The California Endowment

(A California Nonprofit Public Benefit Corporation)

Report on Audited Financial Statements
For the Years Ended February 28, 2009
and February 29, 2008

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Report of Independent Auditors

To the Board of Directors
of The California Endowment

In our opinion, the accompanying statement of financial position and the related statements of activities, and cash flows, present fairly, in all material respects, the financial position of The California Endowment ("The Endowment") at February 28, 2009 and February 29, 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Endowment's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 of the financial statements, the Endowment applied the provisions of FASB Statement No. 158 and changed its method of reporting for their defined benefit cash balance plan for the year then ended February 29, 2008

PricewaterhouseCoopers LLP

June 22, 2009

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
February 28, 2009 and February 29, 2008

(in thousands)

	2009	2008
Assets		
Cash and cash equivalents	$ 28,781	$ 78,390
Dividends, interest and other receivables	6,550	7,578
Investments, at fair value	2,635,840	4,016,051
Collateral received under securities lending program	198,552	344,961
Investment sales receivable	102,041	98,638
Program-related investments, net	18,000	18,000
Property and equipment, net	86,578	88,889
Accrued postretirement benefit	-	1,368
Other assets	6,757	3,302
Total assets	$ 3,083,099	$ 4,657,177
Liabilities and Unrestricted Net Assets		
Liabilities		
Accounts payable and other liabilities	$ 11,317	$ 10,566
Accrued postretirement obligation	2,199	-
Payable under securities lending program	203,759	344,961
Investment purchases payable	248,810	172,822
Grants payable, net	62,036	45,688
Long-term debt	81,596	82,999
Deferred excise taxes payable	-	8,644
Total liabilities	609,717	665,680
Unrestricted net assets	2,473,382	3,991,497
Total liabilities and unrestricted net assets	$ 3,083,099	$ 4,657,177

The accompanying notes are an integral part of these financial statements.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Statements of Activities
For the Years Ended February 28, 2009 and February 29, 2008

(in thousands)

	2009	2008
Investment return		
Net realized and unrealized (loss)/gains on investments	$ (1,382,263)	$ 36,777
Dividends, interest and other investment income	82,228	99,769
	(1,300,035)	136,546
Less: investment expenses	(12,513)	(15,218)
Net investment (loss)/gain	(1,312,548)	121,328
Expenses		
Grants awarded	155,692	120,067
Direct charitable expenses	16,849	24,167
Program operating expenses	20,031	19,277
General and administrative expenses	12,682	11,893
Interest expense	3,957	3,988
Federal tax provision (benefit)		
Current	2,145	11,636
Deferred	(8,644)	(9,137)
Total expenses	202,712	181,891
Change in unrestricted net assets before minimum pension liability adjustment	(1,515,260)	(60,563)
Minimum pension liability adjustment	(2,855)	389
Change in unrestricted net assets after minimum pension liability adjustment	(1,518,115)	(60,174)
Unrestricted net assets		
Beginning of period	3,991,497	4,051,671
End of period	$ 2,473,382	$ 3,991,497

The accompanying notes are an integral part of these financial statements.

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended February 28, 2009 and February 29, 2008

(in thousands)

	2009	2008
Cash flows from operating activities		
Change in unrestricted net assets	$ (1,518,115)	$ (60,174)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net realized and unrealized loss (gain) on investments	1,382,263	(36,777)
Depreciation and amortization	4,505	4,522
Gain from sale of property	129	-
Change in operating assets and liabilities		
Dividends, interest, and other receivables	1,028	(1,541)
Accrued postretirement liability (benefit)	3,567	(1,292)
Other assets	(3,491)	(257)
Accounts payable and other liabilities	757	2,746
Grants payable	16,348	(19,372)
Deferred excise taxes payable	(8,644)	(9,137)
Net cash used in operating activities	(121,653)	(121,282)
Cash flows from investing activities		
Purchase of property and equiment	(2,421)	(2,167)
Purchase of investments	(3,925,543)	(5,140,140)
Proceeds from sale of investments	4,001,283	5,305,462
Net cash provided by investing activities	73,319	163,155
Cash flows from financing activities		
Bond principal payment	(1,275)	(1,225)
Net (decrease) increase in cash and cash equivalents	(49,609)	40,648
Cash and cash equivalents		
Beginning of year	78,390	37,742
End of year	$ 28,781	$ 78,390
Supplemental disclosures of cash flow information		
Cash paid during the year for federal excise tax	$ 3,099	$ 13,935
Cash paid during the year for interest	$ 3,970	$ 4,020
Change in collateral received under securities lending program	$ 141,202	$ 105,216
Change in payable under securities lending program	$ (141,202)	$ (105,216)
Supplemental disclosures of noncash investing activities		
Other liabilities for the purchase of property and equipment	$ -	$ 6
Change in collateral received under securities lending program	$ 5,207	$ -

The accompanying notes are an integral part of these financial statements.

1. Organization

The California Endowment ("The Endowment"), a California nonprofit public benefit corporation, is a private foundation that began operations in May 1996. The Endowment's mission is to expand access to affordable, quality health care for underserved individuals and communities and to promote fundamental improvements in the health status of all Californians.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash and cash equivalents are defined as short-term, liquid investments with original maturities of three months or less. Cash consists of funds held in commercial interest bearing accounts, for operating expenses.

Investments
Investments in debt and equity securities that are traded on national security exchanges are recorded at fair values as determined by quoted market prices. Nonmarketable securities, consisting of private equity funds, real estate funds, and hedge funds, for which there is no readily available market, are valued by The Endowment with assistance from external investments managers, using methods that The Endowment believes provide a reasonable estimate of fair value.

Alternative investments consist of hedge funds, buyout funds, venture capital, private direct and other limited partnership interests. Because no readily ascertainable market exists for these investments, the fair value is based on the estimated fair value as determined by management, after consideration of available relevant financial, operational and economic data. Fair value is generally defined as the amount at which an investment could be exchanged in a current transaction between unrelated willing parties, other than in a forced liquidation sale. Because of the inherent uncertainty of valuations, however, these amounts may differ materially from values that would be determined if the investments were publicly traded.

Investment sales and purchases are recorded on trade date, which results in receivables and payables on trades that have not yet settled at the financial statement date.

Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on an accrual basis. Unrealized gains and losses are recorded for changes in the difference between the recorded costs of the investment and the fair value of the investments at the financial statement date.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

2. Summary of Significant Accounting Policies (Continued)

Securities Lending

The Endowment participates in securities lending transactions with their investment custodian, whereby The Endowment lends a portion of its investments to various approved borrowers in exchange for collateral for the securities loaned, usually on a short-term basis. Collateral provided by borrowers is intended to be maintained at levels of at least 100% of the fair value, plus accrued interest of the borrowed securities, and is adjusted daily for market fluctuations. The Endowment maintains effective control of the loaned securities through its investment custodian during the term of the arrangement wherein they may be recalled at any time. Under the terms of the agreement, the borrower must return equivalent securities of an identical type, nominal value, description, and amount as were borrowed. The market value of collateral held for loaned securities is reported as collateral received under securities lending program, and a corresponding obligation is reported for repayment of such collateral upon settlement of the lending transaction. At February 28, 2009 and February 29, 2008, the fair value of the securities on loan was $194,068,000 and $331,288,000, respectively.

Property and Equipment

Property and equipment consist of buildings, land, leasehold improvements, facilities truck, furnishings, software and equipment for The Endowment's offices and are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to five years for furnishings, facilities truck and equipment, 39 years for buildings, and the shorter of 10 years or the related lease term for leasehold improvements.

Deferred Financing Costs

Deferred financing costs are capitalized at cost and amortized using the straight-line method over the terms of the related financing to approximate the effective interest method. Such amortization is reflected as a component of interest expense.

Capitalized Interest

When qualifying assets are financed with the proceeds of restricted tax-exempt borrowings, the amount of interest cost is capitalized, less any interest earned on temporary investment of the proceeds of the borrowings, from the date of the borrowings until the assets constructed with those borrowings are ready for their intended use.

Grants

Unconditional grants are recognized as an expense in the period in which they are approved. Grants due in future years are discounted using rates effective at the time the grants were awarded ranging between 1.42% – 2.08% for 2009 and 1.97% – 4.98% for 2008. Grants that are conditioned on future uncertain events are expensed when those conditions are substantially met. There were $206,000 and $169,000 in conditional grants at February 28, 2009 and February 29, 2008, respectively, which are conditioned principally on grantees raising certain matching gifts by a specified date.

2. Summary of Significant Accounting Policies (Continued)

Direct Charitable and Program Operating Expenses
Direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by The Endowment. The Endowment's direct charitable activities consist of program evaluation, social marketing on health issues, policy and advocacy work, health-related research, publishing, and dissemination of research. Program operating expenses pertain to the general grant making activities of The Endowment, such as reviewing grant applications, and awarding, monitoring, and evaluating grants. Certain program operating expenses are allocated based on employee ratios and estimates made by management.

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

Accounting Changes
In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires an employer to recognize in its statement of financial position an asset for a plan's over funded status or a liability for a plan's under funded status. It also requires an employer to measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes are to be reported as a separate line item within the statement of activities. The Endowment adopted SFAS No. 158 in 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS No. 157. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. The Endowment adopted SFAS No. 157 in its 2009 financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits a company to choose to measure many financial instruments and certain other items at fair value at specified election dates. Most of the provisions in SFAS No. 159 are elective. The Endowment chose not to elect the fair value option for its financial assets and financial liabilities existing at March 1, 2008, and did not elect the fair value option on financial assets and financial liabilities transacted subsequent to that time. Therefore, there is no effect on The Endowment as a result of the adoption of SFAS No. 159.

2. Summary of Significant Accounting Policies (Continued)

Reclassifications

Within the statements of financial position, investments classified as "investments lent under securities lending program" has been reclassified to "investments, at fair value". In addition, the "funds held by trustees" has been reclassified to "other assets". The 2008 presentation for these balances has been reclassified to conform with the 2009 presentation. Such reclassification had no effect on the change in net assets or net asset balances as previously reported.

3. Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject The Endowment to concentrations of credit risk consist primarily of cash and cash equivalents; investments; and program related investments.

The Endowment maintains its cash and cash equivalents with investment-grade institutions. These account balances usually exceed federally insured limits. However, The Endowment 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 securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

With respect to program related investments, The Endowment routinely assesses the financial strength of its debtor and believes that the related credit risk exposure is limited.

4. Investments

At February 28, 2009 and February 29, 2008, investments consist of the following (in thousands):

2009	**Fair Value**
Commercial paper and treasury bills	$ 153,649
Government and corporate obligations	612,416
Equity securities	1,029,517
Private equity and other	840,258
Total investments	$ 2,635,840

2008	**Fair Value**
Commercial paper and treasury bills	$ 151,316
Government and corporate obligations	593,719
Equity securities	2,300,929
Private equity and other	970,087
Total investments	$ 4,016,051

4. Investments (Continued)

The Endowment has entered into certain agreements with various private limited partnership investment funds to make future investments in such funds. As of February 28, 2009, the unfunded commitments related to these investments totaled $340,118,000.

In the normal course of business, The Endowment uses various financial instruments, including derivative financial instruments, to maintain desired asset allocations, primarily in fixed income securities. Interest rate futures and options are purchased and sold to manage the interest rate risk on government and corporate obligations. The fair value of interest rate futures is included in investments. Derivative financial instruments are recorded at their current market value with any changes reflected as a change in net assets during the period of the change. The Endowment's investment managers are permitted, under the terms of individual investment guidelines, to utilize such financial instruments.

The Endowment has swap positions, futures, and foreign currency contracts with net fair values of $897,000 and $3,825,000 at February 28, 2009 and February 29, 2008, respectively. Delivery dates for futures contracts extend through September 2010 and maturity dates of underlying securities of swap contracts extend through December 2038. All of the instruments are supported by government obligations for fixed income derivatives or equity holdings for equity derivatives.

At February 28, 2009 and February 29, 2008, the fair value of securities on loan was $194,068,000 and $331,288,000, respectively. In connection therewith, The Endowment received cash collateral of $203,396,000 and $328,786,000, respectively, which has been invested. As of February 28, 2009, the fair value of The Endowment's collateral holdings was $198,189,000. The Endowment recorded an unrealized loss of $5,207,000 related to the decrease in fair value of its holdings in the collateral investments. In November 2008, The Endowment's proportionate holdings in the securities lending global collateral pool were placed in a separately managed liquidating trust and are managed on behalf of The Endowment by the securities lending agent. In connection with the liquidating trust, The Endowment also recognized a realized loss of $5,057,000.

5. Fair Value of Investments

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which is effective for The Endowment's fiscal year ended February 28, 2009. SFAS No. 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Only investments are reported at fair value by The Endowment on a recurring basis.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in SFAS No. 157. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

5. Fair Value of Investments (Continued)

- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

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 in Level 1 include listed equities held in the name of The Endowment, and exclude securities held indirectly through commingled funds.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange 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.

Level 3 – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The following table summarizes the valuation of The Endowment's investments by the SFAS No. 157 fair value hierarchy levels as of February 28, 2009 (in thousands):

		Alternative Assets			
	Public Assets	**Private Equity**	**Real Assets**	**Absolute Return**	**Total Investment Assets**
Level 1	$ 1,110,753	$ -	$ -	$ -	$ 1,110,753
Level 2	554,787	-	-	-	554,787
Level 3	130,042	303,676	109,228	427,354	970,300
	$ 1,795,582	$ 303,676	$ 109,228	$ 427,354	$ 2,635,840

5. Fair Value of Investments (Continued)

The following table summarizes The Endowment's Level 3 reconciliation by the SFAS No. 157 standards as of February 28, 2009 (in thousands):

	Level 3
Investments, at fair value	
Balance at February 29, 2008	$ 1,268,645
Total net realized gain included in net income	16,797
Total net unrealized loss included in net income	(334,897)
Purchases of portfolio investments	350,645
Proceeds from sales, redemptions, and distributions	(336,016)
Transfer in and/or out of Level 3	5,126
Balance at February 28, 2009	$ 970,300

Under SFAS No. 157, inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability. Level 3 investments include private equity/venture capital partnerships, real estate partnerships, hedge funds and certain commingled funds. Valuations for these investments reflect The Endowment's and its investment managers' own assumptions based on the best information available at the time of the valuation. The absence of readily available quoted prices or observable inputs place these investments as Level 3 holdings.

6. Program-Related Investments

The Endowment invests a portion of its funds in projects that advance its philanthropic purposes by providing noninterest-bearing loans to certain organizations. At February 28, 2009 and February 29, 2008, these loans totaled $18,000,000, which is net of potentially uncollectible amounts of $2,000,000 at February 28, 2009 and February 29, 2008. The remaining loan matures in March 2029 and is expected to be repaid in various installments over the terms beginning in March 2009 (in thousands).

Years Ending February 28,	
2010	$ 700
2011	700
2012	700
2013	700
2014	700
Thereafter	16,500
	20,000
Less reserves	(2,000)
Program related investments, net	$ 18,000

7. Property and Equipment

At February 28, 2009 and February 29, 2008, property and equipment consist of the following (in thousands):

	2009	2008
Building	$ 73,192	$ 73,224
Land and easement improvements	11,744	11,725
Leasehold improvements	3,447	3,492
Equipment	5,111	5,476
Furnishings	6,357	6,037
Software	1,598	1,556
Facilities truck	16	16
Construction-in-Progress	1,045	333
Total	102,510	101,859
Less accumulated depreciation	(15,932)	(12,970)
Property and equipment, net	$ 86,578	$ 88,889

Depreciation expense of $4,596,000 and $4,613,000 was recorded for the fiscal year end February 28, 2009 and February 29, 2008, respectively.

8. Grants Payable

At February 28, 2009 and February 29, 2008, grants payable are as follows (in thousands):

	2009	2008
Amounts due in		
Less than one year	$ 51,373	$ 40,397
One year to five years	10,839	5,623
Gross grants payable	62,212	46,020
Less unamortized discount to present value	(176)	(332)
Grants payable, net	$ 62,036	$ 45,688

9. Long-Term Debt

In December 2003, the California Statewide Communities Development Authority (the "Authority") issued $80,600,000 aggregate principal of Revenue Bonds, Series 2003 (the "Bonds") resulting in $84,756,000 in bond proceeds. Concurrent with the issuance, the Authority and The Endowment executed an agreement under which the Authority loaned The Endowment the bond proceeds. The loan, which is uncollateralized, accrues interest at rates ranging between 4% and 5.25% per annum. Principal and interest are payable semiannually through July 2036. The Endowment recognized interest expense of $3,957,000 and $3,988,000 for the years ended February 28, 2009 and February 29, 2008, respectively. These amounts are net of interest of $5,000 and $24,000 earned on temporary investment of the bond proceeds for the years ended February 28, 2009 and February 29, 2008, respectively. The fair value of the long-term debt approximates the book value at February 28, 2009 and February 29, 2008.

Annual future principal payments under the loan agreement, including the amortized premium, are as follows (in thousands):

Years Ending February 28,	
2010	$ 1,453
2011	1,513
2012	1,573
2013	1,648
2014	1,723
Thereafter	73,686
Total future principal payments including amortized premiums	$ 81,596

The Endowment incurred $1,177,000 of costs in connection with the financing. These costs, which have been deferred, are included in other assets in the accompanying statements of financial position and are being amortized over the loan term using the straight-line method. As of February 28, 2009 and February 29, 2008, deferred financing costs were $990,000 and $1,026,000, respectively.

Net amortization of the premium and deferred issuance costs of $92,000 was recorded for fiscal year end February 28, 2009 and February 29, 2008.

10. Funds Held by Trustee

Funds held by trustee consist of unexpended proceeds from the Bonds and are primarily invested in Guaranteed Investment Contracts and money market funds. These amounts were restricted for the construction of a community conference center and other facilities for The Endowment in downtown Los Angeles and for the payment of related interest and deferred financing costs.

These assets are limited to use in accordance with bond indenture requirements and total $2,000 and $5,000 at February 28, 2009 and February 29, 2008, respectively. These investments are included in other assets on the statements of financial position.

11. Commitments and Contingencies

The Endowment leases its regional office facilities and certain equipment under various agreements. Rental expense was approximately $1,217,000 and $1,678,000 for the fiscal years ended February 28, 2009 and February 29, 2008, respectively, which is net of sublease income of $370,000 and $700,000. Future minimum rental payments related to noncancelable operating leases as of February 28, 2009, are as follows (in thousands):

Years Ending February 28,	
2010	$ 2,006
2011	1,898
2012	1,828
2013	1,102
2014	448
Thereafter	-
Total minimum future rentals	$ 7,282

The Endowment is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the financial position of The Endowment.

12. Federal Excise Taxes

The Endowment is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3). The Endowment is subject to federal excise taxes imposed on private foundations at 2% or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal tax law, which includes interest and dividend income, and realized gains, net of investment expenses, among other items. Deferred excise taxes arise primarily from unrealized gains on investments and are calculated at the effective rate expected to be paid by The Endowment. At February 28, 2009 and February 29, 2008, $0 and $8,644,000 of deferred taxes were recorded, respectively. There are no deferred taxes at February 28, 2009 as the capital losses exceeded the capital gains during the year.

13. Distribution Requirements

The Endowment is subject to distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, a minimum of 5% of net value of noncharitable-use assets, as defined. The assets that are to be included in the 5% distribution requirement are based on average monthly balances and are exclusive of those assets deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions.

13. Distribution Requirements (Continued)

For the period March 2003 through February 2008, The Endowment exceeded the minimum distribution requirements by $178 million. The IRC allows The Endowment to utilize all or some of this excess to meet future years' distribution requirements. Each fiscal year's excess distributions carryover expires after five years.

14. Retirement Plan

The Endowment maintains a qualified 401(k) Employee Investment Plan that provides for uniform employer contributions of 75 cents for every dollar contributed by a participant up to 6% of the participant's salary deferral contribution. The Endowment's contribution to this plan for the years ended February 28, 2009 and February 29, 2008 was $599,000 and $584,000, respectively.

The Endowment has a defined benefit cash balance plan (the "Plan") covering all employees with one year of service. The Plan is entirely funded by The Endowment, with benefits based on a percentage of each employee's annual compensation. The employees are vested 20% each year, with full vesting at the end of five years. Each employee's account is credited each year with an interest factor, the higher of 5.25% or the interest rate on 20-year Treasury bonds. At retirement, employees are paid their accumulated amount in the Plan, either as an annuity or lump sum, at their election. Upon termination of service, employees may withdraw or roll over their vested accumulated cash balance.

The Endowment's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts as deemed to be appropriate. The required contributions to the Plan that must be paid in fiscal year 2010 is preliminarily estimated to be approximately $970,000.

In order to determine the expected long-term rate of return for the Plan, The Endowment considered historical performance of various asset classes, investment community forecasts, and current economic and market conditions.

The Plan investment policy allows assets to be allocated to various asset classes including international investments. The Plan assets are invested with a long-term focus to provide appropriate liquidity as well as a reasonable rate of return while maintaining a prudent risk level.

The Endowment's year-end weighted-average Plan asset allocations by category were:

	Target	**2009**	**2008**
Equity securities	70–80%	59 %	70 %
Debt securities	20–30	34	22
Other	0–5	7	8

14. Retirement Plan (Continued)

The changes in accumulated postretirement benefit obligation, plan assets, and the amounts recognized in the financial statements are as follows:

	2009	2008
Projected benefit obligation at beginning of the year	$ 5,513,712	$ 5,741,208
Service cost	818,730	816,361
Interest cost	360,982	311,980
Actuarial gain	(53,041)	(698,289)
Benefits paid by employer	(369,790)	(657,548)
Curtailments	(233,077)	-
Projected benefit obligation at end of the year	$ 6,037,516	$ 5,513,712
Fair value of plan assets at beginning of the year	$ 6,881,560	$ 5,969,466
Actual return on plan assets	(2,673,085)	(30,358)
Employer contributions	-	1,600,000
Benefits paid	(369,790)	(657,548)
Fair value of plan assets at end of the year	$ 3,838,685	$ 6,881,560
Amounts recognized in the Statement of Financial Position		
Noncurrent assets	$ -	$ 1,367,848
Current and noncurrent liabilities	(2,198,831)	-
Total (liabilities) assets	$ (2,198,831)	$ 1,367,848
Amounts recognized in unrestricted net assets		
Prior service cost	$ 30,462	N/A
Amortization of prior service cost	12,120	N/A
Net actuarial (loss) gain	(2,897,292)	N/A
Total	$ (2,854,710)	$ 388,735
Net periodic pension cost		
Service cost	$ 818,730	$ 816,361
Interest cost	360,982	311,980
Expected return on plan assets	(510,325)	(442,547)
Amortization of prior service cost	12,120	11,031
Curtailments	30,462	-
Net periodic pension cost	$ 711,969	$ 696,825

14. Retirement Plan (Continued)

Weighted-average assumptions used to determine benefit obligations at February 28, 2009 and February 29, 2008 are as follows:

	2009	2008
Discount rate	6.85 %	6.64 %
Rate of compensation increase	5.00	5.00

Weighted-average assumptions used to determine net periodic pension costs at February 28, 2009 and February 29, 2008 are as follows:

	2009	2008
Discount rate	6.64 %	5.50 %
Expected return on Plan assets	7.50	7.50
Rate of compensation increase	5.00	5.00

Net periodic benefit cost, employer contributions, and benefits paid for fiscal years February 28, 2009 and February 29, 2008, are as follows (in thousands):

	2009	2008
Net periodic benefit cost	$ 712	$ 697
Employer contributions	-	1,600
Benefits paid	370	658

The accumulated benefit obligation for the Plan was $5,042,000 and $4,343,000 at February 28, 2009 and February 29, 2008, respectively.

The estimated future benefit payments are as follows (in thousands):

Years Ending February 28,	
2010	$ 2,689
2011	88
2012	90
2013	118
2014	148
Years 2015 through 2019	2,523

In March 2002, The Endowment adopted a defined benefit Supplemental Executive Retirement Plan ("SERP"), which provides supplemental retirement benefits to certain key management employees and is funded solely from the general assets of The Endowment. SERP expense for the years ended February 28, 2009 and February 29, 2008 was $15,000 and $19,000, respectively. The Endowment terminated the SERP effective April 30, 2008.

14. Retirement Plan (Continued)

In November 2002, The Endowment adopted a Section 457(b) Deferred Compensation Plan, which permits certain key management employees to make voluntary contributions on a pretax basis. Total compensation deferred for the years ended February 28, 2009 and February 29, 2008 was $80,000 and $51,000, respectively.