THE JAMES IRVINE FOUNDATION

FINANCIAL STATEMENTS
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The James Irvine Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The James Irvine Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The James Irvine Foundation as of December 31, 2018 and 2017, 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.

(Continued)

Emphasis of Matter

As discussed in Note 2 to the financial statements, The James Irvine Foundation has adopted Accounting Standards Update ("ASU") 2016-02 - *Leases,* ASU 2016-14 - Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*, and ASU 2018-08 - Not-For-Profit Entities (Topic 958): *Clarifying the Scope and The Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Crowe LLP

Crowe LLP

San Francisco, California
June 13, 2019

THE JAMES IRVINE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash – interest-bearing deposits	$ 110,643	$ 71,191
Collateral under securities lending program	39,409,871	47,333,277
Receivable from sales/redemptions of investments	43,521,152	3,863,653
Interest and dividends receivable	1,361,267	1,376,157
Investments—including $37,202,357 and $45,636,440 of securities loaned for 2018 and 2017, respectively, at fair value	2,241,751,668	2,315,510,555
Property and equipment, net	2,717,970	1,613,153
Right of use – office leases	6,258,079	3,999,129
Other assets	1,569,535	1,326,597
Total assets	$ 2,336,700,185	$ 2,375,093,712
LIABILITIES AND NET ASSETS		
Liabilities:		
Payable for purchases of securities	$ 164,837	$ 587,830
Payable on line of credit	17,000,000	10,000,000
Payable under securities lending program	39,409,871	47,333,277
Accounts payable and other accrued liabilities	3,817,990	3,589,199
Deferred federal excise taxes	12,666,000	12,726,000
Lease liability for office leases	7,540,047	5,159,973
Grants payable, net	50,178,701	50,191,851
Total liabilities	130,777,446	129,588,130
Net assets without donor restrictions	2,205,922,739	2,245,505,582
Total liabilities and net assets	$ 2,336,700,185	$ 2,375,093,712

See accompanying notes to the financial statements.

THE JAMES IRVINE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2018 and 2017

	2018	2017
Investment income:		
Interest	$ 6,880,354	$ 5,190,517
Dividends and other income	5,954,132	7,511,720
Securities lending income	113,317	205,591
Net realized and unrealized gains on investments	65,367,043	298,597,215
Less: External and direct internal investment expenses	(7,106,227)	(7,668,816)
Net investment income before excise and income taxes	71,208,619	303,836,227
Excise and income taxes expense	(2,005,501)	(6,116,334)
Net investment income	69,203,118	297,719,893
Expenses:		
Grants approved by the Board of Directors	95,709,275	90,943,023
Conditional grant activity and other, net	(1,412,849)	292,823
Grant expense, net	94,296,426	91,235,846
Program administrative expenses	12,699,532	12,560,604
Supporting administrative expense	1,790,003	1,759,810
Total noninvestment expenses	108,785,961	105,556,260
Change in net assets without donor restrictions	(39,582,843)	192,163,633
Net assets, beginning of year	2,245,505,582	2,053,341,949
Net assets, end of year	$ 2,205,922,739	$ 2,245,505,582

See accompanying notes to the financial statements.

THE JAMES IRVINE FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (39,582,843)	$ 192,163,633
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	367,970	471,340
Loss on disposal of property and equipment	4,641	10,694
Net realized and unrealized gains on investments	(65,367,043)	(298,597,215)
Non-cash rent expense	121,124	(193,870)
Changes in operating assets and liabilities:		
Interest and dividends receivable	14,890	94,980
Other assets	(242,938)	384,735
Accounts payable and other accrued liabilities	(304,280)	(494,491)
Deferred federal excise taxes	(60,000)	3,662,000
Grants payable	(13,150)	933,329
Net cash used in operating activities	(105,061,629)	(101,564,865)
Cash flows from investing activities:		
Purchases of investments	(1,535,998,639)	(992,229,385)
Proceeds from sales, maturities, and distributions from investments	1,635,044,078	1,083,888,095
Change in collateral under securities lending program	7,923,406	46,788,143
Purchases of property and equipment	(944,358)	(69,477)
Net cash provided by investing activities	106,024,487	138,377,376
Cash flows from financing activities:		
Change in payable under securities lending program	(7,923,406)	(46,788,143)
Cash received from line of credit	54,101,000	40,052,000
Cash paid on line of credit	(47,101,000)	(30,052,000)
Net cash used in financing activities	(923,406)	(36,788,143)
Net change in cash	39,452	24,368
Cash, beginning of year	71,191	46,823
Cash, end of year	$ 110,643	$ 71,191
Supplemental disclosure of cash flow information:		
Excise and income taxes paid	$ 2,077,982	$ 2,465,863
Interest paid	$ 124,591	$ 82,152
Accrued construction costs	$ 533,071	$ -
Non-cash investing activity – New Los Angeles lease (Note 8)		
Right of use – office lease	$ 3,364,630	$ -
Lease liability for office leases	$ 3,364,630	$ -

See accompanying notes to the financial statements.

NOTE 1 – ORGANIZATION

The James Irvine Foundation (the "Foundation") is a private foundation dedicated to expanding opportunity for the people of California. Since 2016, the Foundation's grantmaking has been focused on the goal of a California where all low-income workers have the power to advance economically.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and are presented on the basis of net assets with donor restrictions and net assets without donor restrictions. The statements of financial position are prepared using specialized accounting principles of Accounting Standards Codification (ASC) 958 *Not-for-Profit Entities.*

Net assets with donor restrictions: Net assets with donor restrictions are subject to donor-imposed stipulations. At December 31, 2018 and 2017, the Foundation did not have any net assets with donor restrictions.

Net assets without donor restrictions: Net assets without donor restrictions represent resources which do not have donor-imposed stipulations and are available to support the Foundation's operations.

Cash: Consists of interest-bearing deposits held in banks**.**

Investments: The Foundation maintains the following categories of investments:

- Short-term, fixed-income investments include commercial paper, demand notes, foreign currency, and corporate and government bonds.
- Equity securities primarily consist of investments in both domestic and foreign corporate common stock securities.
- Fixed-income securities include holdings in corporate and municipal bonds, as well as U.S. government securities, various mortgage- and asset-backed bonds, and convertible corporate debentures.
- Alternative investments represent investments in limited partnerships, limited liability companies, onshore and offshore hedge funds, private real estate investment trusts, and other nonpublic investments.
- Derivatives are financial instruments or contracts whose values depend on or are derived from (in whole or in part) the variability of one or more underlying instruments and may include forward currency contracts, futures contracts, and total return swaps.

Derivatives: The Foundation does not designate any derivatives as hedges. Thus, the changes in fair value of derivative instruments are reported in net realized and unrealized gains (losses) on investments in the statements of activities and changes in net assets. There were no derivatives held for the years ended December 31, 2017 and 2018.

Property and Equipment: Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term.

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants: Grants are expensed when the unconditional promise to give is approved by the Board of Directors. Such unconditional grants are made in support of the Foundation's mission in which the Foundation itself receives no commensurate value. The Foundation also determines whether a grant is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of grants made or a right of release from its obligation to make grants. Indicators of barriers include a measurable performance related barrier, limited discretion on the conduct of an activity, and barriers related to the purpose of the agreement. Conditional promises to give, consisting primarily of grants with matching requirements, are recognized as grant expense in the period in which the recipient meets the terms of the condition. Such conditions may also include other requirements, such as the requirement for a newly formed organization to successfully establish its 501(c)(3) status before the grant becomes unconditional. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded.

The Foundation also actively conducts direct charitable activities. The direct charitable activities, including honoraria to individuals, cost of materials, supplies, travel and conferences, and fees paid to external parties in connection with the specific charitable activity, are included in grant expense, net on the statements of activities.

Investment Income: Investment income represents investment return net of external and direct internal expenses. The direct internal expense includes salaries, benefits, travel, and other costs associated with the officer and staff responsible for the development and execution of investment strategy. The external costs include outside investment manager fees, custodial and other services fees related to investment activities.

Retirement Plan: The Foundation provides a defined contribution plan for all its employees. The plan is funded by the Foundation and maintained by an independent trustee. The Foundation's contributions to this plan were approximately $1,167,000 and $1,180,000 in 2018 and 2017, respectively.

The Foundation also has an unfunded deferred compensation plan for a select group of highly compensated or management employees under Internal Revenue Code (the "Code") Section 457(b). Subject to statutory limits, the Foundation contributes to the plan on behalf of eligible employees who did not receive their full contributions to the defined contribution plan due to the Internal Revenue Service limits covering that plan. At December 31, 2018 and 2017, the Foundation held approximately $838,000 and $852,000, respectively, in other assets that are designated to pay future deferred compensation liabilities under the plan of approximately $838,000 and $852,000, respectively, that are included in accounts payable and other accrued liabilities in the statements of financial position.

Estimated Fair Value of Financial Instruments: The carrying amounts of cash, receivable from sales/redemptions of investments, interest and dividends receivable, accounts payable and other accrued liabilities, and payable for purchases of securities approximate fair value because of the short maturity of these financial instruments. The carrying amount of grants payable approximates fair value because such liabilities are recorded at estimated net present value based on anticipated future cash flows.

Investments are held at estimated fair value. In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAVs) as allowed under *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Fair value is discussed further in Note 3.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Risks: In the ordinary course of business, the Foundation manages a variety of risks, including market risk and credit risk. Market conditions such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in law, and trade barriers may affect the level and volatility of the prices of financial instruments and the liquidity of the Foundation's investments. Market risk is a risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements and volatility in commodity or security prices. The Foundation is also subject to credit and counterparty risks when entering into transactions, including, cash, cash equivalents, investments and derivatives. The Foundation maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits.

Tax Exempt Status: The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Code and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

Income Taxes: The Foundation recognizes and measures its unrecognized tax benefits in accordance with ASC 740-10, which requires the Foundation to determine whether tax positions of the Foundation are "more likely than not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2018, the Foundation has analyzed the inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction) and has concluded that no reserve for uncertain tax positions is required.

Leases: The Foundation, as a lessee, has the right to obtain substantially all of the economic benefits from use of the underlying assets over the lease term. The lease liabilities represent the obligation to make lease payments arising from the lease. Right of use ("ROU") assets and liabilities are recognized at commencement date based on the present value of the lease payments over the lease term. The lease agreements did not provide an implicit rate, thus the Foundation uses a risk-free discount rate established at the commencement date of the leases. The lease credits or allowances were applied against the lease payments and included in the ROU assets. Lease expenses for lease payment is recognized on a straight-line basis over the lease term.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP 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 expenses during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of the fair value of investments (including alternative investments), the discount on grants payable, the calculation of federal excise tax expense, and the functional expense allocation. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the 2017 financial statements in order to conform to the current fiscal year presentation. The reclassifications had no impact on previously reported net assets.

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in Accounting Principles: The Foundation has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, *Leases*, effective December 31, 2018. The main difference between previous U.S. GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The Foundation recognizes a ROU office lease and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. The ASU has been applied retrospectively to all periods presented which has resulted in no change to net assets without donor restrictions.

The Foundation has adopted FASB ASU 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation implemented ASU 2016-14 and has adjusted the presentation in the financial statements accordingly. The ASU has been applied retrospectively to all periods presented which has resulted in no change to net assets without donor restrictions.

The Foundation has adopted FASB ASU 2018-08, Not-For-Profit Entities (Topic 958) – *Clarifying the Scope and The Accounting Guidance for Contributions Received and Contributions Made*, effective December 31, 2018. The update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments apply to both resources received by a recipient and resources given by a resource provider, except for transfers of assets from government entities to business entities. The amendments in this update also provide guidance on how to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU has been applied retrospectively to all periods presented which has resulted in no change to net assets without donor restrictions.

Subsequent Events: The Foundation has evaluated subsequent events through June 13, 2019, the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Fair Value Measurements - The Foundation is subject to the provisions of ASC 820-10, *Fair Value Measurement*. ASC 820-10 defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. ASC 820 permits the Foundation, as a practical expedient, to estimate the fair value of certain investments based on NAV per share, or its equivalent, if the NAV of such investments is calculated in a manner consistent with the measurement principles of ASC 946, *Financial Services—Investment Companies* in arriving at their reported NAV.

ASC 820-10 also establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories.

NOTE 3 - INVESTMENTS (Continued)

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. This category includes active exchange traded money market funds, equity securities and U.S. Treasury securities.

Level II – Pricing inputs for assets held as collateral under securities lending programs and fixed income securities are other than quoted prices in active markets for identical instruments. Fair value for these investments is primarily determined using models or other valuation methodologies that utilize market prices of similar securities as inputs to determine fair value. These inputs are either directly or indirectly observable as of the reporting date.

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held securities with little to no market activity. Reported valuations of Level III securities may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The financial assets carried in the statements of financial position by level within the valuation hierarchy as of December 31, 2018, are as follows:

	Fair Value Measurements 2018				
	Level I	Level II	Level III	Other[1]	Total
Assets:					
Collateral under securities lending program:					
Cash fund	$ -	$ 13,134,776	$ -	$ -	$ 13,134,776
Non-cash	-	26,275,095	-	-	26,275,095
Total collateral under securities lending program	-	39,409,871	-	-	39,409,871
Short-term, fixed-income investments	-	68,563,822	-	-	68,563,822
Equity securities	173,373,399	-	1,440,409	440,292,113 [2]	615,105,921
Fixed-income securities	7,100,389	124,931,798	-	-	132,032,187
Alternative investments:					
Private investments	-	-	-	833,307,633	833,307,633
Multi-strategy investments	-	-	-	592,742,105	592,742,105
Total investments	180,473,788	193,495,620	1,440,409	1,866,341,851	2,241,751,668
Total assets	$ 180,473,788	$ 232,905,491	$ 1,440,409	$ 1,866,341,851	$ 2,281,161,539

[1] Investments using NAV as a practical expedient are not included in the fair value hierarchy.
[2] These investments represent holdings in commingled trust funds that invest primarily in U.S. and international equity securities. The Foundation's ability to redeem these investments ranges from daily to quarterly.

(Continued)

NOTE 3 – INVESTMENTS (continued)

The financial assets carried in the statements of financial position by level within the valuation hierarchy as of December 31, 2017, are as follows:

	Fair Value Measurements 2017				
	Level I	Level II	Level III	Other[1]	Total
Assets:					
Collateral under securities lending program:					
Cash fund	$ -	$ 23,458,755	$ -	$ -	$ 23,458,755
Non-cash	-	23,874,522	-	-	23,874,522
Total collateral under securities lending program	-	47,333,277	-	-	47,333,277
Short-term, fixed-income investments	-	37,981,384	-	-	37,981,384
Equity securities	271,467,311	-	402,388	472,340,891 [2]	744,210,590
Fixed-income securities	14,455,279	114,943,958	-	-	129,399,237
Alternative investments:					
Private investments	-	-	-	788,791,572	788,791,572
Multi-strategy investments	-	-	-	615,127,772	615,127,772
Total investments	285,922,590	152,925,342	402,388	1,876,260,235	2,315,510,555
Total assets	$ 285,922,590	$ 200,258,619	$ 402,388	$ 1,876,260,235	$ 2,362,843,832

At December 31, 2018 and 2017, the Foundation held a total of $1,440,409 and $402,388, respectively, in investments classified as Level III investments in equity securities, whose values have been estimated by the Foundation in the absence of readily ascertainable market values. These securities have been distributed to the Foundation by one of the Foundation's alternative investment funds. The Foundation's estimate of fair value is based on the fair value of the security on the date it was distributed to the Foundation. Management believes the distribution price approximates fair value.

Quantitative information regarding unobservable inputs used in determining fair value of certain investments classified as Level III as of December 31, 2018, is presented as follows:

Asset	Fair Value	Valuation Technique	Unobservable Input	Range
Equity securities	$ 1,440,409	Distribution price	Distribution price	N/A

Quantitative information regarding unobservable inputs used in determining fair value of certain investments classified as Level III as of December 31, 2017, is presented as follows:

Asset	Fair Value	Valuation Technique	Unobservable Input	Range
Equity securities	$ 402,388	Distribution price	Distribution price	N/A

[1] Investments using NAV as a practical expedient are not included in the fair value hierarchy.
[2] These investments represent holdings in commingled trust funds that invest primarily in U.S. and international equity securities. The Foundation's ability to redeem these investments ranges from daily to quarterly.

NOTE 3 – INVESTMENTS (Continued)

At December 31, 2018 and 2017, the Foundation held a total of $1,426,049,738 and $1,403,919,344, respectively, in investments in private equity funds, hedge funds, venture capital funds, multi-strategy portfolio and other alternatives, which are collectively referred to as “alternative investments”, whose values have been estimated by the Foundation in the absence of readily ascertainable market values. The Foundation’s estimate of fair value is generally based on the NAV provided to the Foundation by each alternative investment fund, supported by the independently audited financial statements of the alternative investment fund, when available. For those alternative investment funds for which independently audited financial statements in accordance with U.S. GAAP are not provided, the Foundation bases its estimate of fair value on the unaudited information calculated by the respective alternative investment fund’s management and reported to the Foundation.

Total realized and unrealized gains and losses recorded for Level III investments, if any, are reported in “Net realized and unrealized gains (losses) on investments” in both the statements of activities and changes in net assets and the statements of cash flows.

There were no significant transfers between Level I, Level II, and Level III of the fair value hierarchy during 2018 or 2017.

Alternative Investment Capital Contributions: The Foundation made capital contributions to alternative investments as called for by the investment agreements in 2018 and 2017, as follows:

Investment Strategies	2018	2017
Private investments	$ 94,460,670	$ 85,159,927
Multi-strategy investments	103,486,693	172,485,915
Total	$ 197,947,363	$ 257,645,842

NOTE 3 – INVESTMENTS (Continued)

Alternative Investment Strategy and Redemption Information**:** The investment strategy types, commitments to additional capital contributions, and various features of the alternative investment portfolio as of December 31, 2018, are as follows:

	Fair Value	Unfunded Commitments
Private investments (a)	$ 833,307,633	$ 274,282,142
Multi-strategy investments (b)	592,742,105	149,804,234
Total	$ 1,426,049,738	$ 424,086,376

(a) These funds invest in various public and private companies, both domestic and international and in U.S. and international commercial real estate, private debt and natural resources. These investments can never be redeemed. Rather, except for two funds, proceeds will be received when the funds' assets are liquidated. It is estimated that the underlying assets of all but those two funds will be liquidated over the next 1 - 12 years (by the year 2019 through 2030), including likely extension agreements. Of the two remaining funds, one extends until the year 2039 and the other indefinitely. One of these two funds resets every four years, at which time the Foundation can opt out with proper notice.

(b) These funds primarily invest both long and short in U.S. and international equity or credit securities, as well as in various timberland holdings, both domestic and international, along with other types of investments. Management of the hedge funds has the ability to shift investment strategies. Some of these investments contain withdrawal restrictions up to three years. Some of the funds in partnership formats do not allow for redemption. Rather, proceeds will be received when the funds' assets are liquidated. For the funds that are eligible for redemption, the redemption frequency varies from monthly to annually, with a required redemption notice period between 45 days and 180 days.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Office furniture and equipment	$ 1,403,300	$ 1,423,553
Leasehold improvements	3,038,235	2,984,102
Improvements in progress	1,485,178	69,477
Total	5,926,713	4,477,132
Accumulated depreciation and amortization	(3,208,743)	(2,863,979)
Property and equipment, net	$ 2,717,970	$ 1,613,153

NOTE 5 – GRANTS

The Foundation's grant activity for the years ended December 31, 2018 and 2017, is summarized as follows:

	2018	2017
Grants approved by the Board of Directors	$ 95,709,275	$ 90,943,023
(Deduct) add conditional grant activity and other:		
Conditional grants made	(2,500,000)	(575,000)
Conditions met on conditional grants made in current and prior years	720,000	445,000
Change in discounts on multi-year grants, net	(234,473)	(40,850)
Other	(777)	(19,835)
Matching gifts program	602,401	483,508
Conditional grant activity and other, net	(1,412,849)	292,823
Grant expense, net	$ 94,296,426	$ 91,235,846

Future minimum grant disbursements as of December 31, 2018, are scheduled as follows:

	Unconditional	Conditional
2019	$ 40,939,498	$ 1,530,000
2020	9,581,672	1,000,000
2021	50,000	-
Total	50,571,170	2,530,000
Less discounts on multi-year grants	(392,469)	-
Grants payable, net	$ 50,178,701	$ 2,530,000

(Continued)

NOTE 6 - LINE OF CREDIT

In June 2011, the Foundation obtained a $15,000,000 unsecured line of credit (the "Line") from a major commercial bank. The unsecured Line bears interest rates selected by the Foundation based on prime or London InterBank Offered Rate, as defined, as well as nonusage fees. The Line's expiration date was November 30, 2018 and was subject to standard renewal practices and covenants over financial reporting, liquidity, and customary corporate governance matters. The Foundation terminated the Line on August 31, 2018.

In June 2018, the Foundation entered into a $40,000,000 line of credit agreement with another major commercial bank. The new line bears interest rates calculated based on London InterBank Offered Rate Daily Floating Rate plus 0.4% as well as nonusage fees ranging from 0.15% to 0.25% depending on the outstanding funded balance. The revolving line expires in June 2019 and is subject to standard renewal practices and covenants over financial reporting, use of assets, and customary corporate governance matters.

Interest expense and nonusage fees totaled approximately $279,000 and $82,000 for the years ended December 31, 2018 and 2017, respectively. The outstanding balance of $17,000,000 and $10,000,000 at December 31, 2018 and 2017, respectively, is included in the statements of financial position.

NOTE 7 - EXCISE AND INCOME TAXES

In accordance with the applicable provisions of the Code, the Foundation is subject to an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on its net investment income, excluding unrealized gains, as defined, and is subject to corporate income tax rates on unrelated business income. The Foundation was subject to the 1% rate in 2018 and 2017. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula.

Deferred excise taxes arise primarily from unrealized gains on investments. At December 31, 2018, deferred federal excise tax is estimated at 2%, which is the maximum rate payable.

The provision for current and deferred federal excise and income taxes for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Current	$ 2,065,501	$ 2,454,334
Deferred	(60,000)	3,662,000
Excise and income tax expense	$ 2,005,501	$ 6,116,334

(Continued)

NOTE 8 - LEASE COMMITMENTS

The Foundation leases its facilities under long-term non-cancelable operating leases in San Francisco and Los Angeles which were executed in 2012 and 2009 and expire in 2023 and 2019, respectively. In 2018, the Foundation terminated its lease expiring in February 2019 and leased new office space in Los Angeles.

The Foundation elected the practical expedients allowed for in the transition guidance of FASB ASU 2017-02, which states the Foundation need not reassess whether existing or expired contracts contain a lease, whether existing leases are operating or financing; and need not reassess initial direct costs. The Foundation used a discount rate of 2.47% and 3.33% to compute the net present value of the remaining future minimum lease payments at the date of retrospective adoption, which was the risk free rate for the 10-year U.S. Treasury at the initial commencement date for the offices in San Francisco and Los Angeles, respectively. The Foundation has recorded a ROU asset of $6,258,079 and $3,999,129 as of December 31, 2018 and 2017, respectively. The Foundation has recorded a lease liability of $7,540,047 and $5,159,973 as of December 31, 2018 and 2017, respectively.

Approximate future minimum lease payments, subject to adjustments based on changes in real property taxes and maintenance expenses, as of December 31, 2018, are as follows:

Years Ending December 31,	Total
2019	$ 680,000
2020	1,375,000
2021	1,403,000
2022	1,431,000
2023	564,000
Thereafter	2,430,000
Total cash payments	7,883,000
Less: discounts	(343,000)
Lease liability for office lease	$ 7,540,000

Rental expense was approximately $1,285,000 and $1,212,000 in 2018 and 2017, respectively.

(Continued)

NOTE 9 – FUNCTIONAL EXPENSE ALLOCATIONS

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses, such as salaries and benefits, travel and meeting expense, depreciation and amortization, and rent, are allocated among supporting administrative expenses and program administrative expenses based on employee ratios and estimates of time and effort made by the Foundation's management.

	2018			
	Grantmaking Expense	Program Administrative	Supporting Administrative	Total
Salaries and benefits	$ -	$ 8,466,375	$ 1,007,703	$ 9,474,078
Professional services	-	1,270,645	171,806	1,442,451
Occupancy	-	928,624	232,156	1,160,780
Depreciation and amortization	-	294,376	73,594	367,970
Travel, conferences and meetings	-	811,810	103,092	914,902
Office expense	-	112,460	25,188	137,648
Information technology	-	387,205	106,823	494,028
Interest and nonusage fees	-	279,122	-	279,122
Other	-	148,915	69,641	218,556
Grants	90,888,700	-	-	90,888,700
Direct charitable activities	3,407,726	-	-	3,407,726
Total noninvestment expense	$ 94,296,426	$ 12,699,532	$ 1,790,003	$ 108,785,961

	2017			
	Grantmaking Expense	Program Administrative	Supporting Administrative	Total
Salaries and benefits	$ -	$ 8,476,115	$ 951,780	$ 9,427,895
Professional services	-	1,310,924	181,189	1,492,113
Occupancy	-	821,951	204,935	1,026,886
Depreciation and amortization	-	377,072	94,268	471,340
Travel, conferences and meetings	-	759,595	91,001	850,596
Office expense	-	96,679	22,175	118,854
Information Technology	-	451,790	148,031	599,821
Interest and nonusage fees	-	82,152	-	82,152
Other	-	184,326	66,431	250,757
Grants	88,291,098	-	-	88,291,098
Direct charitable activities	2,944,748	-	-	2,944,748
Total noninvestment expense	$ 91,235,846	$ 12,560,604	$ 1,759,810	$ 105,556,260

(Continued)

NOTE 10 - LIQUIDITY

The Foundation's financial assets available within one year of December 31, 2018 to meet general expenditures are approximately as follows:

Financial assets at year-end:	
Cash	$ 111,000
Receivable from sales/redemptions of investments	43,521,000
Interest and dividends receivable	1,361,000
Short-term, fixed-income investments	68,564,000
Equity, fixed-income and alternative investments	2,173,188,000
Other assets	318,000
Total financial assets	2,287,063,000
Less: amounts unavailable for general expenditures within one year:	
Subject to the Foundation's appropriations and spending policy	(125,000,000)
Redemption restrictions on alternative investments	(670,830,000)
Financial assets not available to be used within one year	(795,830,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,491,233,000

The Foundation structures its financial assets to be available for its general expenditures, grant disbursements and other operational obligations as they arise. The Foundation's financial assets of approximately $2.3 billion are subject to an annual spending policy of 5.5 percent and the appropriated expenditures are approved by the Board of Directors. In addition, the Foundation has an available line of credit of $40,000,000 (as further discussed in Note 6) to support the liquidity needs. The available financial assets also include cash and short-term investments such as marketable equity securities, fixed income instruments and redeemable private equity funds and real asset holdings.

NOTE 11 - SECURITIES LENDING

Through a securities lending program, managed by its investment custodian, the Foundation loans certain marketable securities included in its investment portfolio. The Foundation's investment custodian has indemnified the Foundation against the counterparty risk. The custodian's loan agreements require the borrowers to maintain collateral in the form of cash or securities equal to 102% to 105% of the fair value of the securities loaned. The Foundation maintains control over the collateral and continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Foundation. The Foundation has the right under the lending agreement to recover the securities from the borrower on demand. The principal risks to the Foundation of securities lending are that the yield earned on the collateral may be insufficient to cover the rebate owed to the borrower and that an investment purchased via the collateral reinvestment process may become impaired.

The value of securities on loan at December 31, 2018 and 2017, was approximately $37,202,000 and $45,636,000, respectively. The value of collateral received at December 31, 2018 and 2017, was approximately $39,410,000 and $47,333,000, respectively.