

THE  
KAVLI  
FOUNDATION

---

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
Years Ended December 31, 2021 and 2022



THE KAVLI FOUNDATION | **TABLE OF CONTENTS**  
YEARS ENDED DECEMBER 31, 2022 AND 2021

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



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Kavli Foundation  
Los Angeles, California

### **Report on the Audit of 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, 2022 and 2021, 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, 2022 and 2021, 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 consolidated 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 consolidated 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
September 19, 2023



## MANAGEMENT DISCUSSION AND ANALYSIS

The Kavli Foundation’s aim is to advance 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 Kavli Foundation articulated an enhanced giving strategy in 2022, that has been fully implemented and is guided by the broad objectives of promoting innovation through strategic partnerships, especially with Kavli Institutes; pursuing new and impactful directions; diversifying the Kavli community; and establishing multi-year initiatives with potential for transformative impact. Operational improvements were made that strengthens the position of the foundation and focuses its strategy. The continuing impact of The Kavli Foundation is briefly summarized below.

## THE KAVLI PRIZE

[The Kavli Prize](#) is a prestigious international award recognizing breakthrough research in astrophysics, nanoscience, and neuroscience. The award is given every two years to scientists whose work has transformed understanding in these three fields. The Kavli Prize is a partnership among The Kavli Foundation, The Norwegian Academy of Science and Letters and The Norwegian Ministry of Education and Research. The Kavli Prize [announced](#) 11 Kavli Prize Laureates in 2022. [Celebrations](#) took place in person in Oslo, Norway (September 4-9) where both the 2022 and [2020 Kavli Prize Laureates](#) were honored by King Harald V. The 2020 celebrations had been postponed due to the global pandemic.

## KAVLI INSTITUTES

Scientists seek answers to fundamental questions in astrophysics, nanoscience, neuroscience, and theoretical physics at the [20 Kavli Institutes](#). The foundation shared [select research highlights](#) from these institutes in 2022 to illustrate their remarkable basic research. The Kavli Foundation continues to support the institutes through committed endowment funding and through a new program, the Kavli Institute Innovation Awards, that fund new research directions at select institutes using current use funds. Two substantial, multi-year innovation awards were approved in 2022 – one to Delft University in nanoscience for [“Quantum Materials for Broad-Band Quantum Transduction”](#) (announced in 2023) and another to MIT for “Science and Technology at Astronomy’s Frontier: the MIT Kavli Institute and the U.S. Extremely Large Telescope Program” (to be announced in 2023).

## SCIENCE

The foundation supports basic research in neuroscience, nanoscience, astrophysics, and theoretical physics. Below are highlights from activities in these fields.

### Astrophysics

#### *Signatures of Life in the Universe*

The Kavli Foundation's Physical Sciences program [continued support in 2022](#) for Scialog® Signatures of Life in the Universe. Co-sponsored by the Research Corporation of America and the Heising-Simons Foundation, the goal of the Scialog® series is to bring together scientists from multiple disciplines to collaborate on new and innovative projects to advance the understanding of exoplanet habitability, the origins of life, and its signatures in the universe. A second cohort of researchers were supported, and they began a two-year project titled Methylated Organometallic Gases as Potential Biosignatures. In 2022, the foundation further explored opportunities and partnerships to support interdisciplinary inquiry into the emergence of life and its place in the universe. A new partnership was being formed with the Laukien Foundation to create the [Kavli-Laukien Fellowships](#) (formally announced in 2023).

### Nanoscience

#### *Emerging Themes*

The foundation focused much of 2022 identifying new scientific themes that are ripe for exploration and support. Two emerging areas include [Frontiers of Quantum Materials](#) and [Nanoscience for Sustainability](#), and strategies were developed to launch grants in 2023. The thematic area of [Biological Nanoscience](#) sunsets in 2023, after successfully supporting exploration of areas including the [Synthetic Cell](#) project at Delft University, and new investigations in [Quantum Biology](#). We also continued our long-standing partnership with the American Chemical Society, with support of the [Kavli Lecture Series](#) (since 2016). The lecture series recognizes advances by scientists who tackle hard problems, and those who are breaking barriers as next-generation leaders.

### Neuroscience

In 2022, the life sciences team embarked on a new exploration in neuroscience research, [Neurobiology and Changing Ecosystems](#), and wrote [a review](#) exploring this emerging topic. Through its investigations, including a workshop and discussions with different scientists, the foundation identified an understudied opportunity: the impact of environmental variations on neural systems at the cellular, molecular and circuit levels. With its [Observe and Measure the Mind](#) theme, life sciences added a funding opportunity for early-career researchers with awards to scientists developing and utilizing new neuroscientific methods that rely on photonic technologies. In the [Open Data in Neuroscience](#) portfolio, a key activity introduced in 2022 involved the challenges with existing data governance, with foundation staff and grantees describing those in a review [published in Neuron](#).



## SCIENCE AND SOCIETY

The Kavli Centers for Ethics, Science, and the Public became fully operational in 2022, and collaborated with the foundation to establish an evaluation rubric for their five-year funding agreement. In the theme [Public Engagement with Basic Science](#), the focus was on a multifaceted year-long curriculum of virtual science communication and public engagement webinars and workshops, created based on interest from Kavli Institutes. The foundation also continued its collaboration with the Department of Energy for the Science Public Engagement Partnership, or [SciPEP, charting a path for public engagement in basic science](#). Finally, 2022 was our last full year supporting forums focused on the next 75 years of science policy in the U.S., with [symposium](#) held in partnership with the NAS and *Issues in Science and Technology* which [published](#) dozens of innovative proposals.

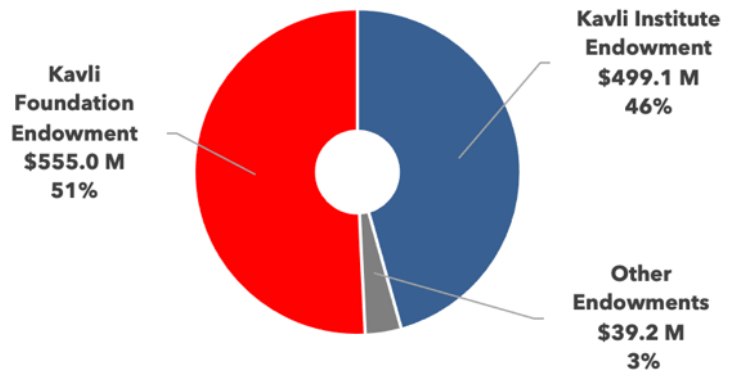
## FINANCIALS

The Kavli Foundation continues to be on a solid financial basis, with total assets of \$588 million as of December 21, 2022. Over the years, The Kavli Foundation has strategically furthered its mission by transferring its endowment to partners. Utilizing the historically low-interest rate environment in early 2022, the foundation financed \$60 million for two purposes to further our mission. First, \$46M million was used to accelerate grant payments to Kavli Institute endowments and fund 2022 annual mission spending. By advancing this funding sooner to the Kavli Institutes, we are capitalizing on our institutes. The remaining \$14 million (\$60 million less \$46 million) was used for the construction of the expanded headquarters facility, which includes a convening space.

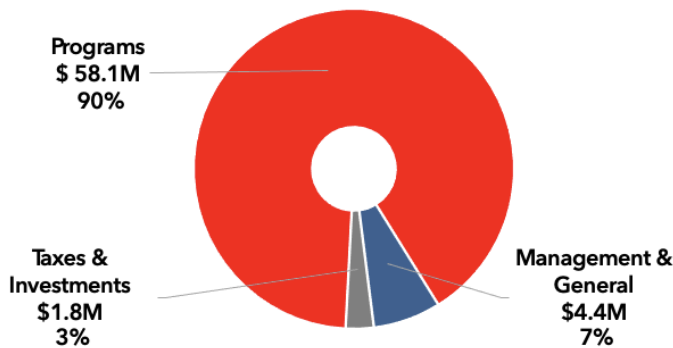
**The Kavli Philanthropic Enterprise**, defined as The Kavli Foundation endowment combined with endowments of 20 Kavli Institutes (academic calendar year ends June 30, 2022), and other endowed programs, is \$1.1 billion.

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.

### THE KAVLI PHILANTHROPIC ENTERPRISE



### FUNCTIONAL EXPENSE (cash basis)



In 2022 The Kavli Foundation spent \$64.4 million (cash basis) in the three functional areas. Programmatic spending (for both external giving and self-directed programs) totaled \$58.1 million, a record high since the foundation's inception, of which over \$38.9 million went towards Kavli Institute endowments. Other

expenses in 2022 were for management and general costs of \$4.4 million, and taxes and investments spent at \$1.8 million.



## FACILITIES

In 2022, The Kavli Foundation's facilities completed almost all construction of expanded office space and a state-of-the-art meeting facility for in-person, virtual, and hybrid mission-related convenings. We successfully hosted meetings in the latter part of 2022 and look forward to bringing our valued partners onsite with us in the future.

Enclosed are The Kavli Foundation's annual financial statements for the calendar years ending 2022 and 2021.



"The Kavli Foundation supports basic science because we believe in its long-range benefit to humanity. We are looking for benefits that may lie far into the future, benefits that may be hard to predict, but as we look at the past, the benefits of science have been proven over time. The fruits of research are not always immediate and are often not predictable. Often the benefits are the result of unpredictable outcomes of an exploration that was initially motivated purely by intellectual curiosity." – **Fred Kavli**

THE KAVLI FOUNDATION | **CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
DECEMBER 31, 2022 AND 2021

|   | 2022           | 2021           |
|---|----------------|----------------|
| <b>ASSETS</b>                                 |                |                |
| Cash and Cash Equivalents                     | \$ 7,062,866   | \$ 14,854,204  |
| Other Assets                                  | 2,589,796      | 2,670,383      |
| Investments                                   | 525,255,924    | 609,307,865    |
| Distributions Receivable                      | 678,212        | 1,426,918      |
| Investment Settlements Pending                | 8,155,815      | -              |
| Real Estate Investments, Net                  | 8,106,821      | 8,250,762      |
| Property, Plant, and Equipment, Net           | 36,478,153     | 35,680,815     |
| Total Assets                                  | \$ 588,327,587 | \$ 672,190,947 |
| <b>LIABILITIES AND NET ASSETS</b>             |                |                |
| <b>LIABILITIES</b>                            |                |                |
| Accounts Payable and Accrued Expenses         | \$ 705,971     | \$ 2,599,643   |
| Grants Payable, Net                           | 23,250,793     | 64,815,118     |
| Other Liabilities                             | 1,403,706      | 1,620,495      |
| Deferred Taxes                                | 1,247,836      | 1,872,836      |
| Structured Finance Debt                       | 60,000,000     | -              |
| Construction Loan Payable                     | -              | 11,416,758     |
| Tenant Security Deposits and Advance Payments | 293,146        | 293,146        |
| Total Liabilities                             | 86,901,452     | 82,617,996     |
| <b>NET ASSETS</b>                             |                |                |
| Without Donor Restrictions                    | 501,426,135    | 589,572,951    |
| Total Liabilities and Net Assets              | \$ 588,327,587 | \$ 672,190,947 |

See accompanying Notes to Consolidated Financial Statements.

THE KAVLI FOUNDATION | **CONSOLIDATED STATEMENTS OF ACTIVITIES**  
YEARS ENDED DECEMBER 31, 2022 AND 2021

|   | 2022            | 2021           |
|---|-----------------|----------------|
| <b>REVENUES, GAINS, LOSSES, AND OTHER SUPPORT</b>   |                 |                |
| Investment Gain (Loss), Net of Investment Expenses of \$1,865,604 and \$1,987,060, Respectively | \$ (67,678,929) | \$ 64,237,485  |
| Gain (Loss) on Sale of Assets   | (31,792)        | 482,336        |
| Rental and Other Income   | 1,187,993       | 1,185,876      |
| Total Revenues, Gains, Losses, and Other Support  | (66,522,728)    | 65,905,697     |
| <b>EXPENSES</b>   |                 |                |
| Direct Grant and Program Expenses   | 9,495,451       | 35,614,597     |
| Salaries and Related Expenses   | 6,538,612       | 6,078,516      |
| Rent and Occupancy  | 735,820         | 528,143        |
| Travel and Related Expenses   | 494,689         | 47,940         |
| Professional Fees   | 1,469,234       | 1,255,903      |
| General and Administrative Expenses   | 2,941,923       | 1,329,773      |
| Total Expenses  | 21,675,729      | 44,854,872     |
| <b>INCREASE (DECREASE) IN NET ASSETS BEFORE EXCISE TAXES</b>                                    | (88,198,457)    | 21,050,825     |
| <b>EXCISE AND DEFERRED TAXES (BENEFIT)</b>  | (51,641)        | 1,109,242      |
| <b>CHANGE IN NET ASSETS</b>   | (88,146,816)    | 19,941,583     |
| Net Assets - Beginning of Year  | 589,572,951     | 569,631,368    |
| <b>NET ASSETS - END OF YEAR</b>   | \$ 501,426,135  | \$ 589,572,951 |

See accompanying Notes to Consolidated Financial Statements.

THE KAVLI FOUNDATION | **CONSOLIDATED STATEMENTS OF CASH FLOWS**  
YEARS ENDED DECEMBER 31, 2022 AND 2021

|   | 2022            | 2021          |
|---|-----------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                 |               |
| Change in Net Assets  | \$ (88,146,816) | \$ 19,941,583 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities: |                 |               |
| Depreciation  | 532,138         | 542,452       |
| Net Realized and Unrealized (Gain) Loss on Investments                                  | 69,366,749      | (64,043,007)  |
| Change in Discount on Grants Payable  | 8,431,881       | 3,224,873     |
| (Gain) Loss on Sale of Assets   | 356,792         | (3,950)       |
| Changes in:   |                 |               |
| Bequests and Contributions Receivable   | -               | 78,884        |
| Distributions Receivable  | 748,706         | 2,174,141     |
| Other Assets  | 80,587          | 566,861       |
| Accounts Payable and Accrued Expenses   | (1,893,672)     | 1,039,116     |
| Grants Payable  | (49,996,206)    | 3,484,144     |
| Deferred Taxes  | (625,000)       | -             |
| Other Liabilities   | (216,789)       | 389,390       |
| Net Cash Used by Operating Activities   | (61,361,630)    | (32,605,513)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                 |               |
| Purchase of Investments   | (109,885,519)   | (187,242,308) |
| Proceeds from Sales of Investments  | 116,058,104     | 224,892,635   |
| Purchase of Property, Plant, and Equipment  | (1,185,535)     | (7,698,262)   |
| Net Cash Provided by Investing Activities   | 4,987,050       | 29,952,065    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                 |               |
| Proceeds from Loans and Structured Finance Debt   | 60,551,546      | 6,605,517     |
| Repayment of Loan Payable   | (11,968,304)    | -             |
| Net Cash Provided by Financing Activities   | 48,583,242      | 6,605,517     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                             | (7,791,338)     | 3,952,069     |
| Cash and Cash Equivalents - Beginning of Year   | 14,854,204      | 10,902,135    |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>  | \$ 7,062,866    | \$ 14,854,204 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                 |                 |               |
| Cash Paid for Taxes   | \$ 500,000      | \$ 210,000    |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>            |                 |               |
| Purchases of Property and Equipment included in Accounts Payable                        | \$ -            | \$ 1,878,489  |

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 (GAAP) 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, 2022, 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, 2022 and 2021, 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.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (Continued)**

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 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.

Investment settlements pending balances consist of capital calls funded prior to year-end but not yet settled with the fund manager as 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.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 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.

**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 December 31, 2022 and 2021, 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, 2022, or in years for which the tax statute is open.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP 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.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Financial Instruments (Continued)**

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, 2022, 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.

**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 19, 2023, the date the consolidated financial statements were available to be issued.

**NOTE 2 LIQUIDITY**

As of December 31, 2022 and 2021, the Foundation has \$308,660,077 and \$359,764,215, 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.

**NOTE 2 LIQUIDITY (CONTINUED)**

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:

|  | <u>2022</u>           | <u>2021</u>           |
|--|-----------------------|-----------------------|
| Cash                                       | \$ 52,076,899         | \$ 45,934,121         |
| Investments Available Within Twelve Months | 255,904,966           | 312,403,176           |
| Distributions Receivable                   | 678,212               | 1,426,918             |
| Total Financial Assets                     | <u>\$ 308,660,077</u> | <u>\$ 359,764,215</u> |

**NOTE 3 INVESTMENTS**

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

|                              | <u>2022</u>           | <u>2021</u>           |
|------------------------------|-----------------------|-----------------------|
| Cash and Equivalents         | \$ 37,231,031         | \$ 18,117,458         |
| Fixed Income                 | 59,392,324            | 49,886,739            |
| Public Equities              | 189,833,304           | 244,398,988           |
| Diversified Funds            | 2,947,006             | -                     |
| Private Equity               | 145,089,237           | 175,265,439           |
| Real Assets                  | 31,479,354            | 34,669,857            |
| Runoff and Other Investments | 38,137,523            | 43,849,701            |
| Investment in LLCs           | 21,146,145            | 43,119,683            |
| Total Investments            | <u>\$ 525,255,924</u> | <u>\$ 609,307,865</u> |

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.

**NOTE 3 INVESTMENTS (CONTINUED)**

Alternative investments, including those listed as diversified funds, private equity, real assets, and runoff & other investments, comprised approximately 41% and 48% of the Foundation's investment portfolio at December 31, 2022 and 2021, respectively, and consist of funds 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.

**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:

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
| Cash and Cash Equivalents              | <u>\$ 14,803,984</u> | <u>\$ 31,079,917</u> |
| Intercompany Receivable                | <u>\$ 22,000,000</u> | <u>\$ -</u>          |
| Property Held for Sale                 | <u>\$ 6,342,163</u>  | <u>\$ 12,039,767</u> |
| Accounts Payable and Other Liabilities | <u>\$ 215,120</u>    | <u>\$ 116,695</u>    |
| Revenues, Gains, and Losses            | <u>\$ 50,677</u>     | <u>\$ 476,467</u>    |
| Expenses                               | <u>\$ 121,634</u>    | <u>\$ 81,905</u>     |
| Net Income (Loss)                      | <u>\$ (70,957)</u>   | <u>\$ 394,562</u>    |

The property, plant, and equipment held by the LLCs are mainly land that is held for sale as of December 31, 2022 and 2021.



**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, 2022 were:

|   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                 |
|---|--|---|--|-----------------------|
| Public Equities                           | \$ 189,833,304   | \$ -  | \$ -   | \$ 189,833,304        |
| Fixed Income                              | -  | 59,392,324  | -  | 59,392,324            |
| Total                                     | <u>\$ 189,833,304</u>  | <u>\$ 59,392,324</u>                                      | <u>\$ -</u>  | <u>249,225,628</u>    |
| Cash and Equivalents                      |  |   |  | 37,231,031            |
| Investment in LLCs (Sunbelt and Westland) |  |   |  | 21,146,146            |
| Alternative Investments Held at NAV       |  |   |  | 217,653,119           |
| Total Investments                         |  |   |  | <u>\$ 525,255,924</u> |

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

|   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                 |
|---|--|---|--|-----------------------|
| Public Equities                           | \$ 204,238,548   | \$ -  | \$ -   | \$ 204,238,548        |
| Fixed Income                              | -  | 49,886,739  | -  | 49,886,739            |
| Total                                     | <u>\$ 204,238,548</u>  | <u>\$ 49,886,739</u>                                      | <u>\$ -</u>  | <u>254,125,287</u>    |
| Cash and Equivalents                      |  |   |  | 18,117,458            |
| Investment in LLCs (Sunbelt and Westland) |  |   |  | 43,119,683            |
| Alternative Investments Held at NAV       |  |   |  | 293,945,437           |
| Total Investments                         |  |   |  | <u>\$ 609,307,865</u> |

Fair value measurements of certain entities that calculate their NAV per share (or its equivalent) as of December 31, 2022:

|                          | Net<br>Asset Value | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
|--------------------------|--------------------|-------------------------|-------------------------|-----------------------------|
| Private Equity Funds (b) | \$ 110,056,601     | \$ 74,608,084           | N/A                     | N/A                         |
| Global Equity Funds (a)  | 60,585,366         | 28,204,619              | N/A                     | N/A                         |
| Real Estate Funds (c)    | 31,479,354         | 22,027,926              | N/A                     | N/A                         |
| Multi-Strategy (d)       | 15,531,798         | 4,143,209               | Annually                | 120 Days to 1 Year          |

**NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)**

Subsequent to year-end, additional commitments of \$10 million to fund investments were made.

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

|                          | Net<br>Asset Value | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>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          |

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.



**NOTE 5 REAL ESTATE INVESTMENTS**

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

|                                | 2022         | 2021         |
|--------------------------------|--------------|--------------|
| 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 | (1,625,640)  | (1,481,699)  |
| Real Estate Investments, Net   | \$ 8,106,821 | \$ 8,250,762 |

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 for both of the years ended December 31, 2022 and 2021, 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:

|                                      | 2022          | 2021          |
|--------------------------------------|---------------|---------------|
| Land                                 | \$ 10,845,403 | \$ 10,845,403 |
| Building                             | 10,388,529    | 10,388,529    |
| Furniture and Fixtures               | 453,084       | 453,084       |
| Equipment                            | 507,118       | 498,439       |
| Total Fixed Assets - Operations      | 22,194,134    | 22,185,455    |
| Less: Accumulated Depreciation       | (2,212,453)   | (1,824,258)   |
| Total Fixed Assets - Operations, Net | 19,981,681    | 20,361,197    |
| Construction in Progress             | 16,496,472    | 15,319,618    |
| Property, Plant, and Equipment, Net  | \$ 36,478,153 | \$ 35,680,815 |

Depreciation expense for property, plant, and equipment was \$388,197 and \$336,066 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021.

**NOTE 7 GRANTS PAYABLE (CONTINUED)**

Grants payable are due as follows at December 31:

|                            | 2022          | 2021          |
|----------------------------|---------------|---------------|
| Due in One Year or Less    | \$ 7,540,110  | \$ 14,414,573 |
| Due in Two to Eleven Years | 18,506,249    | 61,627,992    |
| Total Grants Payable       | 26,046,359    | 76,042,565    |
| Less: Discount             | (2,795,566)   | (11,227,447)  |
| Total Grants Payable, Net  | \$ 23,250,793 | \$ 64,815,118 |

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 \$23,994,491 to be paid in the future, as conditions are met.

**NOTE 8 DEBT**

In December 2019, the Foundation secured a credit facility for a \$17,000,000 unsecured construction financing loan for a planned addition at its main offices. This loan 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. This loan was paid in full in 2022. As of December 31, 2022 and 2021, balances outstanding were \$-0- and \$11,416,758, respectively.

In 2022, the Foundation secured a credit facility for \$60,000,000 structured finance debt, secured by a pledge agreement of certain assets of the Foundation. Taking advantage of the historically low interest rate environment, the \$60 million line of credit was drawn in 2022 and utilized for two purposes. First, to refinance the construction loan and second, to accelerate grant payments advancing research initiatives. This structured finance debt requires interest-only payments on funds drawn, with the full principal balance due at the maturity date of April 1, 2032. As of December 31, 2022 and 2021, balances outstanding were \$60,000,000 and \$-0-, respectively.

**NOTE 9 LINE OF CREDIT**

In March 2020, the Foundation secured a credit facility 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. With the forthcoming publication of LIBOR tenors ceasing to exist, in 2023 the Foundation and bank agreed to a market replacement of using SOFR, which is consistent with industry-wide practices. As of December 31, 2022, 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, 2022 and 2021, the balance payable to The Kavli Charitable Trust was \$200,742 and \$235,989, 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:

| <u>Year Ending December 31,</u> | <u>Amount</u>        |
|---------------------------------|----------------------|
| 2023                            | \$ 1,172,585         |
| 2024                            | 1,172,585            |
| 2025                            | 1,172,585            |
| 2026                            | 1,172,585            |
| 2027                            | 1,172,585            |
| Thereafter                      | 18,468,220           |
| Total                           | <u>\$ 24,331,145</u> |

**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 \$135,696 for such expenses in the years ended December 31, 2022 and 2021.

**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 2022 on a cash basis was \$50,921,029 while on an accrual basis reported below was \$9,495,451.

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 ended December 31:

|                                     | 2022                 |                           |                      |
|-------------------------------------|----------------------|---------------------------|----------------------|
|                                     | Program<br>Services  | Management<br>and General | Total                |
| Direct Grant and Program Expenses   | \$ 9,495,451         | \$ -                      | \$ 9,495,451         |
| Salaries and Related Expenses       | 3,816,883            | 2,721,729                 | 6,538,612            |
| Occupancy                           | 476,074              | 259,746                   | 735,820              |
| Travel and Related Expenses         | 180,866              | 313,823                   | 494,689              |
| Professional Fees                   | 904,951              | 564,283                   | 1,469,234            |
| Office and Administration Expenses  | 2,003,686            | 938,237                   | 2,941,923            |
| Excise and Deferred Taxes (Benefit) | -                    | (51,641)                  | (51,641)             |
| Total Functional Expenses           | <u>\$ 16,877,911</u> | <u>\$ 4,746,177</u>       | <u>\$ 21,624,088</u> |
|                                     | 2021                 |                           |                      |
|                                     | Program<br>Services  | Management<br>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           | <u>\$ 40,665,731</u> | <u>\$ 5,298,383</u>       | <u>\$ 45,964,114</u> |

**NOTE 14 FEDERAL EXCISE TAXES AND UBIT DISTRIBUTION REQUIREMENTS AND PROVISION**

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

|                 | <u>2022</u>         | <u>2021</u>         |
|-----------------|---------------------|---------------------|
| Provision:      |                     |                     |
| Current Expense | \$ 1,024,182        | \$ 1,109,242        |
| Current Refund  | (450,823)           | -                   |
| Deferred        | (625,000)           | -                   |
| Total           | <u>\$ (51,641)</u>  | <u>\$ 1,109,242</u> |
| Liability:      |                     |                     |
| Current         | \$ -                | \$ -                |
| Deferred        | 1,247,836           | 1,872,836           |
| Total           | <u>\$ 1,247,836</u> | <u>\$ 1,872,836</u> |

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, 2022 and 2021. The Foundation made contributions to the Plan totaling \$413,344 and \$392,017 for the years ended December 31, 2022 and 2021, respectively.

THE KAVLI FOUNDATION | CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CASH BASIS)

DECEMBER 31, 2022 AND 2021

(UNAUDITED)

(SEE INDEPENDENT AUDITORS' REPORT)

|                               | 2022                 |                        |                     |                      |
|-------------------------------|----------------------|------------------------|---------------------|----------------------|
|                               | Program Services     | Management and General | Investments         | Total                |
| Direct Grant and              |                      |                        |                     |                      |
| Program Expenses              | \$ 50,921,030        | \$ -                   | \$ -                | \$ 50,921,030        |
| Salaries and Related Expenses | 3,877,776            | 2,707,384              | 53,105              | 6,638,265            |
| Occupancy                     | 474,036              | 269,127                | 56                  | 743,219              |
| Travel and Related Expenses   | 178,938              | 304,068                | 163                 | 483,169              |
| Professional Fees             | 941,524              | 586,450                | 948,416             | 2,476,390            |
| Office and                    |                      |                        |                     |                      |
| Administration Expenses       | 1,732,231            | 537,382                | 245,757             | 2,515,370            |
| Excise and Deferred Taxes     | 778                  | 565,871                | 7,700               | 574,349              |
| Total Functional Expenses     | <u>\$ 58,126,313</u> | <u>\$ 4,970,282</u>    | <u>\$ 1,255,197</u> | <u>\$ 64,351,792</u> |
|                               |                      |                        |                     |                      |
|                               | 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     | <u>\$ 33,913,230</u> | <u>\$ 4,017,327</u>    | <u>\$ 784,111</u>   | <u>\$ 38,714,668</u> |