

*Financial Statements and
Independent Auditors' Report*

THE NICHOLAS ENDOWMENT



As of and for the Years Ended December 31, 2021 and 2020

THE NICHOLAS ENDOWMENT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Nicholas Endowment

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Endowment as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Endowment and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Endowment'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.

Haskell & White LLP

HASKELL & WHITE LLP

Irvine, California
November 16, 2022

THE NICHOLAS ENDOWMENT

**Statements of Financial Position
As of December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Assets		
Cash and cash equivalents	\$ 1,019,099	\$ 833,789
Investments (Notes 1 and 3)	<u>47,019,982</u>	<u>43,022,097</u>
Total assets	<u>\$ 48,039,081</u>	<u>\$ 43,855,886</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 30,327	\$ 21,483
Federal excise tax liabilities	<u>216,522</u>	<u>144,156</u>
Total liabilities	<u>246,849</u>	<u>165,639</u>
Net Assets Without Donor Restrictions	<u>47,792,232</u>	<u>43,690,247</u>
Total liabilities and net assets	<u>\$ 48,039,081</u>	<u>\$ 43,855,886</u>

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Investment income:		
Investment income, net (Note 3)	\$ 6,275,483	\$ 4,972,662
Federal excise tax provision	<u>(87,653)</u>	<u>(70,328)</u>
Total net investment income	<u>6,187,830</u>	<u>4,902,334</u>
Expenses:		
Grants awarded (Note 1)	1,967,400	1,854,920
General and administrative	<u>118,445</u>	<u>120,730</u>
Total expenses	<u>2,085,845</u>	<u>1,975,650</u>
Change in net assets	4,101,985	2,926,684
Net assets, beginning of year	<u>43,690,247</u>	<u>40,763,563</u>
Net assets, end of year	<u><u>\$ 47,792,232</u></u>	<u><u>\$ 43,690,247</u></u>

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

**Statements of Functional Expenses
For the Years Ended December 31, 2021 and 2020**

	2021		
	Programs	Management and General	Total
Grants awarded	\$ 1,967,400	\$ -	\$ 1,967,400
Compensation of officers	-	70,000	70,000
Accounting	-	35,610	35,610
Other administrative expenses	-	12,835	12,835
	Total expenses by function	\$ 118,445	\$ 2,085,845
	\$ 1,967,400	\$ 118,445	\$ 2,085,845
	\$ 1,967,400	\$ 118,445	\$ 2,085,845
	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
	\$ 1,854,920	\$ 120,730	\$ 1,975,650

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

**Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 4,101,985	\$ 2,926,684
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(4,955,379)	(4,506,041)
Changes in liabilities:		
Accounts payable	8,844	21,483
Federal excise tax liabilities	72,366	53,327
	<u>(772,184)</u>	<u>(1,504,547)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Proceeds from sales of investments and return of capital	3,353,749	6,734,647
Purchases of investments	(2,396,255)	(5,176,439)
	<u>957,494</u>	<u>1,558,208</u>
Net cash provided by investing activities		
Net change in cash and cash equivalents	185,310	53,661
Cash and cash equivalents at beginning of year	<u>833,789</u>	<u>780,128</u>
Cash and cash equivalents at end of year	<u>\$ 1,019,099</u>	<u>\$ 833,789</u>
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid during the year for federal excise taxes	<u>\$ 15,287</u>	<u>\$ 32,500</u>

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

Notes to Financial Statements December 31, 2021 and 2020

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 causes as selected by the Board of Trustees. 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”). As a private foundation, it is subject to federal excise tax on realized 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, 2021 and 2020.

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. Cash and cash equivalent balances may fluctuate based on the timing of investment sale and purchases.

THE NICHOLAS ENDOWMENT

Notes to Financial Statements (continued) December 31, 2021 and 2020

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, 2021 and 2020, the Endowment had no grants payable in future periods. For the years ended December 31, 2021 and 2020, grant expenses totaled \$1,967,400 and \$1,854,920, respectively.

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Notes to Financial Statements (continued) December 31, 2021 and 2020

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

Taxes

The Further Consolidated Appropriations Act, 2020 simplified the private foundation excise tax on net investment income by replacing the previous 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% excise tax rates for the years ended December 31, 2021 and 2020.

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, 2021 and 2020. As of December 31, 2021, the Endowment has an estimated deferred excise tax liability of \$188,969 and a current excise tax payable of \$27,553. 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.

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, 2021 and 2020, 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.

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 16, 2022, which is the date the financial statements were available to be issued.

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Notes to Financial Statements (continued) December 31, 2021 and 2020

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.

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, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,019,099	\$ 833,789
Equity securities	24,792,395	22,536,436
Fixed income investments	7,498,407	7,550,117
Real asset funds	<u>2,059,703</u>	<u>1,755,371</u>
	35,369,604	32,675,713
Less: capital commitments (Note 3)	(10,881,014)	(2,406,069)
Less: cash held in alternative investments	<u>(70,503)</u>	<u>(68,090)</u>
	<u>\$ 24,418,087</u>	<u>\$ 30,201,554</u>

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Notes to Financial Statements (continued) December 31, 2021 and 2020

3. Investments

Investment Composition

The Endowment's investments as of December 31, 2021 and 2020 are comprised of the following:

	2021	2020
United States equities	\$ 12,509,879	\$ 11,169,612
Non-United States equities	12,282,516	11,366,824
Fixed income investments	7,498,407	7,550,117
Real asset funds	2,059,703	1,755,371
Hedge funds	7,737,843	7,169,844
Private equity	4,931,634	4,010,329
	<u>\$ 47,019,982</u>	<u>\$ 43,022,097</u>

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.

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Notes to Financial Statements (continued) December 31, 2021 and 2020

3. Investments (continued)

Fair Value Measurements (continued)

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 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 many 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.

	Fair Value Measurements at December 31, 2021				
	Investments				Total
	Level 1	Level 2	Level 3	Measured at NAV	
Equities	\$ 24,792,395	\$ -	\$ -	\$ -	\$ 24,792,395
Fixed income investments	7,498,407	-	-	-	7,498,407
Real asset funds	2,059,703	-	-	-	2,059,703
Hedge funds	-	-	-	7,737,843	7,737,843
Private equity	-	-	-	4,931,634	4,931,634
	\$ 34,350,505	\$ -	\$ -	\$ 12,669,477	\$ 47,019,982
	Fair Value Measurements at December 31, 2020				
	Investments				
	Level 1	Level 2	Level 3	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

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Notes to Financial Statements (continued) December 31, 2021 and 2020

3. Investments (continued)

Fair Value Measurements (continued)

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest, dividends, and mutual fund distributions	1,408,441	620,622
Operating income from partnerships	311,742	62,160
Net realized gains on investments sold	1,734,458	614,000
Net unrealized gains on investments	<u>3,220,921</u>	<u>3,892,041</u>
	6,675,562	5,188,823
Investment management fees	<u>(400,079)</u>	<u>(216,161)</u>
Total investment income	<u>\$ 6,275,483</u>	<u>\$ 4,972,662</u>

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, asset allocation requirements, 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, investment advisors are 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.

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Notes to Financial Statements (continued) December 31, 2021 and 2020

3. Investments (continued)

Risks and Uncertainties (continued)

The Endowment's holdings in hedge funds and private equities 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, 2021 and 2020, the Endowment had commitments to contribute additional capital to various investments of \$10,881,014 and \$2,406,069, 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.

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 \$204,000 and \$190,000 for the years ended December 31, 2021 and 2020, respectively.