THE KAVLI FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2020 and 2021

INDEPENDENT AUDITORS' REPORT	**1**
MANAGEMENT'S DISCUSSION AND ANALYSIS	**4**
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	**8**
CONSOLIDATED STATEMENTS OF ACTIVITIES	**9**
CONSOLIDATED STATEMENTS OF CASH FLOWS	**10**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	**11**
SUPPLEMENTARY INFORMATION	
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CASH BASIS)	**26**

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Kavli Foundation
Los Angeles, California

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The Kavli Foundation (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Kavli Foundation as of December 31, 2021 and 2020, and the results of its operations and its 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 Consolidated Financial Statements section of our report. We are required to be independent of The Kavli 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 Consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated 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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Kavli Foundation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Kavli 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.

Other Information

Management is responsible for the other information included in the management discussion and analysis. The other information comprises the management discussion and analysis but does not include the basic consolidated financial statements and our auditors' report thereon. Our opinions on the basic consolidated financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated statement of functional expenses (cash basis) on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 26, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

The Kavli Foundation is advancing science for the benefit of humanity. We aspire to this vision through our mission to stimulate basic research in the fields of astrophysics, nanoscience, neuroscience, and theoretical physics; strengthen the relationship between science and society; and honor scientific discoveries with The Kavli Prize.

The year 2021 welcomed a new president of The Kavli Foundation, the third since its founding in 2000. During this period, and into early 2022, the foundation completed a strategic planning process, including an external review of the foundation in the last decade. The foundation continued to navigate through the second year of the global pandemic, maintaining a high-functioning staff and overall operations. Examples of The Kavli Foundation's continuing impact are summarized below.

SCIENCE

The Kavli Foundation continued to have an impact in its chosen fields in the physical and life sciences through endowing basic research at the 20 Kavli Institutes and maintaining active grantmaking programs. Notable achievements in 2021 include the introduction of the Kavli Institute for NanoScience Discovery at Oxford University, the fifth Kavli Institute in nanoscience and the seventh institute located outside the US. The foundation now endows 20 in total.

In addition to supporting research in astrophysics, nanoscience, neuroscience and theoretical physics at the institutes, The Kavli Foundation funds research programs in these fields. In astrophysics, the foundation partnered with Research Corporation to support the first of three Scialog® meetings on Signatures of Life in the Universe, bringing scientists together from multiple disciplines to collaborate on new and innovative projects to advance the understanding of exoplanet habitability and potentially provide insight into the origins of life. An outcome of each three-day conference is the selection of research projects that will receive grants to pursue innovative ideas in this field. In nanoscience, program funds supported the creation of a center in quantum biology and research topics in synthetic cell biology. In neuroscience, the foundation celebrated eight years of collaborating with and supporting the US BRAIN and International Brain Initiatives and will be adapting future support models for these endeavors. Additionally, The Kavli Foundation's support of the *Neurodata Without Borders* multi-organization program has resulted in creation of new data standards that are widely considered to be one of the driving forces behind a new age of 'big data' in neuroscience and will continue as part of the *Open Data in Neuroscience* program. The neuroscience program also launched a research theme to *Observe and Measure the Mind* and set forth plans to develop a scientific portfolio in 2022.

SCIENCE AND SOCIETY

There were two major endeavors for this program area in 2021. First was the launch of the Kavli Centers for Ethics, Science, and the Public, one at the University of California, Berkeley and one at the University of Cambridge. The primary focus of the centers is to address an as-yet unmet need within all of science: a proactive and sustained effort to connect scientists, ethicists, social scientists, science communicators, and the public to discuss potential impacts of scientific discoveries. The centers will be fully operational in 2022.

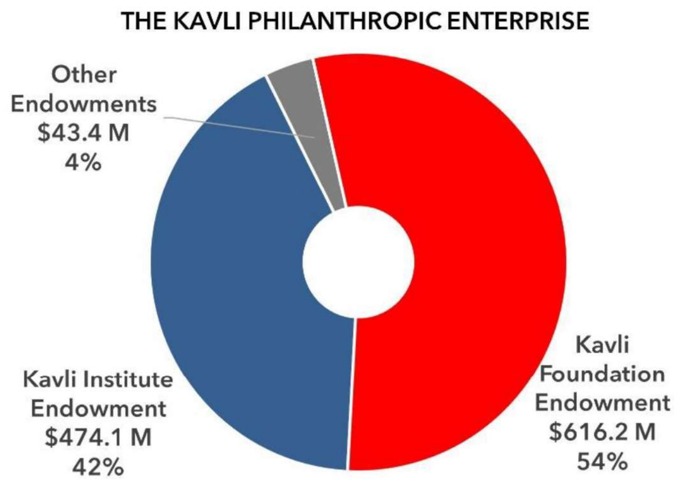
The second was the beginning of The Kavli Foundation and the Department of Energy's Office of Science collaboration, Science Public Engagement Partnership, or SciPEP, with the common interest to ensure that public engagement with basic science is supported, sustainable, and effective, and will empower scientists to have the necessary support to become effective communicators with the skills and resources necessary to actively engage the public. The SciPEP collaboration commissioned a landscape study by leading science communication scholars to survey the advances in science communication and public engagement with basic science. It showed that public engagement around basic science is neither well understood nor well studied and illuminated a conspicuous gap: public engagement with basic, curiosity-driven, or fundamental research is rarely the focus of public engagement and science communication community conversations. To begin addressing this gap, SciPEP organized a two-day virtual conference, *Communicating the Future: Engaging the Public in Basic Science* (July 27-28, 2021), where more than 1,200 attendees from 60 countries across six continents attended. SciPEP then released a "Prospectus: Charting the Course for Public Engagement with Basic Science" based on what was learned from the landscape studies and conference, outlining questions that necessitate more information about effective engagement with basic science that will serve as a strategic guide for future investments in this area.

THE KAVLI PRIZE

The Kavli Prize is awarded every two years (even-numbered years). In the odd-numbered years, the three partners (The Norwegian Academy of Science and Letters, The Norwegian Ministry of Education and Research and The Kavli Foundation), focus on the call for nominations and other aspects of The Kavli Prize, including activities with the current laureates and working closely with the selection committees for the next laureate awards and announcement. In 2021, there was a review of the call for nominations efforts and enhancements were implemented. Changes included more targeted and increased global outreach to the scientific community, updating communications about the nominations and the submissions processes, new and broader use of communications channels, and refining data capture and analysis. The prize partners also started initial preparations for the 2022 Kavli Prize Laureates announcement.

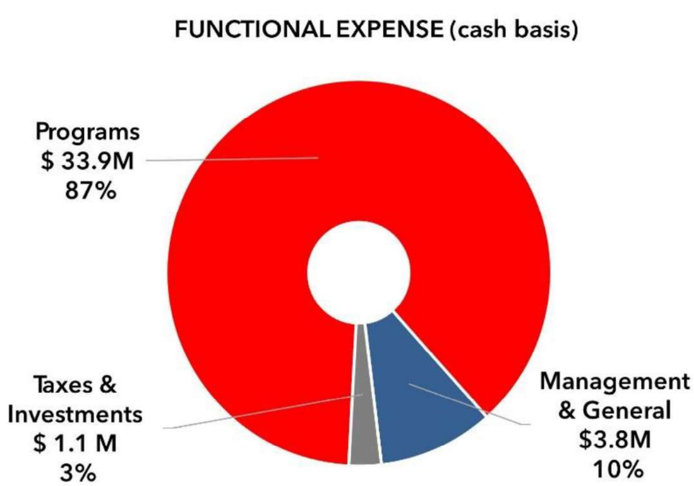
FINANCIALS

The Kavli Foundation continues to be on a solid financial basis with total assets of $673 million as of December 31, 2021. Over the years, The Kavli Foundation has strategically furthered its mission by transferring its endowment to partners.



The Kavli Philanthropic Enterprise, defined as Kavli Foundation endowment combined with endowments of 20 Kavli Institutes (academic calendar year ends June 30, 2021), and other endowed programs, has crossed the $1.1 billion mark. The Kavli Foundation's continuing financial support of Kavli Institutes are reflected mainly in the $64.8 million grant payables in the accompanying December 31, 2021, financial statements.

The accompanying financial statements are based on the accrual basis of accounting, where grant payables influence the calculation of grant expenses. The Kavli Foundation internally reviews cash funding using a functional expense methodology, presenting the information in three categories: programs, management and general, and taxes and investments. In 2021 The Kavli Foundation spent $38.7 million (cash basis) in the three functional areas. Programmatic spending (for both external giving and self-directed programs) totaled $33.9 million (87%), of which over $19.8 million went towards Kavli Institute endowments. Other expenses in 2021 were for management and general costs of $3.8 million (10%), and taxes and investments spent at $1.1 million (3%).



FACILITIES

The Kavli Foundation's facilities remained a significant and essential investment. There were ongoing improvements, such as repairs, upgrades, and enhancements to manage through the COVID-19 pandemic. Additionally, headquarters construction neared completion, increasing office space, and creating a state-of-the-art meeting facility with capabilities for in-person, virtual and hybrid mission-related convenings. The meeting space will be fully operational in 2022.

Enclosed are The Kavli Foundation's annual financial statements for the calendar years ending 2021 and 2020.

	2021	2020
ASSETS		
Cash and Cash Equivalents	$ 14,854,204	$ 10,902,135
Other Assets	2,670,383	3,237,244
Investments	609,307,865	582,911,235
Distributions Receivable	1,426,918	3,601,059
Bequests and Contributions Receivable	-	78,884
Real Estate Investments, Net	8,250,762	8,394,703
Property, Plant, and Equipment, Net	35,680,815	28,381,064
Total Assets	$ 672,190,947	$ 637,506,324
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,599,643	$ 1,560,527
Grants Payable, Net	64,815,118	58,106,101
Other Liabilities	1,620,495	1,231,105
Deferred Taxes	1,872,836	1,872,836
Construction Loan Payable	11,416,758	4,811,241
Tenant Security Deposits and Advance Payments	293,146	293,146
Total Liabilities	82,617,996	67,874,956
NET ASSETS		
Without Donor Restrictions	589,572,951	569,631,368
Total Liabilities and Net Assets	$ 672,190,947	$ 637,506,324

See accompanying Notes to Consolidated Financial Statements.

	2021	2020
REVENUES, GAINS, AND OTHER SUPPORT		
Investment Income, Net of Investment Expenses of $1,987,060 and $1,878,667, Respectively	$ 64,237,485	$ 6,913,114
Gain (Loss) on Sale of Assets	482,336	(560,434)
Rental and Other Income	1,185,876	1,194,341
Total Revenues, Gains, and Other Support	65,905,697	7,547,021
EXPENSES		
Direct Grant and Program Expenses	35,614,597	38,136,305
Salaries and Related Expenses	6,078,516	5,848,376
Rent and Occupancy	528,143	495,380
Travel and Related Expenses	47,940	107,876
Professional Fees	1,255,903	961,022
General and Administrative Expenses	1,329,773	1,121,001
Total Expenses	44,854,872	46,669,960
INCREASE (DECREASE) IN NET ASSETS BEFORE EXCISE TAXES	21,050,825	(39,122,939)
EXCISE AND DEFERRED TAXES	1,109,242	552,340
CHANGE IN NET ASSETS	19,941,583	(39,675,279)
Net Assets - Beginning of Year	569,631,368	609,306,647
NET ASSETS - END OF YEAR	$ 589,572,951	$ 569,631,368

See accompanying Notes to Consolidated Financial Statements.

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 19,941,583	$ (39,675,279)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	542,452	548,633
Net Realized and Unrealized Gain on Investments	(64,043,007)	(9,550,536)
Change in Discount on Grants Payable	3,224,873	3,224,873
(Gain) Loss on Sale of Assets	(3,950)	560,434
Changes in:		
Bequests and Contributions Receivable	78,884	209
Distributions Receivable	2,174,141	132,720,841
Other Assets	566,861	(794,155)
Accounts Payable and Accrued Expenses	1,039,116	739,774
Grants Payable	3,484,144	7,743,179
Other Liabilities	389,390	174,615
Net Cash Provided (Used) by Operating Activities	(32,605,513)	95,692,588
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(187,242,308)	(174,783,448)
Proceeds from Sales of Investments	224,892,635	69,157,359
Purchase of Property, Plant, and Equipment	(7,698,262)	(6,303,118)
Net Cash Provided (Used) by Investing Activities	29,952,065	(111,929,207)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Debt	6,605,517	4,811,241
Net Cash Provided by Financing Activities	6,605,517	4,811,241
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,952,069	(11,425,378)
Cash and Cash Equivalents - Beginning of Year	10,902,135	22,327,513
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 14,854,204	$ 10,902,135
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Taxes	$ 210,000	$ 400,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchases of Property and Equipment included in Accounts Payable	$ 1,878,489	$ 1,025,104

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Kavli Foundation (the Foundation), a California nonprofit public benefit corporation incorporated on December 6, 2000, is dedicated to advancing science for the benefit of humanity. The foundation aspires to this vision through its mission to stimulate basic research in the fields of astrophysics, nanoscience, neuroscience, and theoretical physics; strengthen the relationship between science and society; and honor scientific discoveries with The Kavli Prize.

The Foundation's philanthropic giving continues to have an impact in its chosen fields in the physical and life sciences through endowing basic research at the 20 Kavli Institutes and maintaining active grantmaking programs. In addition to supporting research in astrophysics, nanoscience, neuroscience and theoretical physics at the institutes, The Kavli Foundation funds research programs in these fields.

Through its Science and Society program the Foundation goes beyond fundamental research and focuses on ways to strengthen the relationship between science and society through collaborations with universities, academies and societies, philanthropies and more, working towards ensuring the people, processes and products of science contribute meaningfully to society.

In partnership with The Norwegian Academy of Science and Letters and the Norwegian Ministry of Education and Research, The Kavli Foundation honors scientists with The Kavli Prize for transformative discoveries in astrophysics, nanoscience, and neuroscience. This signature international award is given every two years by the Norwegian Academy.

These efforts are united through The Kavli Foundation's guiding principles, and a drive to identify promising ideas and catalyze opportunities that unlock the benefits of science and create lasting impact for science and society.

Basis of Consolidation

The Foundation is the sole member of the following entities. All activities of the entities have been consolidated with those of the Foundation for consolidated financial statement presentation.

- Ownership in Westland Enterprises, LLC, a Nevada limited liability company was transferred from the Fred Kavli Living Trust to the Foundation as of May 16, 2017. This entity holds cash.

- Ownership in Sunbelt Enterprises, LLC, a California limited liability company was transferred from the Fred Kavli Living Trust to the Foundation as of December 31, 2017. This entity holds cash and real estate.

- The Kavli Science and Education-Norway, LLC, a California limited liability company was established as a legal entity during 2018. This entity holds property in Norway used in programmatic activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting. Accounting principles generally accepted in the United States of America require that the Foundation report information regarding its financial position and activities according to two classes of net assets based on the existence and nature of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets without donor restrictions are not subject to donor-imposed stipulations. These net assets may be designated for specific purposes by actions of the board of directors (board). At December 31, 2021, all the Foundation's net assets are available for any purpose consistent with the Foundation's mission.

Net Assets With Donor Restrictions – Net assets with donor restrictions include contributions which are subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those stipulations, including those to be held in perpetuity, or that expire by the passage of time. At December 31, 2021 and 2020, the Foundation had no net assets with donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments having original maturities of three months or less, and exclude cash and cash equivalents held by investment custodians. At times, cash at financial institutions may exceed Federal Deposit Insurance Corporation (FDIC) limits.

Investments

Investments consisting of marketable securities and short-term investments are stated at fair value based on quoted market prices.

Alternative investments, as designated by the Foundation, consist of investments in limited partnerships and limited liability companies, or investments held in trust. The underlying assets in these alternative investments are a mixture of marketable securities, private equity, and real estate investments. These alternative investments have been designated as investments held at a net asset value (NAV), or its equivalent, and are presented as a reconciling item in the fair value note. Diversified investment funds and other investments consist of investments in limited partnerships and limited liability companies as well as a mixture of publicly traded debt and equity securities. These investments have been designated as investments held at a NAV, or its equivalent, and are presented as a reconciling item in the fair value note.

No readily available market exists for the Foundation's investments in limited partnerships and limited liability companies or held in trust. The value of investments designated as held at a NAV, or its equivalent, is determined by the general partners or trustees of the investment entities after considering pertinent factors, information, and data. Factors considered in the valuation of an individual investment include cost, price per share of the most recent major purchase of stock by a new investor, subsequent development in the investee company, market and financial conditions, liquidation preferences, and any

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

financial data or projections provided to the general partner or trustee by the investee company. For some alternative investments, the general partner or trustee has determined that historical cost is the best valuation method in absence of data necessary to estimate fair value. Because of the inherent uncertainty of valuation, the general partner's or trustee's estimate of values may differ from the values that would have been used had a ready market existed for the investments and the differences could be material.

Investment transactions are recorded on trade date for marketable securities and short-term investments. Realized gains and losses on the sale of marketable securities and short-term investments are recorded on the specific identification basis. Other investment realized gains and losses are recorded on the date of sale or disposition. Investment returns are reported as an increase or decrease in net assets without donor restrictions unless their use is restricted by explicit donor stipulation.

Cash and cash equivalents held in mutual funds or other investment vehicles are categorized as investments, and consist primarily of cash and money market mutual funds.

Distributions receivable presented at year-end are receivable from investment funds held for distributions recorded by the fund prior to year-end. All distributions receivable are expected to be received within one year of the financial statement date.

Real Estate Investments

Real estate investments are recorded at cost or, if donated, at the estimated fair market value at the date of the donation. The Foundation leases real property to others, and is held and shown as investments. Upon disposition of the buildings and equipment held for investments, any gains or losses are reflected in the consolidated statement of activities. Amounts expended for maintenance and repairs are charged to expense as incurred, and expenditures for major renewals and improvements are capitalized. Depreciation on buildings and equipment held for investment is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives in determining depreciation are 39 years for buildings and improvements and five years for equipment.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost or at the estimated fair market value at the date of receipt if donated. All costs in excess of $5,000 for items with a useful life greater than a year are capitalized. Upon disposition of property, plant, and equipment, the related costs and accumulated depreciation are removed from the accounts, and any gains or losses are reflected in the consolidated statements of activities. Amounts expended for maintenance and repairs are charged to expense as incurred, and expenditures for major renewals and improvements are capitalized. Depreciation on property, plant, and equipment is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful life used in determining depreciation for furniture, fixtures, and equipment is five to seven years. The estimated useful life in determining depreciation for buildings is 39.5 years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Payable

Grant commitments are recognized as liabilities and expenses in the year authorized by the Foundation's board and communicated to the grantee, unless the grant is considered conditional. Such conditional grants are recorded when the conditions have been satisfied.

Tax-Exempt Status

The Foundation is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and the California Revenue and Taxation Code Section 23701(d). It has been classified as an organization that is a private foundation under the IRC.

In 2021 and 2020, the Foundation was subject to a 1.39% excise tax on its taxable investment income, which principally includes income from investments plus net realized capital gains (net capital losses for a year, however, are not deductible and cannot be carried back or forward).

The Foundation is not aware of any uncertain tax positions requiring disclosure at December 31, 2021, or in years for which the tax statute is open.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Foundation measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Fair value measurement establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

Market price observability is impacted 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 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:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 are publicly traded securities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category are publicly traded equity securities with restrictions, as well as other securities with directly or indirectly observable inputs.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments is determined using valuation methodologies that consider a wide range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Subsequent to initial recognition, the Foundation may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. As of December 31, 2021, substantially all of the Foundation’s cash was generally maintained at Bank of America. Accounts at the financial institution are guaranteed by the FDIC up to $250,000.

The Foundation also maintains cash balances in money market funds in custodial accounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Risk

The Foundation investments are exposed to various uninsured risks, such as interest rate, market, and credit risk. The level of risk associated with certain investment securities and the level of uncertainty related to changes in risks in the near term would materially affect the Foundation's consolidated statements of financial position and the consolidated statements of activities.

Subsequent Events

The Foundation has evaluated events and transactions for potential recognition or disclosure in these consolidated financial statements through September 26, 2022, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY

As of December 31, 2021 and 2020, the Foundation has $359,764,215 and $350,623,646, respectively, of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditure. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the financial statement date. The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In addition, as part of its liquidity management, The Foundation invests cash in excess of daily requirements in various short-term investments, including certificates of deposits and short-term treasury instruments. The Foundation has the following financial assets, available within one year of the consolidated statement of financial position date, to meet cash needs for general expenditures at December 31:

	2021	2020
Cash	$ 45,934,121	$ 41,863,266
Bequest Receivable	-	78,884
Investments Available Within Twelve Months	312,403,176	305,080,437
Distributions Receivable	1,426,918	3,601,059
Total Financial Assets	$ 359,764,215	$ 350,623,646

NOTE 3 INVESTMENTS

The Foundation's investment portfolio consisted of the following at December 31:

	2021	2020
Cash and Equivalents	$ 17,853,228	$ 12,318,947
Domestic and International Equities	204,502,778	70,915,592
Corporate Bonds	49,886,739	-
International Equities Fund	40,160,440	35,864,603
Diversified Investment Fund	-	184,709,553
Alternative Investments	253,784,997	236,452,311
Investment in LLCs	43,119,683	42,650,229
Total Investments	$ 609,307,865	$ 582,911,235

None of these investments are held for trading purposes. The values of investments shown above are not necessarily indicative of the amounts the Foundation could realize in a current market exchange.

The investment goal of the Foundation is to maintain or grow its asset size and spending power with risk at a level appropriate to the Foundation's program objectives. The Foundation diversifies its investments among various consolidated financial instruments and asset categories, and uses multiple investment strategies. As a general practice, all financial assets of the Foundation are managed by external investment management firms selected by the Foundation. All financial assets of the Foundation are held in custody by commercial banks, except for assets invested with partnerships, which have separate arrangements related to their legal structure.

Alternative investments, including those listed as Diversified Investment Funds and Hedge Funds, comprised approximately 42% and 83% of the Foundation's investment portfolio at December 31, 2021 and 2020, respectively, and consist of private equity and real assets held in partnership or trust format. The Foundation has future investment commitments in several of the limited partnerships in which it is invested. The partnership agreements require investors, including the Foundation, to commit to certain capital call provisions. Under these provisions the Foundation is obligated upon the particular partnership's request to make further capital contributions.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Foundation's investments and total net assets balance could fluctuate materially.

Legal, tax, and regulatory changes could occur during the term of the Foundation's fund investments. The regulatory environment for private equity is evolving, and changes in the regulation of these funds may adversely affect the value of investments held by the Foundation. The Foundation believes that the effect of any future regulatory change on the Foundation's assets would likely not be substantial.

NOTE 3 INVESTMENTS (CONTINUED)

Investment in Consolidated LLCs

As noted in Note 1, the Foundation is the sole owner of three LLCs. Of these three, the Westland Enterprises, LLC and Sunbelt Enterprises, LLC are presented as investments in the consolidated statements of financial position. Summarized financial information for both Westland Enterprises, LLC and Sunbelt Enterprises, LLC as of and for the years ended December 31, is as follows:

	2021	2020
Cash and Cash Equivalents	$ 31,079,917	$ 30,961,131
Other Assets	$ -	$ (238,555)
Property Held for Sale	$ 12,039,767	$ 11,808,652
Accounts Payable and Other Liabilities	$ 116,695	$ 161,357
Revenues, Gains, and Losses	$ 476,467	$ (451,990)
Expenses	$ 81,905	$ 952,667
Net Income	$ 394,562	$ (1,404,657)

The property, plant, and equipment held by the LLCs are mainly land that is held for sale as of December 31, 2021 and 2020.

NOTE 4 FAIR VALUE MEASUREMENT

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities, refer to Note 1 – Summary of Significant Accounting Policies.

Fair value measurements of investments in certain entities that calculate NAV per share (or its equivalent) as of December 31, 2021 were:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Domestic and International Equities	$ 204,502,778	$ -	$ -	$ 204,502,778
Corporate Bond Funds	49,886,739	-	-	49,886,739
Total	$ 254,389,517	$ -	$ -	254,389,517
Cash and Equivalents				17,853,228
Investment in LLCs (Sunbelt and Westland)				43,119,683
Alternative Investments Held at NAV				293,945,437
Total Investments				$ 609,307,865

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

Fair value measurements of investments in certain entities that calculate NAV per share (or its equivalent) as of December 31, 2020 were:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Domestic and International Equities	$ 70,915,592	$ -	$ -	$ 70,915,592
Alternative Investment Funds	-	-	-	-
Total	$ 70,915,592	$ -	$ -	70,915,592
Cash and Equivalents				12,318,947
Investment in LLCs (Sunbelt and Westland)				42,650,229
Alternative Investments Held at NAV				457,026,467
Total Investments				$ 582,911,235

Fair value measurements of certain entities that calculate their NAV per share (or its equivalent) as of December 31, 2021:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity Funds (b)	$ 121,465,263	$ 61,994,203	N/A	N/A
Global Equity Funds (a)	53,800,176	3,481,689	N/A	N/A
Real Estate Funds (c)	34,669,857	24,334,521	N/A	N/A
Multi-Strategy (d)	40,160,440	-	Monthly	7 to 10 Days
Multi-Strategy (d)	43,849,701	6,034,860	Annually	120 Days to 1 Year

Fair value measurements of certain entities that calculate their NAV per share (or its equivalent) as of December 31, 2020:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity Funds (b)	$ 104,826,059	$ 58,375,307	N/A	N/A
Global Equity Funds (a)	61,042,635	13,586,567	N/A	N/A
Real Estate Funds (c)	25,861,843	20,077,438	N/A	N/A
Distressed Debt Funds (e)	1,271,741	-	Semi-Annually	18 Months (50%) and 3 Years (50%)
Multi-Strategy (d)	35,864,604	-	Monthly	7 to 10 Days
Multi-Strategy (d)	184,709,553	-	45 Days	30 Days
Multi-Strategy (d)	19,153,965	7,505,026	Annually	120 Days to 1 Year

Subsequent to year-end, additional commitments of $55 million to fund investments were made.

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

Inputs for these assets are unobservable, including inputs that are available in situations where there is little, if any, market activity for the related asset. These net asset value measurements are based primarily on estimates established through pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. Other significant inputs include most recently audited consolidated financial statements, tax returns, including K-1s, and performance reports.

(a) Global Equity Funds – Include public equity investments in U.S., developed, and emerging markets. Managers of these funds invest in growth, and/or value styles, and across capitalizations.

(b) Private Equity Funds – Investments in private equity are typically made through limited partnership structures and are illiquid in nature. Investments are typically made in unlisted companies (companies that are not traded on public exchanges) or, in some cases, listed companies are purchased and taken private. Private equity encompasses a broad array of strategies and securities. Buyout, growth equity, and venture capital strategies purchase equity in private companies at different stages of the company’s life cycle. Other strategies, such as mezzanine or special situations, will invest in debt, preferred equity, or other parts of a company’s capital structure. Investments may be in any sector of the economy or geography in the world, though funds will typically specialize in specific industries and regions.

(c) Real Estate Private Equity Funds – This asset class seeks to generate returns predominantly through the identification of undervalued or mispriced real estate assets or real estate-related companies. The exposure within this asset class would be expected to be predominantly long only exposure, and will generally be maintaining a long exposure to direct real estate assets or real estate-related companies. The exposure is obtained primarily through investments in long dated limited partnership vehicles and is considered illiquid.

(d) Multi-Strategy Funds – Consist of investments in various classes. Multi-Strategy Funds generally pursue long/short equity, credit focused, multi-strategy, arbitrage, and strategies of other means. They might also hold securities or other financial instruments for which a ready market exists.

(e) Distressed Debt Funds – Are investments in limited partnerships that generally seek to achieve capital appreciation through investments in debt securities and other obligations at substantial discounts to their intrinsic value.

NOTE 5 REAL ESTATE INVESTMENTS

Property and equipment held for long-term investment purposes are summarized by major classifications as follows at December 31:

	2021	2020
Land	$ 4,046,787	$ 4,046,787
Buildings and Structures	5,685,674	5,685,674
Total Real Estate Investments	9,732,461	9,732,461
Less: Accumulated Depreciation	(1,481,699)	(1,337,758)
Real Estate Investments, Net	$ 8,250,762	$ 8,394,703

The Foundation depreciates the carrying value of real estate over its expected useful life on a straight-line basis. The Foundation uses a useful life of 39.5 years. Depreciation expense for real estate investments was $143,941 and $143,295, for the years ended December 31, 2021 and 2020, respectively. The Foundation leases to tenants some of its investments in real estate property as part of operations.

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment for operations are summarized by major classifications as follows at December 31:

	2021	2020
Land	$ 10,845,403	$ 10,845,403
Building	10,388,529	10,388,529
Auto	-	62,445
Furniture and Fixtures	453,084	409,665
Equipment	498,439	490,671
Total Fixed Assets - Operations	22,185,455	22,196,713
Less: Accumulated Depreciation	(1,824,258)	(1,488,192)
Total Fixed Assets - Operations, Net	20,361,197	20,708,521
Construction in Progress	15,319,618	7,672,543
Property, Plant, and Equipment, Net	$ 35,680,815	$ 28,381,064

Depreciation expense for property, plant, and equipment was $336,066 and $439,068 for the years ended December 31, 2021 and 2020, respectively.

NOTE 7 GRANTS PAYABLE

Commitments to give (Grants Payable) are recorded after discounting them to the present value of estimated future cash outflows. A discount rate of 4% was used for the years ended December 31, 2021 and 2020.

Grants payable are due as follows at December 31:

	2021	2020
Due in One Year or Less	$ 14,414,573	$ 17,839,607
Due in Two to Eleven Years	61,627,992	49,131,676
Total Grants Payable	76,042,565	66,971,283
Less: Discount	(11,227,447)	(8,865,182)
Total Grants Payable, Net	$ 64,815,118	$ 58,106,101

The Foundation has entered into numerous contingent grant agreements to increase the endowment to certain existing Kavli Institutes. These agreements may require the universities involved to raise matching funds. Once the funds are raised, the Foundation typically has five years to fund its share of the matching contributions. The terms of each agreement have been evaluated to determine whether the payments to be made are contingent on matching requirements on the part of the University. If a grant is determined to be contingent in whole or in a portion, the liability is not recorded until the matching requirements have been met. The Foundation has contingent grant commitments of $25,164,327 to be paid in the future, as conditions are met.

NOTE 8 DEBT

In December 2019, the Foundation secured a credit facility from JP Morgan for a $17,000,000 unsecured construction financing loan for a planned addition at its main offices. This credit facility has a variable interest rate determined by the LIBOR reference rate or an alternative reference rate determined in 2022. The Foundation began to draw on this loan in 2020 and continued through 2021. Construction was completed during the first half of 2022. As of December 31, 2021 and 2020, balances outstanding were $11,416,758 and $4,811,241, respectively.

Subsequent to year-end, the Foundation secured a credit facility from Bank of America for $60,000,000, secured by a pledge agreement of certain assets of the Foundation with a maturity date of April 1, 2032. These funds were drawn in 2022 by the Foundation and the construction loan was refinanced through this draw at a fixed rate of 3.44%.

NOTE 9 LINE OF CREDIT

In March 2020, the Foundation secured a credit facility from JP Morgan for a $50 million unsecured revolving line of credit. In November 2021, the Foundation amended this agreement for more favorable terms. The adjusted agreement is for a $25 million committed unsecured revolving line of credit with a $25 million accordion. The line of credit has a variable interest rate which is the LIBOR reference rate or an alternative reference rate upon which the interest rate of Eurodollar loans is based. As of December 31, 2021, the Foundation had no outstanding balance on this line of credit.

NOTE 10 RELATED PARTY TRANSACTIONS

The Foundation's 401(k) plan trust funds are held in the same custodial account as the separate pension plan of the company owned by the founder's estate.

The Foundation invests a portion of the assets of The Kavli Charitable Trust, which is an affiliated entity, to allow for more diversified investment options for the Trust. Investment gains and losses are credited to The Kavli Charitable Trust's account annually. At December 31, 2021 and 2020, the balance payable to The Kavli Charitable Trust was $235,989 and $225,421, respectively. This balance is included in other liabilities on the consolidated statements of financial position, and will fluctuate as market returns are allocated to The Kavli Charitable Trust.

NOTE 11 NET ASSETS WITHOUT DONOR RESTRICTIONS

The Foundation's net assets include funds originally donated by the Foundation's founder. The board intends to preserve these funds into perpetuity for use in the Foundation's mission. The sufficiency of investment returns will determine the Foundation's ability to meet this goal.

NOTE 12 RENTAL OPERATIONS

The Foundation leases property to tenants in a commercial property subject to a noncancelable operating lease expiring in 2043. Future minimum rental incomes for the next five years, and thereafter in total, for existing operating leases without regard to cost of living or other increases at December 31 are as follows:

Year Ending December 31,	Amount
2022	$ 1,172,585
2023	1,172,585
2024	1,172,585
2025	1,172,585
2026	1,172,585
Thereafter	19,640,805
Total	$ 25,503,730

NOTE 12 RENTAL OPERATIONS (CONTINUED)

In addition to minimum rental payments, tenant pays their pro rata share of specified operating expenses, which are recorded as a receivable and reimbursed to the Foundation. Tenant paid approximately $136,137 for such expenses in the years ended December 31, 2021 and 2020.

NOTE 13 FUNCTIONAL EXPENSES

Functional expenses present expenses by function and natural classification. The Foundation provides grants and contracts to partners in addition to operating in-house programmatic activity such as salons and outreach programs, all of which are considered program expenses. The Foundation's grantmaking activities involving reviewing proposals, awarding, monitoring, and evaluating grants and the actual payment of grants have been allocated to the program activities functions. Running in-house direct programmatic activities includes planning, organizing, and producing activities that have been assigned to program services. Total direct grant and program expenses in 2021 on a cash basis was $28,898,373 while on an accrual basis reported below was $35,614,597. The increase in grants payable explains this variance.

All other administrative expenses related to managing the operations of the Foundation have been allocated to the management and general function. Certain categories of expenses that are incurred for the Foundation as a whole are attributable to one or more functions are allocated based on either management estimates of time and effort or building occupancy.

Expenses allocated by function consisted of the following for the years ending December 31:

	2021		
	Program Services	Management and General	Total
Direct Grant and Program Expenses	$ 35,614,597	$ -	$ 35,614,597
Salaries and Related Expenses	3,243,297	2,835,219	6,078,516
Occupancy	304,188	223,955	528,143
Travel and Related Expenses	6,649	41,291	47,940
Professional Fees	747,908	507,995	1,255,903
Office and Administration Expenses	749,092	580,681	1,329,773
Excise and Deferred Taxes	-	1,109,242	1,109,242
Total Functional Expenses	$ 40,665,731	$ 5,298,383	$ 45,964,114

NOTE 13 FUNCTIONAL EXPENSES (CONTINUED)

	2020		
	Program Services	Management and General	Total
Direct Grant and Program Expenses	$ 38,136,305	$ -	$ 38,136,305
Salaries and Related Expenses	4,127,015	1,721,361	5,848,376
Occupancy	329,253	166,127	495,380
Travel and Related Expenses	62,503	45,373	107,876
Professional Fees	659,785	301,237	961,022
Office and Administration Expenses	393,815	726,898	1,121,001
Excise and Deferred Taxes	-	552,340	552,340
Total Functional Expenses	$ 43,708,676	$ 3,513,336	$ 47,222,300

NOTE 14 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION

Federal excise taxes for the years ended December 31 consisted of the following:

	2021	2020
Provision:		
Current Expense	$ 1,109,242	$ 552,340
Current Refund	-	-
Deferred	-	-
Total	$ 1,109,242	$ 552,340
Liability:		
Current	$ -	$ -
Deferred	1,872,836	1,872,836
Total	$ 1,872,836	$ 1,872,836

Deferred federal excise taxes are based on a 1.39% tax rate that arise from unrealized appreciation in the market value of investments.

NOTE 15 BENEFIT PLAN

The Foundation has a qualified 401(k) plan (the Plan) which covers substantially all employees meeting certain eligibility requirements. Participants may contribute a portion of their compensation to the Plan, up to the maximum amount permitted by the IRC. The Foundation matches up to 100% of the first 13% of gross compensation during a given year, up to Internal Revenue Service (IRS) limits. The Foundation made required matching contributions for years ended December 31, 2021 and 2020. The Foundation made contributions to the Plan totaling $392,017 and $367,712 for the years ended December 31, 2021 and 2020, respectively.

DECEMBER 31, 2021 AND 2020

(UNAUDITED)

(SEE INDEPENDENT AUDITORS' REPORT)

	2021			
	Program Services	Management and General	Investments	Total
Direct Grant and Program Expenses	$ 28,898,373	$ -	$ -	$ 28,898,373
Salaries and Related Expenses	3,281,824	2,748,897	36,974	6,067,695
Occupancy	307,751	192,229	3,621	503,601
Travel and Related Expenses	6,928	34,096	(59)	40,965
Professional Fees	734,292	447,481	439,964	1,621,737
Office and Administration Expenses	683,080	328,373	312,599	1,324,052
Excise and Deferred Taxes	982	266,251	(8,988)	258,245
Total Functional Expenses	$ 33,913,230	$ 4,017,327	$ 784,111	$ 38,714,668

	2020			
	Program Services	Management and General	Investments	Total
Direct Grant and Program Expenses	$ 27,427,317	$ -	$ -	$ 27,427,317
Salaries and Related Expenses	4,096,277	1,762,546	105,090	5,963,913
Occupancy	333,067	184,538	32	517,637
Travel and Related Expenses	61,266	48,822	624	110,712
Professional Fees	695,566	332,406	825,031	1,853,003
Office and Administration Expenses	340,816	374,297	729,251	1,444,364
Excise and Deferred Taxes	-	552,284	-	552,284
Total Functional Expenses	$ 32,954,309	$ 3,254,893	$ 1,660,028	$ 37,869,230