

**CALIFORNIA HEALTH CARE FOUNDATION
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020



California Health Care Foundation



CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
California Health Care Foundation and Subsidiary:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of California Health Care Foundation and Subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of March 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Health Care Foundation and Subsidiary as of March 31, 2021 and 2020, and the results of their operations and their cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

San Francisco, California
September 23, 2021

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 6,676,685	\$ 4,371,909
Investments, at fair value	950,030,521	726,941,560
Program-related investments, net	7,270,898	7,849,928
Receivables, prepaid expenses, and other assets	5,941,094	1,665,684
Fixed assets, net	<u>150,080</u>	<u>201,132</u>
Total assets	<u>\$ 970,069,278</u>	<u>\$ 741,030,213</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,968,536	\$ 1,492,999
Grants payable	<u>8,357,145</u>	<u>20,223,523</u>
Total liabilities	10,325,681	21,716,522
Net assets:		
Without donor restrictions	<u>959,743,597</u>	<u>719,313,691</u>
Total liabilities and net assets	<u>\$ 970,069,278</u>	<u>\$ 741,030,213</u>

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net investment and other income (loss):		
Net investment income (loss)	\$ 278,347,648	\$ (5,294,060)
Net income from private real estate investment	590,633	816,044
Program-related investment interest and other income	<u>773,731</u>	<u>677,627</u>
Net investment and other income (loss)	<u>279,712,012</u>	<u>(3,800,389)</u>
Expenses:		
Grants	24,719,039	37,687,144
Direct charitable activities	2,089,636	1,993,949
Grant making support	8,600,160	8,169,260
Management and general	<u>3,873,271</u>	<u>4,275,114</u>
Total expenses	<u>39,282,106</u>	<u>52,125,467</u>
Change in net assets without donor restrictions	240,429,906	(55,925,856)
Net assets without donor restrictions, beginning of year	<u>719,313,691</u>	<u>775,239,547</u>
Net assets without donor restrictions, end of year	<u>\$ 959,743,597</u>	<u>\$ 719,313,691</u>

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ 240,429,906	\$ (55,925,856)
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:		
Depreciation expense	117,273	149,492
Program-related investment loan converted to grant expense	-	624,662
Net realized and unrealized gain on investments	(280,587,949)	(1,032,996)
Net loss on disposition of fixed assets	-	860
Changes in operating assets and liabilities:		
Program-related investments, net	579,030	(1,456,380)
Receivables, prepaid expenses, and other assets	(4,275,410)	192,594
Accounts payable and accrued expenses	475,537	(257,298)
Grants payable	(11,866,378)	6,012,847
Net cash used in operating activities	(55,127,991)	(51,692,075)
Cash flows from investing activities:		
Proceeds from sale of investments	116,207,471	82,768,291
Purchase of investments	(58,708,483)	(32,108,091)
Investments pending settlement	-	7,479
Purchase of fixed assets	(66,221)	(111,407)
Net cash provided by investing activities	57,432,767	50,556,272
Increase (decrease) in cash and cash equivalents	2,304,776	(1,135,803)
Cash and cash equivalents, beginning of year	4,371,909	5,507,712
Cash and cash equivalents, end of year	\$ 6,676,685	\$ 4,371,909
Supplemental disclosure of cash flow information:		
Taxes paid on unrelated business income	\$ 358,204	\$ 82,825

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

1. Nature of Organization

California Health Care Foundation (the “Foundation”) is a philanthropic organization established as a tax exempt, nonprofit corporation under Section 501(c)(4) of the Internal Revenue Code and under California Revenue and Taxation Code Section 23701(f). The Foundation’s primary purpose is to promote the availability of, and access to, quality and affordable health care and related services to the people of the state of California, including, without limitation (i) to improve the availability of, and access to, such care and services to the uninsured, underinsured, and other underserved populations, and to improve the health status of all Californians, (ii) to develop and maintain initiatives to address short- and long-term health care needs and concerns, (iii) to provide grants and establish programs to carry out such purposes, and (iv) to otherwise serve the health-related social welfare needs of the people of the state of California.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States. All significant intra-organizational accounts and transactions have been eliminated. The consolidated financial statements include OAC Properties, a wholly owned Limited Liability Company (“LLC”) subsidiary of the Foundation. OAC Properties was created in April 2006 to manage investment real estate in Oakland, California.

The Foundation’s assets are free of donor restrictions and are classified as net assets without donor restrictions in the accompanying consolidated statement of financial position.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments, with maturities of three months or less. The Foundation held its cash in two banking institutions as of March 31, 2021. This cash is insured by the Federal Deposit Insurance Corporation up to regulatory limits.

Investments

Investments are held at fair value or estimated fair value. The Foundation established and maintains an investment policy approved by the Board of Directors, which governs its investment program. The investments are insured by the Securities Investor Protection Corporation (“SIPC”). As of March 31, 2021 and 2020, the Foundation held investments in excess of the SIPC insurance limits.

The Foundation uses a professional investment management firm to manage its investments. In doing so, the Foundation has delegated the authority for asset allocation and the investment of the assets to that firm.

Realized gains or losses on the sale of investments are determined on an average cost basis on the trade date for publicly traded investments or upon closing of the transaction for private investments.

The private real estate, located in Oakland, California, is valued at March 31, 2021 and 2020, based on independent appraisals effective January 26, 2021, and January 15, 2020, respectively. The appraisals use the sales comparison approach to arrive at the property valuation. The sales comparison approach considers recent closed sales of comparable properties and makes transactional and location adjustments to address dissimilarities as necessary.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

2. Significant Accounting Policies, continued

Fair Value Measurements

The Foundation follows the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurement and Disclosures*, to value and classify its 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 a liability in an orderly transaction between market participants on the measurement date. ASC 820 specifies the use of three classification levels based on the marketability and liquidity of each asset or liability.

Level 1 classifications are based on unadjusted quoted prices from active markets (that the Foundation can access at the measurement date) for identical securities.

Level 2 classifications are based on significant observable market inputs, such as quoted prices for similar securities, or quoted prices in inactive markets.

Level 3 values are based on significant unobservable inputs that reflect the Foundation’s determination of assumptions that market participants might reasonably use in valuing securities.

As allowed under relevant accounting standards, where appropriate, investments are valued using fund-provided net asset values per share or ownership interest (“NAVs”), and those funds are not categorized within the fair value hierarchy. Where NAV information is not available, valuation estimates are based on information provided by investment managers and those funds are listed in the hierarchy as required. Management believes these methods provide a reasonable estimate and presentation of fair value.

Investments valued at NAV are discussed with the Foundation’s investment advisor, and reviewed by the Foundation for reasonableness against both audited December 31 and unaudited March 31 data. In addition, the Foundation reviews the valuation policies of its investment managers annually for reasonableness and consistency with GAAP and industry standards. Finally, the Foundation reviews the audited financial statements of the funds of each investment manager in which the Foundation is invested to ensure that an unqualified audit opinion was issued.

Although a secondary market exists for some investments valued using NAV, it is not an active market and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. Therefore, where redemption rights in funds are restricted or non-existent, if the Foundation was to sell these investments in the secondary market, it is reasonably possible that a buyer in that market may require a discount to the reported NAV or valuation estimate, and the discount could be significant.

Program-Related Investments

Program-Related Investments (“PRIs”) is funding which specifically furthers the Foundation’s charitable purpose. The investments support the testing and evaluation of innovative, market-based approaches to significantly lower the total cost of care, improve the quality of care, or substantially improve access to care for low-income Californians. The majority of the Foundation’s PRI investments are below market interest rate loans which vary in duration, with the longest being seven years. Repayment of the currently outstanding loans is scheduled through December of 2024. Some of the transactions have warrants that may be convertible to equity in the future if certain events transpire. All loans are current as of March 31, 2021 and 2020. Unpaid PRI loans are written off and recorded as grant expense.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

2. Significant Accounting Policies, continued

Program-Related Investments, continued

Additionally, the Foundation made program-related equity investments in the fiscal year ended March 31, 2020. These investments have no specified maturity date.

The program-related loans are 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 consolidated 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 loans are monitored on an annual basis for impairment. As of March 31, 2021 and 2020, the Foundation does not have any impaired loans.

The loans and investments are summarized in the table below as of March 31, 2021 and 2020, and for the years then ended:

	2021	2020
Program-related investments, gross, beginning of year	\$ 8,575,000	\$ 7,941,000
Additional loans	800,003	1,000,000
New equity investment	-	1,000,000
Program-related investment loan converted to grant expense	-	(666,000)
Principal repayments	(2,000,000)	(700,000)
Gross program-related investments	7,375,003	8,575,000
Interest receivable	645,191	551,230
Net program-related investments	8,020,194	9,126,230
Less discount	(749,296)	(1,276,302)
Program-related investments, net, end of year	<u>\$ 7,270,898</u>	<u>\$ 7,849,928</u>

Receivables, Prepaid Expenses, and Other Assets

Receivables, prepaid expenses, and other assets include amounts advanced on grants for which contingencies have not been met.

Fixed Assets

Fixed assets are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three to five years.

Grants

Grants include unconditional promises to give and other awarded contracts that further the Foundation's mission. Grants awarded with an unconditional promise to give are accrued as a liability and expensed when approved. Total grants payable as of March 31, 2021 and 2020 were \$8,357,145 and \$20,223,523, respectively.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

2. Significant Accounting Policies, continued

Grants, continued

Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria. As of March 31, 2021 and 2020, these conditional grants totaled \$13,739,584 and \$0, respectively (see Note 7).

Grant amendments, including cancellations, are recorded as increases or decreases of grant expense in the year of amendment. No discount is recorded for grants expected to be paid after one year, as the short duration of the overall grant portfolio makes the amount of discount immaterial.

Expense Allocations

Expenses are allocated between direct charitable activities, program support, management and general, and investment activities, based upon estimates by management.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 revenue and expense during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of the fair value of investments, the functional expense allocation, and the effective market interest rates for program-related investment loans.

Income Taxes

While the Foundation is generally exempt from income taxes, it is subject to tax on income which is deemed to be unrelated to its exempt purpose. The Foundation generates such unrelated business income through some of its investment activity.

Management evaluated the Foundation's tax positions and concluded that the Foundation has maintained its tax-exempt status and had taken no uncertain tax positions that require adjustments to the financial statements.

Changes in Accounting Principles

In June 2018, the Financial Accounting Standards Board's ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. This update changed the criteria for determining whether a contribution is conditional from a probability-based approach to one focused on barriers in an arrangement. As a resource provider, the Foundation adopted this guidance effective April 1, 2020 and applied changes on a modified prospective basis. Under this new guidance conditional grants are not recorded until the recipient meets certain criteria or barriers, resulting in a decrease in grants payable and grant expense in 2021.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

3. Liquidity

The Foundation's financial assets available within one year of March 31, 2021 and 2020 to meet grant, operating expenses, and other obligations include:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,676,685	\$ 4,371,909
Global equity indexed exchange traded fund	69,064,913	8,522,472
Fixed income commingled global fund	34,186,816	69,765,998
Receivables	<u>1,364,585</u>	<u>526,273</u>
Available financial assets	<u>\$ 111,292,999</u>	<u>\$ 83,186,652</u>

The Foundation structures its investments so that funds are available as expenditure obligations become due. This is achieved through the policies and practices guiding management of the Foundation's investment portfolio, including the liquidity policy. The Foundation's liquidity policy provides that 12% of Foundation's assets are to be liquid. Liquid assets are defined as assets which can be converted to cash within 90 days or less. The liquidity policy results in liquid assets available to satisfy approximately 2 times annual grantmaking and operating expenses. Additionally, funds may become available during the year from real estate rental net income and net distributions from legacy private equity investments.

4. Investments

Investments as of March 31, 2021 and 2020, may include investment sales pending settlement, and consist of the following:

	<u>2021</u>	<u>2020</u>
Global equity indexed exchange traded fund	\$ 69,064,913	\$ 8,522,472
Fixed income commingled global fund	34,186,816	69,765,998
Multi-strategy and fixed income absolute return funds	602,262	607,680
Multi-asset class commingled funds	698,648,911	538,862,818
Private equity and venture capital	99,077,619	61,607,592
Private real estate (a)	<u>48,450,000</u>	<u>47,575,000</u>
	<u>\$ 950,030,521</u>	<u>\$ 726,941,560</u>

(a) On June 30, 2006, the Foundation acquired a commercial office building as an investment. The Foundation occupies less than 25% of the building, and the remainder is leased to non-affiliated tenants under non-cancelable operating leases which expire through August 2027.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

5. Fair Value Measurements

The following table presents the FASB ASC 820 fair value categorization of the Foundation's assets and liabilities as of March 31, 2021:

	March 31, 2021				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Investments (Note 4):					
Global Equity Indexed ETF	\$ 69,064,913	\$ -	\$ -	\$ -	\$ 69,064,913
Fixed income commingled global fund	-	-	-	34,186,816	34,186,816
Multi-strategy and fixed income absolute return funds	-	-	-	602,262	602,262
Multi-asset class commingled funds	-	-	-	698,648,911	698,648,911
Private equity and venture capital	-	-	-	99,077,619	99,077,619
Private real estate	-	48,450,000	-	-	48,450,000
Total investments	69,064,913	48,450,000	-	832,515,608	950,030,521
Program-related investments - equities (Note 2)	-	-	2,000,000	-	2,000,000
Deferred compensation	801,254	-	-	-	801,254
Total assets measured at fair value	<u>\$ 69,866,167</u>	<u>\$ 48,450,000</u>	<u>\$ 2,000,000</u>	<u>\$ 832,515,608</u>	<u>\$ 952,831,775</u>
Liabilities:					
Deferred compensation	<u>\$ 801,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 801,254</u>

The following table presents the FASB ASC 820 fair value categorization of the Foundation's assets and liabilities as of March 31, 2020:

	March 31, 2020				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Investments (Note 4):					
Global Equity Indexed ETF	\$ 8,522,472	\$ -	\$ -	\$ -	\$ 8,522,472
Fixed income commingled global fund	-	-	-	69,765,998	69,765,998
Multi-strategy and fixed income absolute return funds	-	-	-	607,680	607,680
Multi-asset class commingled funds	-	-	-	538,862,818	538,862,818
Private equity and venture capital	-	-	-	61,607,592	61,607,592
Private real estate	-	47,575,000	-	-	47,575,000
Total investments	8,522,472	47,575,000	-	670,844,088	726,941,560
Program-related investments - equity (Note 2)	-	-	2,000,000	-	2,000,000
Deferred compensation	614,666	-	-	-	614,666
Total assets measured at fair value	<u>\$ 9,137,138</u>	<u>\$ 47,575,000</u>	<u>\$ 2,000,000</u>	<u>\$ 670,844,088</u>	<u>\$ 729,556,226</u>
Liabilities:					
Deferred compensation	<u>\$ 614,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 614,666</u>

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

5. Fair Value Measurements, continued

The following table summarizes, by strategy, the Foundation's investments that are valued based on the NAVs. These NAV amounts are reported by the fund managers as of March 31, 2021 and 2020:

Strategies	2021		2020		Redemption Frequency	Notice Period
	# of Funds	Valuation	# of Funds	Valuation		
Commingled funds:						
Multi-asset class redeemable - long term (a)	1	\$ 635,312,307	1	\$ 538,862,818	Annually	6 months
Multi-asset class non-redeemable - long term (a)	1	63,336,604	-	-	Not permitted	N/A
Fixed income redeemable - long term (b)	1	34,186,816	1	69,765,998	Monthly	7 days
Absolute return funds:						
Non-redeemable (c)	2	602,262	3	607,680	Not permitted	N/A
Private equity and venture capital (d)	19	<u>99,077,619</u>	20	<u>61,607,592</u>	Not permitted	N/A
Total		<u>\$ 832,515,608</u>		<u>\$ 670,844,088</u>		

- (a) These investments are structured to generate performance in excess of relevant benchmarks while realizing substantially lower volatility than public equity markets. During the fiscal year ended March 31, 2021, the Foundation redeemed a portion of its investment in the primary investment vehicle. The redeemed investments were placed in a side pocket of the primary investment vehicle. The side pocket investment has an unfunded commitment of \$14,275,669 at March 31, 2021. The holdings in the primary investment vehicle and side pocket were allocated across the following asset classes at March 31, 2021 and 2020:

Asset Class	% of Fund	
	2021	2020
Public equity	28	25
Private equity	27	28
Hedge funds	18	19
Real estate	16	19
Fixed income	7	8
Cash	4	1
	<u>100</u>	<u>100</u>

- (b) This holding is the investment advisor's fixed income offering. It has a global fixed income strategy that seeks to provide diversification benefits, attractive risk-adjusted returns over full interest rate cycles, and monthly liquidity.
- (c) These represent trailing investment balances from redeemed investments which will be paid out as the underlying investments can be liquidated by the investment manager.
- (d) Prior to hiring the current investment advisor, the Foundation invested directly in private equity and venture capital through both investment funds and fund of funds relationships, with the intent to diversify across industries, industry sectors, and geographies. These investments are not redeemable and have a current remaining life of between one and three years. However, final termination will not occur until the last remaining underlying fund liquidates or is sold. The Foundation will not be investing directly in any new funds. The unfunded commitment was \$11,568,658 and \$11,724,083 at March 31, 2021 and 2020, respectively. However, due to the maturity of many of these holdings, it is unlikely that all the remaining unfunded commitment will be called.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

6. Fixed Assets

Fixed assets as of March 31, 2021 and 2020, consist of the following:

	2021	2020
Furniture and fixtures	\$ 863,901	\$ 835,265
Office computers and equipment	846,185	808,600
	1,710,086	1,643,865
Less accumulated depreciation	(1,560,006)	(1,442,733)
Fixed assets, net	<u>\$ 150,080</u>	<u>\$ 201,132</u>

Depreciation expense for the fiscal years ended March 31, 2021 and 2020, was \$117,273 and \$149,492, respectively.

7. Grants Payable

Grants payable as of March 31, 2021 are expected to be paid in the following years:

2021-2022	\$ 6,254,940
2022-2023	1,833,799
2023-2024	222,000
2024-2025	46,406
	<u>\$ 8,357,145</u>

The Foundation has conditional grants totaling \$13,739,584, which have been scheduled as follows:

2021-2022	\$ 11,595,602
2022-2023	1,865,715
2023-2024	240,767
2024-2025	37,500
	<u>\$ 13,739,584</u>

These grant commitments have not been recorded in the financial statements because they are conditional and subject to grantees satisfying certain requirements set forth by the Foundation.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

8. Functional Expenses

The Foundation's non-grant expenses have been allocated among direct charitable activities, grantmaking support, and management and general, based on estimates made by the Foundation's management of time spent by employees on various activities. Direct charitable activities expenses are non-grant costs that directly further the Foundation's philanthropic efforts, including the publishing and dissemination of research and educational information. Grantmaking support represents expenses incurred to originate, administer, and evaluate the Foundation's grants and direct charitable activities. Management and general expense are expenses for governing and operating the Foundation, not associated specifically with the Foundation's grants and direct charitable activities.

The Foundation's functional expenses, displayed by natural expense classification, for the fiscal years ended March 31, 2021 and 2020, were as follows:

	2021				
	Program Expenses			Management and General	Total
	Grants and Direct Charitable Activities	Grant Making Support	Total Program Expenses		
Grants expense	\$ 24,719,039	\$ -	\$ 24,719,039	\$ -	\$ 24,719,039
Salaries, benefits, and payroll taxes	1,873,130	7,666,478	9,539,608	3,032,836	12,572,444
Board fees and expenses	-	-	-	272,904	272,904
Consulting	50,900	237,435	288,335	123,679	412,014
Audit, tax, legal, and other support services	40,258	161,885	202,143	147,408	349,551
Staff travel, meetings, and professional development	803	39,062	39,865	121,442	161,307
Rent, utilities, insurance, and property taxes	39,596	129,813	169,409	55,570	224,979
Electronic communications and equipment maintenance	59,228	196,889	256,117	83,120	339,237
Information services, office supplies, and other	5,081	100,931	106,012	7,346	113,358
Depreciation	20,640	67,667	88,307	28,966	117,273
Total expenses	\$ 26,808,675	\$ 8,600,160	\$ 35,408,835	\$ 3,873,271	\$ 39,282,106

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

8. Functional Expenses, continued

	2020				
	Program Expenses				Total
	Grants and Direct Charitable Activities	Grant Making Support	Total Program Expenses	Management and General	
Grants expense	\$ 37,687,144	\$ -	\$ 37,687,144	\$ -	\$ 37,687,144
Salaries, benefits, and payroll taxes	1,819,208	6,916,343	8,735,551	3,006,024	11,741,575
Board fees and expenses	-	-	-	400,221	400,221
Consulting	-	286,970	286,970	246,677	533,647
Audit, tax, legal, and other support services	19,356	201,149	220,505	173,729	394,234
Staff travel, meetings, and professional development	28,224	202,940	231,164	284,178	515,342
Rent, utilities, insurance, and property taxes	34,072	120,963	155,035	44,230	199,265
Electronic communications and equipment maintenance	54,066	204,018	258,084	70,003	328,087
Information services, office supplies, and other	13,460	146,135	159,595	16,865	176,460
Depreciation	25,563	90,742	116,305	33,187	149,492
Total expenses	<u>\$ 39,681,093</u>	<u>\$ 8,169,260</u>	<u>\$ 47,850,353</u>	<u>\$ 4,275,114</u>	<u>\$ 52,125,467</u>

Grants expense represents grants awarded by the Foundation in a given year. Grants expense is net of cancellations, refunds, and amendments. Refunds totaled \$699,450 and \$88,230 for the fiscal years ended March 31, 2021 and 2020, respectively.

In addition to investment management fees and unrelated business income taxes related to investment activity, net investment income on the consolidated statement of activities includes \$206,213 and \$243,630 for the fiscal years ended March 31, 2021 and 2020, respectively, of allocated operating expenses attributable to portfolio management.

9. Employee Benefit Plans

Retirement Savings 401(k) Plan

The Foundation maintains a voluntary 401(k) plan (the “Plan”) for all employees. The Foundation makes an annual employer contribution of between 8% and 14% (age-based) of annual compensation for all employees who have at least 1,000 service hours during the calendar year. Employees are also eligible for matching contributions equal to 100% of the first 4.5% of employees’ salary deferral contributions after six calendar months of service.

The Foundation’s employer contributions to the Plan for the fiscal years ended March 31, 2021 and 2020 were \$1,309,276 and \$1,232,233, respectively.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

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9. Employee Benefit Plans, continued

Deferred Compensation 457(b) Plan

The Foundation also offers an unfunded deferred compensation plan for a select group of highly compensated employees under Internal Revenue Code Section 457(b). Subject to statutory limits, these employees are eligible to make voluntary contributions to the plan and rollover amounts from other plans as allowed by law. The Foundation does not make plan contributions. Related assets and liabilities total \$801,254 at March 31, 2021, and \$614,666 at March 31, 2020 and are included in the receivables, prepaid expenses, and other assets and accounts payable and accrued expenses on the statement of financial position.

10. Commitments and Contingencies

Leases

In April 2011, the Foundation leased office space in Sacramento, California. The current lease term extends through June 2024. Future minimum lease commitments are as follows:

2021-2022	\$	117,770
2022-2023		119,986
2023-2024		122,986
2024-2025		30,935
		<hr/>
	\$	391,677
		<hr/> <hr/>

Total rent expense was \$124,054 and \$98,299 for the fiscal years ended March 31, 2021 and 2020, respectively.

COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude of the effect that the pandemic will have on the Foundation’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact on its financial condition, liquidity, operations, and workforce.

11. Related Party Transactions

In the course of carrying out its charitable purpose, the Foundation may make grants and conduct business with entities that have connections with members of the Board of Directors, Officers, or Key Employees. Such situations are subject to the Foundation’s conflict of interest policy and each grant and contract the Foundation makes is reviewed in advance for any potential conflict of interest or legal issues. As such, Board Members, Officers, and Key Employees are required to disclose potential conflicts of interest annually, and throughout the year as circumstances change. The Audit Committee of the Board reviews the annual disclosures. Board members are also required to recuse themselves from voting on grants or contracts with which they may have a conflict.

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11. Related Party Transactions, continued

Additionally, the Foundation provides a discretionary giving program for its Board of Directors, whereby each Director may individually award up to \$50,000 for the fiscal years ended March 31, 2021 and 2020, to nonprofit organizations doing work aligned with the Foundation's mission. Each year, some of these awards are made to organizations affiliated with members of the Board of Directors. For the years ended March 31, 2021 and 2020, these totaled \$70,000 and \$0, respectively.

12. Subsequent Events

The Foundation has reviewed the change in net assets for the fiscal year ended March 31, 2021, through September 23, 2021, the date the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.