changes in net assets. The fair value of alternative investments is further described under the fair value measurement policy below.

2. Summary of Significant Accounting Policies, continued

Investments, continued

Investment transactions are recorded on a trade-date basis. Realized gains are recognized using the first-in, first-out method. Receivables or payables from unsettled investment transactions represents cash received subsequent to year-end for sales or purchases of investments consummated prior to year-end. Investment management and advisory fees are recorded with dividends, interest, and other income on the statement of activities and changes in net assets and include direct fees paid to investment advisors, managers, and custodians.

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

Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. In addition, the Foundation reports certain investments using the Net Asset Value ("NAV") per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. The Foundation classifies its financial assets and liabilities according to three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. This category includes active exchange traded money market funds, actively managed fixed income, and equity securities whose values are based on quoted market prices.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

Program-Related Investments

Program-Related Investments ("PRIs") is funding which specifically furthers the Foundation's charitable purpose. The program-related loan is recorded at a discount to face value to capture the interest rate benefit to the borrower of a below market rate. In recording that discount, a contribution expense is also recorded which is reflected in grants expense on the statement of activities. The discount is amortized over the life of the loan to interest income. An allowance for doubtful accounts is not deemed necessary as the risks associated with the loan are reflected in the discount. The loan is monitored on an annual basis for impairment. As of December 31, 2022 and 2021, the Foundation does not have any impaired loans.

2. Summary of Significant Accounting Policies, continued

Program-Related Investments, continued

The program-related loan is summarized in the table below as of December 31, 2022 and 2021, and for the years then ended:

	2022		2021	
	# of PRIs	Amount	# of PRIs	Amount
Program-related loans:				
Principal	1	$ 1,000,000	1	$ 1,000,000
Interest receivable		272,219		272,219
Total program-related loans		1,272,219		1,272,219
Less: discount		-		(14,833)
Total program-related investments, net		$ 1,272,219		$ 1,257,386

The Foundation's PRI loan has an interest rate of 2.5% with repayment of principal and accrued interest due on October 31, 2023.

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, 2022 and 2021, no allowance was considered necessary.

Leases – Right-of-Use Assets

The Foundation recognizes Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02 (Topic 842) and treats all operating leases as right-of-use ("ROU") assets and lease liabilities, in the statement of financial position. The Foundation determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and operating lease liabilities in the statement of financial position. ROU assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Foundation's leases do not provide an implicit rate, the Foundation generally use the risk-free rate at commencement date. The operating lease ROU asset also includes any lease payments made and excluded lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

2. Summary of Significant Accounting Policies, continued

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 5 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.

Revenue Recognition

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statements of activities and changes in net assets as net assets released from restrictions. There were no contributions received for 2022 and 2021.

Grants

Grant awards of $100,000 or more are expensed when the unconditional promise to give is approved by the Board of Directors. Grant awards of less than $100,000 can be approved by the President of the Foundation.

Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria or barriers. As of December 31, 2022 and 2021, the Foundation's Board of Directors has agreed to commit the organization to future conditional grant allocations totaling $1,570,000 and $830,000, respectively.

Excise and Income Taxes

The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. In addition, the Foundation may be subject to tax on unrelated business income, if any, generated by its investments.

The Foundation is subject to federal excise tax on its investment income. A provision for federal excise tax is accrued. Deferred taxes are recorded on the unrealized gain on investments (see Note 6).

Functional Expense Allocation

The indirect costs associated with grant program and management and general activities have been allocated on a functional basis in the statement of activities. Certain expenses are not directly identifiable with one specific function. Therefore, these other expenses require the application of a different allocation methodology that is reasonable and consistently applied. These other expenses that are allocated include personnel costs, professional services, depreciation and office expenses, which are allocated on the basis of estimated time and effort. Occupancy expenses are allocated based on square footage.

2. Summary of Significant Accounting Policies, continued

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, and subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20, and ASU 2019-01 (collectively, "Topic 842"). Topic 842 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as an ROU asset and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liability should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liability will bear interest expense and be reduced for lease payments. Topic 842 was effective for the Foundation on January 1, 2022. The Foundation adopted Topic 842 on January 1, 2022, using the modified retrospective approach. Under this approach, the Foundation is not required to restate or disclose the effects of applying Topic 842 for comparative periods.

In addition, the Foundation elected the transition package of three practical expedients, which allow companies not to reassess (i) whether agreements contain leases, (ii) the classification of leases, and (iii) the capitalization of initial direct costs. The Foundation also made an accounting policy election to recognize lease expense for leases with a term of 12 months or less on a straight-line basis over the lease term and recognize no ROU or lease liability for those leases. Further, the Foundation elected not to separate lease and non-lease components for all asset classes. The Foundation also elected the practical expedient to utilize the risk-free rate at the date of lease commencement as opposed to incremental borrowing rate.

As a result of the adoption of Topic 842, the Foundation recognized on January 1, 2022:

- Operating lease liabilities of $2,229,431 which represent the present value of the remaining lease payments, as of the date of adoption, discounted using the risk-free rate on the date of adoption.
- Operating lease ROU assets of $2,247,478.

Recent Accounting Pronouncements

FASB ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, and related amendments, replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new Current Expected Credit Losses ("CECL") model applies to financial assets at amortized cost, including trade receivables, contract assets and certain off-balance sheet credit exposures, such as loan commitments. The ASU is effective for fiscal years beginning after December 31, 2022. The Foundation is currently evaluating the impact of this standard.

3. Liquidity

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:

	2022	2021
Financial assets, at year-end:		
Cash	$ 371,712	$ 1,981,344
Net receivables from unsettled trades	1,572,876	-
Investments, at fair value	99,848,045	125,187,501
Program-related investments, net	1,272,219	1,257,386
Notes receivable, net	6,448,350	7,426,457
	109,513,202	135,852,688
Less: Financial assets unavailable for general expenditures within one year, due to:		
Investments with liquidity restrictions	(16,034,919)	(35,699,629)
Program-related loans due more than one year	(1,272,219)	(1,257,386)
Notes receivable due more than one year	(6,448,350)	(7,426,457)
Financial assets available to meet cash needs for general expenditures within one year	$ 85,757,714	$ 91,469,216

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 and liquid investments in mutual funds to cover annual grants and operating costs.

4. Investments and Fair Value Measurements

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2022:

	Level 1	Level 2	Level 3	NAV	Total
Mutual funds:					
Fixed income	$ 15,286,014	$ -	$ -	$ -	$ 15,286,014
Global equity	8,103,248	-	-	-	8,103,248
Equity funds:					
Domestic and global equity	-	-	-	52,497,218	52,497,218
Emerging markets	-	-	-	4,747,597	4,747,597
Alternative equity funds:					
Private equity/venture capital	-	-	-	5,620,803	5,620,803
Distressed debt	-	-	-	232,891	232,891
Multi-strategy hedge	-	-	-	13,195,274	13,195,274
Mineral rights	-	-	165,000	-	165,000
Total	$ 23,389,262	$ -	$ 165,000	$ 76,293,783	$ 99,848,045

4. Investments and Fair Value Measurements, continued

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2021:

	Level 1	Level 2	Level 3	NAV	Total
Mutual funds:					
Fixed income	$ 17,780,187	$ -	$ -	$ -	$ 17,780,187
Global equity	8,601,771	-	-	-	8,601,771
Equity funds:					
Domestic and global equity	-	-	-	70,741,665	70,741,665
Emerging markets	-	-	-	5,087,683	5,087,683
Alternative equity funds:					
Private equity/venture capital	-	-	-	7,654,657	7,654,657
Distressed debt	-	-	-	812,540	812,540
Multi-strategy hedge	-	-	-	14,343,998	14,343,998
Mineral rights	-	-	165,000	-	165,000
Total	$ 26,381,958	$ -	$ 165,000	$ 98,640,543	$ 125,187,501

Level 3 Assets

The fair value of mineral rights is 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.

Net Asset Value Disclosure

The Foundation uses the NAV as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

4. Investments and Fair Value Measurements, continued

Net Asset Value Disclosure, continued

The following table lists investments by major category as of December 31, 2022 and 2021:

	2022		2021		2022			
Strategies	Number of Funds	Valuation	Number of Funds	Valuation	Unfunded Commitments	Redemption Frequency	Notice Period	Lock-ups, Gates and Holdbacks
Equity funds:								
Domestic and global equity *(a)*	9	$ 52,497,218	9	$ 70,741,665	$ -	Monthly/Quarterly/ Semi-annually	4 days to 6 months	*(a)*
Emerging markets *(b)*	1	4,747,597	1	5,087,683	-	Monthly	30 days	Not Applicable
Alternative equity funds:								
Private equity/venture capital *(c)*	5	5,620,803	5	7,654,657	1,057,761	Not Permitted	Not Permitted	Not Applicable
Distressed debt *(d)*	1	232,891	1	812,540	418,546	Not Permitted	Not Permitted	Not Applicable
Multi-strategy hedge *(e)*	3	13,195,274	3	14,343,998	-	Quarterly	60 days	*(e)*
Total	19	$ 76,293,783	19	$ 98,640,543	$ 1,476,307			

(a) *This strategy seeks to obtain long-term returns through pooled funds invested in domestic, international, and global equities. One fund has a redemption within the commitment period of three years rolling. One fund has quarterly redemption at 25% per quarter. One fund has quarterly redemption frequency with three-year rolling restrictions. Investments have four liquidity dates based on initial purchase dates, December 31, 2021 and 2022, and June 30, 2022 and 2023. One fund has a quarterly redemption frequency with a 33%, three-year investor level gate.*

(b) *This strategy seeks to obtain long-term returns through investments in emerging markets.*

(c) *Private equity and venture capital funds invest in various companies, both domestic and international. These funds are private partnerships or fund of funds which typically have a legal life span of 8-10 years with very limited redemption rights for the Limited Partners. Liquidity is expected in the form of distributions from the funds when the underlying assets are sold.*

(d) *This fund seeks to generate current income and long-term capital appreciation through investments in a range of distressed and undervalued credit investments primarily in North America and Western Europe.*

(e) *Redeemable multi-strategy hedge funds include fund of funds that seeks to achieve absolute returns over the longer term, primarily through investing and taking positions in a range of equities and equity related instruments of companies without geographic or sector restrictions. One fund has quarterly redemption with a 25% investor gate. Full redemption will take four quarters maximum withdrawal requests. One fund has quarterly redemption with a 16.7% investor gate. Full redemption will take six quarters of maximum withdrawal requests.*

5. Notes Receivable

A $5,500,000 note secured by a first deed of trust relating to the sale of real property with a variable interest rate of the five year United States Treasury Rate, as reported by the Department of Labor, plus 2.70%. The effective rate will be adjusted annually on March 1st, with a minimum interest rate of 3.50% and maximum of 5.50%. A $1,000,000 repayment of principal was made in 2022. Interest payments are due quarterly and the remaining principal of $4,500,000 is due by June 23, 2025.

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, 2022 and 2021, net of unamortized discount of nil and $14,833, respectively, was $1,000,000 and $985,167, respectively.

A $1,000,000 unsecured recoverable grant (a note receivable) issued in December 2014 was renewed in 2021 with interest payable annually at 2.50% per annum. The principal repayments commence in the seventh year, as follows: $300,000 by December 23, 2028; $300,000 by December 23, 2029; and $400,000 by December 23, 2030. The principal amount outstanding at December 31, 2022, net of unamortized discount of $51,650 was $948,350. The principal amount outstanding at December 31, 2021, net of unamortized discount of $58 was $941,290.

Payments on notes receivable are due as follows:

Year ending December 31:		
2023	$	1,000,000
2024		-
2025		4,500,000
2026		-
2027		-
Thereafter		1,000,000
		6,500,000
Less: discount		(51,650)
Total notes receivable, net	$	6,448,350

6. Excise and Income Taxes

In accordance with the applicable provisions of the IRC, the Foundation is a private foundation and qualifies as a tax-exempt organization.

The Foundation’s estimated tax provisions, both current and deferred, were recorded at the 1.39% rate. Adjustments between estimated and actual tax expense are made to deferred taxes in subsequent year in which the tax return is filed.

6. Excise and Income Taxes, continued

The provision for current and deferred excise taxes is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Current:		
Excise	$ (59,000)	$ (10,087)
Total	(59,000)	(10,087)
Deferred:		
Excise benefit (expense)	272,000	(86,000)
Total excise tax expense (benefit)	$ 213,000	$ (96,087)

The Foundation is subject to distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, 5% of the fair value of its investment assets, as defined. The investments includable for the 5% distribution requirement are based on average monthly balances and are exclusive of those assets deemed to be held for charitable activities or other program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. The Foundation complied with the distribution requirements for 2022 and 2021.

7. Commitments and Contingencies

Operating Lease

In September 2021, the Foundation entered into a lease agreement for office space under an operating lease from January 2022 through December 2031.

Total ROU assets, net of accumulated amortization, was $2,038,325 as of December 31, 2022. The current portion of lease liabilities was $212,110 and the long-term portion of lease liabilities was $1,871,815 as of December 31, 2022.

Operating lease expense was $244,656 and $185,028 for the years ended December 31, 2022 and 2021, respectively. The remaining lease term is 9 years and the discount rate is 1.63% as of December 31, 2022.

The aggregate future minimum lease payments under the operating lease are as follows:

Year ending December 31:	
2023	$ 223,068
2024	229,752
2025	236,652
2026	243,744
2027	251,064
Thereafter	1,081,836
Total lease payments	2,266,116
Less: portion representing interest	182,192
Total principal	$ 2,083,924

7. Commitments and Contingencies, continued

Investments

The Foundation had capital commitments for investments totaling approximately $1,476,307 and $1,520,112 as of December 31, 2022 and 2021, respectively.

8. Concentration of Risk

Cash

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. The Foundation is exposed to credit risk in the event of default by its primary banking institution to the extent amounts exceed FDIC insured amounts.

Investments

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. The Foundation's Investment Committee attempts to minimize its exposure to these risks.

Program-Related Investments

For the years ended December 31, 2022 and 2021, one PRI represented 100% of total PRI.

Notes Receivable

For the years ended December 31, 2022 and 2021, one note receivable represented 73% of total notes receivable.

9. 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, 2022 and 2021, the Foundation paid $50,000 and $75,000, respectively, 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.

9. Related Party Transactions, continued

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 each of the years ended December 31, 2022 and 2021, for each individual and a maximum of $30,000 in matching grants for the president. For the years ended December 31, 2022 and 2021, the Foundation made matching grants of $177,071 and $166,289, respectively.

10. 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, 2022 and 2021, the Foundation contributed $184,147 and $190,448, respectively, to the money purchase pension plan.

11. Subsequent Events

The Foundation evaluated subsequent events for recognition and disclosure through September 1, 2023, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2022 that required recognition or disclosure in such financial statements, other than as disclosed below.

In May 2023, First Republic Bank was closed by the California Department of Financial Protection and Innovation. Subsequently, JPMorgan Chase Bank acquired all deposit accounts and substantially all the assets. The Foundation has not incurred any losses and has access to the funds.