

*Financial Statements and
Independent Auditors' Report*

THE NICHOLAS ENDOWMENT



As of and for the Years Ended December 31, 2020 and 2019

THE NICHOLAS ENDOWMENT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Nicholas Endowment

We have audited the accompanying financial statements of The Nicholas Endowment (the "Endowment"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Nicholas Endowment as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Haskell & White LLP

HASKELL & WHITE LLP

Irvine, California
November 19, 2021

THE NICHOLAS ENDOWMENT

**Statements of Financial Position
As of December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Assets		
Cash and cash equivalents	\$ 833,789	\$ 780,128
Investments (Notes 1 and 3)	<u>43,022,097</u>	<u>40,074,264</u>
Total assets	<u><u>\$ 43,855,886</u></u>	<u><u>\$ 40,854,392</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 21,483	\$ -
Federal excise tax liabilities	<u>144,156</u>	<u>90,829</u>
Total liabilities	<u>165,639</u>	<u>90,829</u>
Net Assets Without Donor Restrictions	<u>43,690,247</u>	<u>40,763,563</u>
Total liabilities and net assets	<u><u>\$ 43,855,886</u></u>	<u><u>\$ 40,854,392</u></u>

See accompanying notes to financial statements.

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Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Investment income:		
Investment income, net (Note 3)	\$ 4,972,662	\$ 6,953,360
Federal excise tax provision	<u>(70,328)</u>	<u>(44,069)</u>
Total net investment income	<u>4,902,334</u>	<u>6,909,291</u>
Expenses:		
Grants awarded (Note 1)	1,854,920	1,920,400
General and administrative	<u>120,730</u>	<u>113,985</u>
Total expenses	<u>1,975,650</u>	<u>2,034,385</u>
Change in net assets	2,926,684	4,874,906
Net assets, beginning of year	<u>40,763,563</u>	<u>35,888,657</u>
Net assets, end of year	<u>\$ 43,690,247</u>	<u>\$ 40,763,563</u>

See accompanying notes to financial statements.

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**Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019**

	2020		
	Programs	Management and General	Total
Grants awarded	\$ 1,854,920	\$ -	\$ 1,854,920
Compensation of officers	-	71,020	71,020
Accounting	-	35,994	35,994
Other administrative expenses	-	13,716	13,716
	Total expenses by function	\$ 120,730	\$ 1,975,650
	\$ 1,854,920	\$ 120,730	\$ 1,975,650
	2019		
	Programs	Management and General	Total
Grants awarded	\$ 1,920,400	\$ -	\$ 1,920,400
Compensation of officers	-	62,288	62,288
Accounting	-	35,484	35,484
Other administrative expenses	-	16,213	16,213
	Total expenses by function	\$ 113,985	\$ 2,034,385
	\$ 1,920,400	\$ 113,985	\$ 2,034,385

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

**Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 2,926,684	\$ 4,874,906
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(4,506,041)	(6,012,773)
Changes in liabilities:		
Accounts payable	21,483	-
Federal excise tax liabilities	53,327	23,069
	(1,504,547)	(1,114,798)
Cash flows from investing activities		
Proceeds from sales of investments and return of capital	6,734,647	12,781,831
Purchases of investments	(5,176,439)	(11,525,533)
	1,558,208	1,256,298
Net change in cash and cash equivalents	53,661	141,500
Cash and cash equivalents at beginning of year	780,128	638,628
Cash and cash equivalents at end of year	\$ 833,789	\$ 780,128
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid during the year for federal excise taxes	\$ 32,500	\$ 21,000

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

Notes to Financial Statements December 31, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Nicholas Endowment (the “Endowment”) was established in 2002 to provide a perpetual base of funding to supported organizations and charities. The Endowment awards grants in the areas of science and education, performing and visual arts, and other selected causes. The Internal Revenue Service has determined that the Endowment is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (“IRC”). It remains a private foundation subject to federal excise tax on net investment income.

Effective January 1, 2011, the Endowment converted from a public charity to a private foundation. With this conversion, the minimum distribution of assets is based upon an assessment of the endowment value at the end of each year. Management believes that the Endowment was in compliance with the minimum distribution requirement for each of the years ended December 31, 2020 and 2019.

Basis of Presentation

The Endowment prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Under applicable standards, the net assets of the Endowment are considered to be without donor restrictions.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and gains, and expenses and losses. Such estimates primarily relate to fair value of investments that do not have readily determinable market values and unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash and cash equivalents may include, bank checking accounts, money market funds and highly-liquid debt instruments with maturities of three months or less when purchased.

THE NICHOLAS ENDOWMENT

Notes to Financial Statements (continued) December 31, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at fair value in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958, *Not for Profit Entities*. Fair value is determined using the closing prices for investments traded on any global stock exchange or quoted market prices based on the net asset value of shares held by the Endowment. The Endowment utilizes a practical expedient for the estimation of the fair value of investments in limited partnerships and similar interest with no readily determinable fair value. The practical expedient used by the Endowment to value private investments is the net asset value (“NAV”) per share, or its equivalent, provided by the related investment fund manager.

The ultimate liquidation of alternative investments is restricted to certain time periods and is generally limited to sales to the fund manager or distributions from the fund. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a readily available market for the securities existed and the differences could be material.

Investments are exposed to various risks such as significant world events, global economic performance, interest rates, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statements of financial position.

Grants

Grant expense is recognized in the period the grant is approved by the Board of Trustees, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2020 and 2019, the Endowment had no grants payable in future periods. For the years ended December 31, 2020 and 2019, grant expenses totaled \$1,854,920 and \$1,920,400, respectively.

THE NICHOLAS ENDOWMENT

Notes to Financial Statements (continued) December 31, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Taxes

Through December 31, 2019, the Endowment was subject to federal excise taxes imposed on private foundations at 2% of net investment income, or at 1% if certain conditions are met. The Further Consolidated Appropriations Act, 2020 simplified the private foundation excise tax on net investment income by replacing the two-tier rate system (1% and 2%) with a flat rate of 1.39%, effective January 1, 2020. The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on the sale of investments. The Endowment provided for excise taxes at the 1.39% and 1% excise tax rates for the years ended December 31, 2020 and 2019, respectively.

The deferred provision for federal excise tax on cumulative net unrealized gains is based on a 1.39% rate for each of the years ended December 31, 2020 and 2019. As of December 31, 2020, the Endowment has an estimated deferred excise tax liability of \$144,198 and a current excise tax receivable of \$42. As of December 31, 2019, the Endowment has an estimated deferred excise tax liability of \$89,174 and a current excise tax payable of \$1,655.

The Endowment determines whether its tax positions are “more likely than not” to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2020 and 2019, the Endowment has analyzed its significant tax positions for all open tax years (in each respective jurisdiction) and has concluded that no reserve for uncertain tax positions is required.

COVID-19

In March 2020, the World Health Organization classified the novel coronavirus (“COVID-19”) outbreak as a pandemic, triggering volatility in financial markets and negatively impacting the global economy. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Because the values of the Endowment’s individual investments have and will fluctuate in response to changing market conditions, the amount of losses that may occur in subsequent periods, if any, cannot be determined.

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Notes to Financial Statements (continued) December 31, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued guidance regarding leases, which requires lessees to recognize on the balance sheet a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. The guidance is effective for the Endowment in 2022. As the Endowment presently has no lease contracts, management does not expect this guidance to significantly impact the accompanying financial statements.

Subsequent Events

Events occurring subsequent to year end have been evaluated for possible adjustment to the financial statements or disclosure through November 19, 2021, which is the date the financial statements were available to be issued.

2. Availability and Liquidity

The Endowment regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. The Endowment has various sources of liquidity at its disposal that are not subject to donor or other contractual restrictions, including cash and debt, equity and real asset securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Endowment considers all potential expenditures related to its ongoing activities of grantmaking, policy advocacy and capital commitments for alternative investments.

In addition to financial assets available to meet general expenditures over the next 12 months, the Endowment expects it will have access to dividend and interest proceeds and any capital gains generated from short-term and long-term investment transactions, all of which could contribute to the funding of general expenditures.

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Notes to Financial Statements (continued) December 31, 2020 and 2019

2. Availability and Liquidity (continued)

The following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures as of December 31, 2020 and 2019.

	2020	2019
Cash and cash equivalents	\$ 833,789	\$ 780,128
Equity securities	22,536,436	21,871,270
Fixed income investments	7,550,117	6,482,880
Real asset funds	1,755,371	1,688,287
	32,675,713	30,822,565
Less: cash held in alternative investments	(68,090)	(67,776)
	\$ 32,607,623	\$ 30,754,789

For purposes of this liquidity disclosure, management has assumed that hedge funds and private equity investments could not be made available within one year for general expenditures. As described in Note 3, the Endowment has capital commitments to various investment funds that have been excluded from the amounts presented above.

3. Investments

Investment Composition

The Endowment's investments as of December 31, 2020 and 2019 are comprised of the following:

	2020	2019
United States equities	\$ 11,169,612	\$ 11,268,261
Non-United States equities	11,366,824	10,603,009
Fixed income investments	7,550,117	6,482,880
Real asset funds	1,755,371	1,688,287
Hedge funds	7,169,844	6,446,780
Private equity	4,010,329	3,585,047
	\$ 43,022,097	\$ 40,074,264

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Notes to Financial Statements (continued) December 31, 2020 and 2019

3. Investments (continued)

Fair Value Measurements

Fair value is defined as the price that the Endowment would receive to sell an asset, or pay to transfer a liability, in an orderly transaction between market participants at the measurement date. The Endowment utilizes 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 Endowment's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The three-tier hierarchy of inputs is summarized below.

Level 1 - inputs are quoted prices in active markets.

Level 2 - inputs are observable, directly or indirectly; fair value is primarily determined using models or other valuation methodologies that utilize market prices of similar securities as inputs to determine fair value.

Level 3 - inputs are unobservable and include situations where there is little, if any, market activity.

ASC Topic 820 permits the estimation of the fair value of an investment using net asset value per share (or its equivalent) for certain investments that do not have readily determinable fair values. The inputs to value these investments may include the Endowment's capital accounts for its partnership interests in various alternative investments, including hedge funds and private equity. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information from third-party sources, including independent appraisals. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuation that may be used as an input to value these investments. As disclosed in Note 1, these investments are measured at fair value using NAV (or its equivalent) as a practical expedient and are not included in the fair value hierarchy.

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Notes to Financial Statements (continued) December 31, 2020 and 2019

3. Investments (continued)

Fair Value Measurements (continued)

Fair Value Measurements at December 31, 2020					
	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Equities	\$ 22,536,436	\$ -	\$ -	\$ -	\$ 22,536,436
Fixed income investments	7,550,117	-	-	-	7,550,117
Real asset funds	1,755,371	-	-	-	1,755,371
Hedge funds	-	-	-	7,169,844	7,169,844
Private equity	-	-	-	4,010,329	4,010,329
	\$ 31,841,924	\$ -	\$ -	\$ 11,180,173	\$ 43,022,097

Fair Value Measurements at December 31, 2019					
	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Equities	\$ 21,871,270	\$ -	\$ -	\$ -	\$ 21,871,270
Fixed income investments	6,482,880	-	-	-	6,482,880
Real asset funds	1,688,287	-	-	-	1,688,287
Hedge funds	-	-	-	6,446,780	6,446,780
Private equity	-	-	-	3,585,047	3,585,047
	\$ 30,042,437	\$ -	\$ -	\$ 10,031,827	\$ 40,074,264

The fair value of equities, fixed income securities and real asset funds is based on quoted prices in active markets.

Investment income is as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Interest, dividends, and mutual fund distributions	620,622	945,368
Operating income from partnerships	62,160	110,779
Net realized gains on investments sold	614,000	3,002,742
Net unrealized gains on investments	3,892,041	3,010,031
	5,188,823	7,068,920
Investment management fees	(216,161)	(115,560)
	\$ 4,972,662	\$ 6,953,360

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Notes to Financial Statements (continued) December 31, 2020 and 2019

3. Investments (continued)

Risks and Uncertainties

The Endowment maintains its cash, cash equivalents, and a significant portion of its investments with high-credit quality financial institutions. At times, balances in these accounts exceed the Federal Deposit Insurance Corporation insurance limit of \$250,000 or the Securities Investor Protection Corporation insurance limit of \$500,000.

To monitor the market risk of investments, the Endowment maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performances. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment alternatives. In addition, an investment consultant is utilized to help oversee the performance of the investment portfolio and the achievement of investment objectives. The Endowment also has custody agreements with selected banks, which process disbursements at the direction of authorized staff and the board of trustees.

The Endowment's holdings in hedge fund and private equity limited partnerships entail liquidity risk, as there is no readily available market for investments in limited partnerships. The underlying investments held within these partnerships are generally in privately held companies. There is no readily available market for such privately held companies, and investments in those may be subject to legal restrictions on transfer. As a result, there is no assurance that the Endowment will be able to realize liquidity for such investments in a specified time frame or in an amount equal to the amounts reported in these financial statements.

Investment Commitments

At December 31, 2020 and 2019, the Endowment had commitments to contribute additional capital to various investments of \$2,406,069 and \$2,507,051, respectively.

4. Related Party Transactions

The Endowment has a conflict of interest policy which covers relationships with trustees. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that trustees may continue to serve the Endowment through their professional knowledge and expertise. Additionally, the policy requires a trustee to recuse him/herself from voting on matters when a potential conflict of interest may exist.

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Notes to Financial Statements (continued) December 31, 2020 and 2019

4. Related Party Transactions (continued)

The Endowment has, and may continue to have, trustees who are employed by organizations that are supported by the Endowment. Total grants given to these organizations totaled \$190,000 and \$154,000 for the years ended December 31, 2020 and 2019, respectively.