

**CALIFORNIA HEALTH CARE FOUNDATION
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021



California Health Care Foundation

BPM

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

Opinion

We have audited the consolidated financial statements of California Health Care Foundation and subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as March 31, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as of March 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 23, 2022

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 9,078,868 | \$ 6,676,685 |
| Investments, at fair value | 942,264,986 | 950,030,521 |
| Program-related investments, net | 9,173,983 | 7,270,898 |
| Receivables, prepaid expenses, and other assets | 2,035,203 | 5,941,094 |
| Fixed assets, net | <u>152,495</u> | <u>150,080</u> |
| Total assets | <u>\$ 962,705,535</u> | <u>\$ 970,069,278</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 2,186,538 | \$ 1,968,536 |
| Grants payable | <u>6,635,103</u> | <u>8,357,145</u> |
| Total liabilities | 8,821,641 | 10,325,681 |
| Net assets: | | |
| Without donor restrictions | <u>953,883,894</u> | <u>959,743,597</u> |
| Total liabilities and net assets | <u>\$ 962,705,535</u> | <u>\$ 970,069,278</u> |

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the fiscal years ended March 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| Net investment and other income: | | |
| Net investment income | \$ 49,012,132 | \$ 278,347,648 |
| Net income from private real estate investment | 523,110 | 590,633 |
| Program-related investment interest and other income | <u>610,115</u> | <u>773,731</u> |
| Net investment and other income | <u>50,145,357</u> | <u>279,712,012</u> |
| Expenses: | | |
| Grants | 39,403,303 | 24,719,039 |
| Direct charitable activities | 2,299,536 | 2,089,636 |
| Grant making support | 9,719,686 | 8,600,160 |
| Management and general | <u>4,582,535</u> | <u>3,873,271</u> |
| Total expenses | <u>56,005,060</u> | <u>39,282,106</u> |
| Change in net assets without donor restrictions | (5,859,703) | 240,429,906 |
| Net assets without donor restrictions, beginning of year | <u>959,743,597</u> | <u>719,313,691</u> |
| Net assets without donor restrictions, end of year | <u>\$ 953,883,894</u> | <u>\$ 959,743,597</u> |

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended March 31, 2022 and 2021

| | 2022 | 2021 |
|--|----------------|----------------|
| Cash flows from operating activities: | | |
| Change in net assets without donor restrictions | \$ (5,859,703) | \$ 240,429,906 |
| Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities: | | |
| Depreciation expense | 99,802 | 117,273 |
| Net realized and unrealized gain on investments | (48,774,380) | (280,587,949) |
| Changes in operating assets and liabilities: | | |
| Program-related investments, net | (794,909) | 579,030 |
| Receivables, prepaid expenses, and other assets | 3,905,891 | (4,275,410) |
| Accounts payable and accrued expenses | 218,002 | 475,537 |
| Grants payable | (1,722,042) | (11,866,378) |
| Net cash used in operating activities | (52,927,339) | (55,127,991) |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 167,699,898 | 116,207,471 |
| Purchase of investments | (112,268,159) | (58,708,483) |
| Purchase of fixed assets | (102,217) | (66,221) |
| Net cash provided by investing activities | 55,329,522 | 57,432,767 |
| Increase in cash and cash equivalents | 2,402,183 | 2,304,776 |
| Cash and cash equivalents, beginning of year | 6,676,685 | 4,371,909 |
| Cash and cash equivalents, end of year | \$ 9,078,868 | \$ 6,676,685 |
| Supplemental disclosure of cash flow information: | | |
| Taxes paid on unrelated business income | \$ 28,552 | \$ 358,204 |

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

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 Accounting and 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, 2022. 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, 2022 and 2021, 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, 2022 and 2021, based on independent appraisals effective February 1, 2022, and January 21, 2021, 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, 2022 and 2021

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 five years. Repayment of the currently outstanding loans is scheduled through March of 2027. 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, 2022 and 2021. Unpaid PRI loans are written off and recorded as grant expense.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

2. Significant Accounting Policies, continued

Program-Related Investments, continued

Additionally, the Foundation made program-related equity investments in the fiscal year ended March 31, 2022, as well as in prior fiscal years. 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, 2022 and 2021, the Foundation does not have any impaired loans.

The loans and investments are summarized in the table below as of March 31, 2022 and 2021, and for the fiscal years then ended:

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Program-related investments, gross, beginning of year | \$ 7,375,003 | \$ 8,575,000 |
| Additional loans | 2,450,000 | 800,003 |
| New equity investment | 1,249,998 | - |
| Principal repayments | <u>(1,475,000)</u> | <u>(2,000,000)</u> |
| Gross program-related investments | 9,600,001 | 7,375,003 |
| Interest receivable | <u>518,512</u> | <u>645,191</u> |
| Net program-related investments | 10,118,513 | 8,020,194 |
| Less discount | <u>(944,530)</u> | <u>(749,296)</u> |
| Program-related investments, net, end of year | <u>\$ 9,173,983</u> | <u>\$ 7,270,898</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.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

2. Significant Accounting Policies, continued

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, 2022 and 2021 were \$6,635,103 and \$8,357,145, respectively.

Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria. As of March 31, 2022 and 2021, these conditional grants totaled \$20,102,792 and \$13,739,584, 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 (see Note 8).

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.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

3. Liquidity

The Foundation's financial assets available within one year of March 31, 2022 and 2021 to meet grant, operating expenses, and other obligations include:

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 9,078,868 | \$ 6,676,685 |
| Global equity indexed exchange traded fund | 44,072,324 | 69,064,913 |
| Global equity pooled fund | 26,642,803 | - |
| Fixed income commingled global fund | 81,072,686 | 34,186,816 |
| Receivables | <u>614,624</u> | <u>1,364,585</u> |
| Available financial assets | <u>\$ 161,481,305</u> | <u>\$ 111,292,999</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 recognizes a target range of 5% and 20% for its liquid assets, which are defined as assets which can be converted to cash within 90 days. The liquidity policy results in liquid assets available to satisfy approximately 2 to 3 times annual grantmaking and operating expenses.

4. Investments

Investments as of March 31, 2022 and 2021, may include investment sales pending settlement, and consist of the following:

| | <u>2022</u> | <u>2021</u> |
|---|-----------------------|-----------------------|
| Global equity indexed exchange traded fund | \$ 44,072,324 | \$ 69,064,913 |
| Global equity pooled fund | 26,642,803 | - |
| Fixed income commingled global fund | 81,072,686 | 34,186,816 |
| Multi-strategy and fixed income absolute return funds | 723,605 | 602,262 |
| Multi-asset class commingled funds | 677,446,579 | 698,648,911 |
| Private equity and venture capital | 63,476,989 | 99,077,619 |
| Private real estate (a) | <u>48,830,000</u> | <u>48,450,000</u> |
| | <u>\$ 942,264,986</u> | <u>\$ 950,030,521</u> |

- (a) On June 30, 2006, the Foundation acquired a commercial office building as an investment. The Foundation occupies approximately one-third 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, 2022 and 2021

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, 2022:

| | March 31, 2022 | | | | |
|---|----------------------|----------------------|---------------------|-----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Assets: | | | | | |
| Investments (Note 4): | | | | | |
| Global Equity Indexed ETF | \$ 44,072,324 | \$ - | \$ - | \$ - | \$ 44,072,324 |
| Global equity pooled fund | - | - | - | 26,642,803 | 26,642,803 |
| Fixed income commingled global fund | - | - | - | 81,072,686 | 81,072,686 |
| Multi-strategy and fixed income absolute return funds | - | - | - | 723,605 | 723,605 |
| Multi-asset class commingled funds | - | - | - | 677,446,579 | 677,446,579 |
| Private equity and venture capital | - | - | - | 63,476,989 | 63,476,989 |
| Private real estate | - | 48,830,000 | - | - | 48,830,000 |
| Total investments | 44,072,324 | 48,830,000 | - | 849,362,662 | 942,264,986 |
| Program-related investments - equities (Note 2) | - | - | 3,249,998 | - | 3,249,998 |
| Deferred compensation | 874,792 | - | - | - | 874,792 |
| Total assets measured at fair value | \$ 44,947,116 | \$ 48,830,000 | \$ 3,249,998 | \$ 849,362,662 | \$ 946,389,776 |
| Liabilities: | | | | | |
| Deferred compensation | \$ 874,792 | \$ - | \$ - | \$ - | \$ 874,792 |

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 - equity (Note 2) | - | - | 2,000,000 | - | 2,000,000 |
| Deferred compensation | 801,254 | - | - | - | 801,254 |
| Total assets measured at fair value | \$ 69,866,167 | \$ 48,450,000 | \$ 2,000,000 | \$ 832,515,608 | \$ 952,831,775 |
| Liabilities: | | | | | |
| Deferred compensation | \$ 801,254 | \$ - | \$ - | \$ - | \$ 801,254 |

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

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, 2022 and 2021:

| Strategies | 2022 | | 2021 | | Redemption Frequency | Notice Period |
|--|------------|-----------------------|------------|-----------------------|----------------------|---------------|
| | # of Funds | Valuation | # of Funds | Valuation | | |
| Commingled funds: | | | | | | |
| Multi-asset class redeemable - long term (a) | 1 | \$ 649,724,723 | 1 | \$ 635,312,307 | Annually | 6 months |
| Multi-asset class non-redeemable - long term (a) | 1 | 27,721,856 | 1 | 63,336,604 | Not permitted | N/A |
| Global equity - long term (b) | 1 | 26,642,803 | 1 | - | Quarterly | 7 days |
| Fixed income redeemable - long term (c) | 1 | 81,072,686 | 1 | 34,186,816 | Monthly | 7 days |
| Absolute return funds: | | | | | | |
| Non-redeemable (d) | 2 | 723,605 | 2 | 602,262 | Not permitted | N/A |
| Private equity and venture capital (e) | 18 | 63,476,989 | 19 | 99,077,619 | Not permitted | N/A |
| Total | | <u>\$ 849,362,662</u> | | <u>\$ 832,515,608</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 \$5,911,179 at March 31, 2022. The holdings in the primary investment vehicle and side pocket were allocated across the following asset classes at March 31, 2022 and 2021:

| Asset Class | % of Fund | |
|----------------|------------|------------|
| | 2022 | 2021 |
| Public equity | 28 | 28 |
| Private equity | 26 | 27 |
| Hedge funds | 17 | 18 |
| Real estate | 16 | 16 |
| Fixed income | 7 | 7 |
| Cash | 6 | 4 |
| | <u>100</u> | <u>100</u> |

- (b) This holding is the investment advisor's global equity offering. It represents a diversified portfolio of global public equities.
- (c) 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.
- (d) These represent trailing investment balances from redeemed investments which will be paid out as the underlying investments can be liquidated by the investment manager.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022 and 2021

5. Fair Value Measurements, continued

- (e) 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 \$11,556,049 and \$11,568,658 at March 31, 2022 and 2021, respectively. However, due to the maturity of many of these holdings, it is unlikely that all the remaining unfunded commitment will be called.

6. Fixed Assets

Fixed assets as of March 31, 2022 and 2021, consist of the following:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|--------------------|--------------------|
| Furniture and fixtures | \$ 891,675 | \$ 863,901 |
| Office computers and equipment | <u>577,224</u> | <u>846,185</u> |
| | 1,468,899 | 1,710,086 |
| Less accumulated depreciation | <u>(1,316,404)</u> | <u>(1,560,006)</u> |
| Fixed assets, net | <u>\$ 152,495</u> | <u>\$ 150,080</u> |

Depreciation expense for the fiscal years ended March 31, 2022 and 2021, was \$99,802 and \$117,273, respectively.

7. Grants Payable

Grants payable as of March 31, 2022 are expected to be paid in the following years:

| | |
|-----------|---------------------|
| 2022-2023 | \$ 4,213,482 |
| 2023-2024 | 2,197,115 |
| 2024-2025 | 224,506 |
| 2025-2026 | <u>-</u> |
| | <u>\$ 6,635,103</u> |

The Foundation has conditional grants totaling \$20,102,792, which have been scheduled as follows:

| | |
|-----------|----------------------|
| 2022-2023 | \$ 13,072,337 |
| 2023-2024 | 4,752,939 |
| 2024-2025 | 1,452,128 |
| 2025-2026 | 750,000 |
| 2026-2027 | <u>75,388</u> |
| | <u>\$ 20,102,792</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, 2022 and 2021

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, 2022 and 2021, were as follows:

| | 2022 | | | | |
|--|--|-------------------------|------------------------------|---------------------------|---------------|
| | Program Expenses | | | Management and General | Total |
| | Grants and Direct Charitable Activities | Grant Making Support | Total Program Expenses | | |
| Grants expense | \$ 39,403,303 | \$ - | \$ 39,403,303 | \$ - | \$ 39,403,303 |
| Salaries, benefits, and payroll taxes | 2,131,510 | 8,685,224 | 10,816,734 | 3,265,510 | 14,082,244 |
| Consulting | - | 152,618 | 152,618 | 459,904 | 612,522 |
| Audit, tax, legal, and other support services | 30,240 | 207,957 | 238,197 | 170,907 | 409,104 |
| Electronic communications and equipment maintenance | 57,166 | 235,107 | 292,273 | 67,827 | 360,100 |
| Board fees and expenses | - | - | - | 320,940 | 320,940 |
| Staff travel, meetings, and professional development | 10,739 | 78,577 | 89,316 | 212,483 | 301,799 |
| Rent, utilities, insurance, and property taxes | 36,914 | 151,370 | 188,284 | 44,679 | 232,963 |
| Information services, office supplies, and other | 17,098 | 143,762 | 160,860 | 21,423 | 182,283 |
| Depreciation | 15,869 | 65,071 | 80,940 | 18,862 | 99,802 |
| Total expenses | \$ 41,702,839 | \$ 9,719,686 | \$ 51,422,525 | \$ 4,582,535 | \$ 56,005,060 |

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. Functional Expenses, continued

| | 2021 | | | | |
|--|---|----------------------|------------------------|------------------------|----------------------|
| | Program Expenses | | | | Total |
| | Grants and Direct Charitable Activities | Grant Making Support | Total Program Expenses | Management and General | |
| 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 |
| 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 |
| Electronic communications and equipment maintenance | 59,228 | 196,889 | 256,117 | 83,120 | 339,237 |
| Board fees and expenses | - | - | - | 272,904 | 272,904 |
| 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 |
| 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 | <u>\$ 26,808,675</u> | <u>\$ 8,600,160</u> | <u>\$ 35,408,835</u> | <u>\$ 3,873,271</u> | <u>\$ 39,282,106</u> |

Grants expense represents grants awarded by the Foundation in a given year. Grants expense is net of cancellations, refunds, and amendments. Refunds totaled \$36,486 and \$699,450 for the fiscal years ended March 31, 2022 and 2021, 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 \$191,618 and \$206,213 for the fiscal years ended March 31, 2022 and 2021, 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, 2022 and 2021 were \$1,482,188 and \$1,309,276, 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 \$874,792 at March 31, 2022, and \$801,254 at March 31, 2021 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 2027. Future minimum lease commitments are as follows:

| | | |
|------------|----|---------|
| 2022-2023 | \$ | 119,986 |
| 2023-2024 | | 122,986 |
| 2024-2025 | | 123,740 |
| 2025-2026 | | 126,060 |
| 2026-2027 | | 129,212 |
| Thereafter | | 32,501 |
| | | <hr/> |
| | \$ | 654,485 |

Total rent expense was \$125,395 and \$124,054 for the fiscal years ended March 31, 2022 and 2021, 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.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARY

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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.

Additionally, the Foundation provides a discretionary giving program for its Board of Directors, whereby each Director may individually award up to \$50,000 each year 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, 2022 and 2021, these totaled \$15,000 and \$70,000, respectively.

12. Subsequent Events

The Foundation has reviewed the change in net assets for the fiscal year ended March 31, 2022, through September 23, 2022, 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.