The California Endowment

(A California Nonprofit Public Benefit Corporation)

Consolidated Financial Statements

March 31, 2010 and February 28, 2009

The California Endowment
Index
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PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071
Telephone (213) 356 6000
Facsimile (813) 637 4444
www.pwc.com

Report of Independent Auditors

To the Board of Directors
of The California Endowment

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows, present fairly, in all material respects, the financial position of The California Endowment ("The Endowment") at March 31, 2010 and February 28, 2009, and the changes in their net assets and their cash flows for the 13-month and 12-month periods 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.

PricewaterhouseCoopers LLP

July 15, 2010

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Consolidated Statements of Financial Position
March 31, 2010 and February 28, 2009
(In thousands)

	2010	2009
Assets		
Cash and cash equivalents	$ 15,488	$ 28,781
Dividends, interest and other receivables	5,486	6,550
Investments	3,232,192	2,635,840
Collateral received under securities lending program	235,943	198,552
Investment sales receivable	104,520	102,041
Program-related investments, net	16,600	18,000
Property and equipment, net	86,462	86,578
Accrued postretirement benefit	1,145	-
Other assets	1,637	6,757
Total assets	$ 3,699,473	$ 3,083,099
Liabilities and Unrestricted Net Assets		
Liabilities		
Accounts payable and other liabilities	$ 12,209	$ 11,317
Accrued postretirement obligation	-	2,199
Payable under securities lending program	236,342	203,759
Investment purchases payable	134,437	248,810
Grants payable, net	17,660	62,036
Bonds Payable	80,132	81,596
Deferred taxes	3,283	-
Total liabilities	484,063	609,717
Unrestricted net assets	3,215,410	2,473,382
Total liabilities and unrestricted net assets	$ 3,699,473	$ 3,083,099

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

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Consolidated Statements of Activities
For the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009
(In thousands)

	2010	2009
Investment return		
Net realized and unrealized gain/(loss) on investments	$ 831,159	$ (1,382,263)
Dividends, interest and other investment income	68,778	82,228
	899,937	(1,300,035)
Less: investment expenses	(13,385)	(12,513)
Net investment gain/(loss)	886,552	(1,312,548)
Expenses		
Grants awarded	90,875	155,692
Direct charitable expenses	17,767	16,849
Program operating expenses	15,750	20,031
General and administrative expenses	11,959	12,682
Interest expense	4,229	3,957
Tax provision		
Current	985	2,145
Deferred	4,279	(8,644)
Total expenses	145,844	202,712
Change in unrestricted net assets before minimum pension liability adjustment	740,708	(1,515,260)
Minimum pension liability adjustment	1,320	(2,855)
Change in unrestricted net assets after minimum pension liability adjustment	742,028	(1,518,115)
Unrestricted net assets		
Beginning of period	2,473,382	3,991,497
End of period	$ 3,215,410	$ 2,473,382

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

The California Endowment
(A California Nonprofit Public Benefit Corporation)
Consolidated Statements of Cash Flows
For the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009
(In thousands)

	2010	2009
Cash flows from operating activities		
Change in unrestricted net assets	$ 742,028	$ (1,518,115)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net realized and unrealized (gain)/loss on investments	(831,159)	1,382,263
Depreciation and amortization	5,034	4,634
Change in operating assets and liabilities		
Dividends, interest, and other receivables	1,064	1,028
Program related investments	1,400	0
Accrued postretirement obligation/(benefit)	(3,344)	3,567
Other assets	2,517	(3,491)
Accounts payable and other liabilities	892	757
Grants payable	(44,376)	16,348
Deferred taxes	3,282	(8,644)
Net cash used in operating activities	(122,662)	(121,653)
Cash flows from investing activities		
Purchase of property and equiment	(2,454)	(2,421)
Purchase of investments	(4,012,647)	(3,925,543)
Proceeds from sale of investments	4,125,795	4,001,283
Net cash provided by investing activities	110,694	73,319
Cash flows from financing activities		
Bond principal payment	(1,325)	(1,275)
Net decrease in cash and cash equivalents	(13,293)	(49,609)
Cash and cash equivalents		
Beginning of year	28,781	78,390
End of year	$ 15,488	$ 28,781
Supplemental disclosures of cash flow information		
Cash paid during the year for taxes	$ 248	$ 3,099
Cash paid during the year for interest	$ 3,915	$ 3,970
Change in collateral received under securities lending program	$ (32,584)	$ 141,202
Change in payable under securities lending program	$ 32,584	$ (141,202)
Supplemental disclosures of noncash investing activities		
Change in collateral received under securities lending program	$ (4,807)	$ 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.

The 800 N. Main LLC (the "LLC") was organized in May 2009 and operates for charitable purposes as described in section 501(c)(3) of the Internal Revenue Code of 1986 and sections 214 and 23701d of the California Revenue and Taxation Code. The LLC operates exclusively for the benefit of The Endowment, with The Endowment as the sole member of the LLC. The LLC holds title to property located adjacent to The Endowment's premises.

The Endowment and the LLC are consolidated for financial statement presentation. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

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 investment managers, using methods that The Endowment believes provide a reasonable estimate of fair value. Futures and swap positions are priced based upon the closing price of the exchange in which they are listed or through external vendors.

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 defined 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. 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.

2. Summary of Significant Accounting Policies (Continued)

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.

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 fair 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.

Property and Equipment

Property and equipment consist of buildings, land, leasehold improvements, furnishings and equipment and software 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, equipment and software, 15 years for machinery, 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 Awarded

Unconditional grants awarded are recognized as an expense in the period in which they are approved. Grants payable in future years are discounted using rates effective at the time the grants were awarded ranging between 0.4% – 1.61% for 2010 and 1.42% – 2.08% for 2009. Grants awarded that are conditioned on future uncertain events are expensed when those conditions are substantially met. There were $103,000 and $206,000 in conditional grants awarded at March 31, 2010 and February 28, 2009, 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, 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 ASC 820 (formerly FAS 157), *Fair Value Measurements,* that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction as prescribed by the authoritative guidance. 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 ASC 820 in its 2009 financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standard ASC 855 (formerly FAS 165), *Subsequent Events*, which establishes accounting and reporting standards for events that occur after the statement of financial position but before financial statements are issued or are available to be issued. This guidance is currently effective for The Endowment in fiscal year 2010 and the adoption of the guidance did not have a material effect on its consolidated financial statements. Management evaluated subsequent events through the date the consolidated financial statements were issued.

In June 2009, FASB ASC 105 was issued, which established the FASB Accounting Standards Codification as the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Endowment has applied this guidance in the preparation of its consolidated financial statements as of March 31, 2010. Use of the Codification has no impact on The Endowment’s financial condition or results of its operations.

2. Summary of Significant Accounting Policies (Continued)

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share* (ASU 2009-12). ASU 2009-12 (formerly FAS 157-g) amends FASB Statement No. 157, *Fair Value Measurements*, adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value. The Endowment adopted ASU 2009-12 in its 2010 consolidated financial statements. At adoption, there was no material impact on The Endowment's Consolidated Statements of Financial Position or Consolidated Statements of Activities. Disclosures required under this guidance are included in Note 6.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective April 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; this is effective in April 2011. The adoption of this guidance is not expected to have a material impact on The Endowment's consolidated financial statements.

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 March 31, 2010 and February 28, 2009, investments consist of the following at fair value (in thousands):

	2010	2009
Commercial paper and treasury bills	$ 297,929	$ 153,649
Government and corporate obligations	495,992	612,416
Equity securities	1,506,222	1,029,517
Private equity, real estate and hedge funds	932,049	840,258
Total investments	$ 3,232,192	$ 2,635,840

The Endowment has entered into certain agreements with various private limited partnership investment funds to make future investments in such funds. As of March 31, 2010, the unfunded commitments related to these investments totaled $315,974,000.

Derivative Instruments

In 2008, FASB issued Statement of Financial Accounting Standards No. 161, "*Disclosures about Derivative Instruments and Hedging Activities*". In 2009, FAS 161 was updated and reissued as FASB Accounting Standards Codification ASC 815-10-50. The Endowment adopted the provisions of ASC 815-10-50 effective March 1, 2009. This requires enhanced disclosures to provide additional information regarding the accounting treatment for derivatives and hedging activities, the reasons The Endowment's managers invest using derivative instruments, and the effect derivatives have on The Endowment's consolidated financial statements. It requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk-related contingent features in derivative agreements.

The standard enhances the disclosure requirements for derivative instruments and related hedging activities and thus, the adoption of the standard had no impact on the consolidated statements of financial position or consolidated statements of activities and changes in net assets. The Endowment does not designate any derivative instruments as hedging instruments under ASC 815.

The Endowment transacts in a variety of derivative instruments including futures, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, currency, equity or commodity risk. The fair value of these derivative instruments, held in The Endowment's separately managed accounts, is included in the Investments line item in the consolidated statements of financial position with changes in fair value reflected as net realized and unrealized gain/(loss) on investments within the consolidated statements of activities and changes in net assets.

Some investment managers retained by The Endowment have been authorized to use certain financial derivative instruments in a manner set forth by either The Endowment's written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, financial derivative instruments are used for the following purposes: (1) currency forward contracts and options are used to hedge nondollar exposure in foreign investments, or to take positions in managed currency portfolios; (2) futures and swap contracts are used to rebalance asset categories within the portfolio and to manage market exposures in managed portfolios; and (3) futures contracts, swaps and options are used to hedge or leverage positions in managed portfolios.

4. Investments (Continued)

Certain of The Endowment's managers purchase or sell fixed income securities on a delayed delivery or forward settled basis. These transactions involve a commitment by The Endowment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period, from about 1 to 3 months. When purchasing a security on a delayed delivery basis, The Endowment assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and reflects such fluctuations in its net assets. The manager may dispose of or renegotiate a delayed delivery transaction after it is entered into, and may sell the securities before they are delivered, which may result in a capital gain or loss.

In the opinion of The Endowment's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed. Using those instruments reduces certain investment risks and may add value to the portfolio. The instruments themselves, however, do involve investment and counterparty risk in amounts greater than what are reflected in The Endowment's financial statements. Management does not anticipate that losses, if any, from such instruments would materially affect the financial position of The Endowment.

The following table lists fair value of derivatives by contract type as included in the consolidated statements of financial position at March 31, 2010. This table excludes exposures relating to derivatives held indirectly through commingled funds.

(in thousands)

		Assets Derivatives		Liability Derivatives	
	Balance Sheet location	**Average notional / # of contracts**	**Fair Value**	**Average notional / # of contracts**	**Fair Value**
Derivatives not designated as hedging activities under ASC 815					
Interest rate contracts	Investments	3,343	$ 1,769	(2,928)	$ (641)
Futures - interest rate contracts*	Investments	1,958	1,666	(255)	(52)
Futures - commodities*	Investments	487	390	-	-
Futures - equity contracts*	Investments	970	634	(207)	(324)
Credit derivatives	Investments	527	497	(564)	(33)
Foreign exchange contracts	Investments	3,398	112,598	(3,866)	(112,082)
Mortgage-backed securities	Investments	41,000	44,306	(13,000)	(13,746)
Total derivatives not designated as hedging activities under ASC 815			$ 161,860		$ (126,878)

*These derivative instruments are reported based on the number of contracts.

Derivatives of $34,982,000 and $140,590,000 at March 31, 2010 and February 28, 2009, respectively, consist of swap contracts, futures contracts, foreign exchange contracts, covered call options, and put and call options.

4. Investments (Continued)

The following table indicates the gains and losses on derivatives, by contract type, as included in the consolidated statements of activities and changes in unrestricted net assets for the 13-month period ended March 31, 2010.

(in thousands)

	Location of gain/(loss) recognized as income on Derivatives		Amount of gain/(loss) recognized as income on Derivatives
Derivatives not designated as hedging activities under ASC 815			
Interest rate contracts	net realized and unrealized gain/(loss) on investments	$	3,169
Futures - commodities	net realized and unrealized gain/(loss) on investments		8,123
Futures - interest rate contracts	net realized and unrealized gain/(loss) on investments		971
Futures - equity contracts	net realized and unrealized gain/(loss) on investments		11,534
Credit derivatives	net realized and unrealized gain/(loss) on investments		(860)
Foreign exchange contracts	net realized and unrealized gain/(loss) on investments		(546)
Mortgage-backed securities	net realized and unrealized gain/(loss) on investments		5,584
Total derivatives not designated as hedging activities under ASC 815		$	27,975

5. Securities Lending Program

At March 31, 2010 and February 28, 2009, the fair value of securities on loan was $232,892,000 and $194,068,000 at March 31, 2010 and February 28, 2010, respectively. The fair value of these securities are included in the Investments line item in the consolidated statements of financial position. At March 31, 2010 and February 28, 2009, the fair value of the securities on loan consist of the following at fair value (in thousands):

		2010		2009
Treasury bills	$	73	$	-
Government and corporate obligations		24,658		59,889
Equity securities		208,161		134,179
Total investments	$	232,892	$	194,068

5. Securities Lending Program (Continued)

In connection therewith, The Endowment received cash collateral of $241,399,000 and $203,396,000, respectively, which has been invested. The fair value of The Endowment's collateral holdings was $235,943,000 and $198,552,000, at March 31, 2010 and February 28, 2009, respectively. The Endowment recorded an unrealized gain of $4,807,000 related to the increase in fair value of its holdings in the collateral investments for the 13-month period ended March 31, 2010. 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 has not settled its obligation of $5,057,000, which is included in other liabilities as of March 31, 2010.

6. Fair Value

In September 2006, the FASB issued ASC 820 (formerly FAS 157), *Fair Value Measurements*, which was effective for The Endowment's fiscal year ended February 28, 2009. ASC 820 defined 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 and collateral received under securities lending 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 the following valuation techniques:

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

- *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 ASC 820 fair value hierarchy levels as of March 31, 2010 (in thousands):

6. **Fair Value (continued)**

	Level 1	Level 2	Level 3	Total
Cash Equivalents	$ 157,122	$ 138,493	$ -	$ 295,615
Equities and Fixed Income				
Equities	1,366,692	-	117,795	1,484,487
Fixed Income	13,982	287,431	194,579	495,992
Preferred Securities	12,744	-	-	12,744
Convertible Securities	-	8,991	-	8,991
Futures Contracts	2,314	-	-	2,314
Hedge Funds	-	-	436,489	436,489
Private Equity	-	-	397,792	397,792
Real Estate	-	-	97,768	97,768
	$ 1,552,854	$ 434,915	$ 1,244,423	$ 3,232,192
Collateral received under sec lending agreements	-	195,345	40,598	235,943
	$ 1,552,854	$ 630,260	$ 1,285,021	$ 3,468,135

The following table summarizes The Endowment's Level 3 reconciliation by the ASC 820 standards as of March 31, 2010 (in thousands):

	Beginning Balance February 28, 2009	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Net Purchases (Sales and Settlements)	Net Transfers In (Out) of Level 3	Ending Balance March 31, 2010
Cash Equivalents	$ 96	$ -	$ -	$ -	$ (96)	$ -
Equities	69,921	(23,898)	54,173	16,412	1,187	117,795
Fixed Income	60,025	(1,255)	16,564	120,145	(900)	194,579
Hedge Funds	427,354	(2,019)	88,041	(76,887)	-	436,489
Private Equity	303,676	10,052	47,260	36,804	-	397,792
Real Estate	109,228	-	(26,491)	15,031	-	97,768
	$ 970,300	$ (17,120)	$ 179,547	$ 111,505	$ 191	$ 1,244,423
Collateral received under sec lending agreements	198,552	-	4,807	-	(162,761)	40,598
	$ 1,168,852	$ (17,120)	$ 184,354	$ 111,505	$ (162,570)	$ 1,285,021

Under ASC 820, 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.

(dollars in millions)

6. Fair Value (continued)

The Endowment uses Net Asset Value ("NAV") to determine the fair value of all the underlying investments, which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, the following table lists investments in other investment companies by major category as of March 31, 2010:

	Strategy	NAV in funds	# of funds	Remaining life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restriction in Place at Year End
Private Equity	Venture and buyout, in the U.S. and international	$ 397.8	46	1 to 10 years	$ 262.5	1 to 10 years	N/A*	N/A*	N/A*
Real Estate	Real estate primarily in the U.S.	97.8	15	1 to 10 years	53.5	1 to 10 years	N/A*	N/A*	N/A*
Hedge Funds - Absolute returns	Global equity and fixed income funds	436.5	13	N/A	-	N/A	Ranges between monthly redemption with 7 days notice to annual redemption with 90 days notice	1 fund limits redemption to one-third of capital per year	1 fund limits redemption to one-third of capital per year, others require notification up to 90 days
Commingled Funds	Long-only equities and fixed income funds	247.6	4	N/A	-	N/A	Ranges between 2 to 5 days notice for daily redemption	None	None
Limited Partnerships	Long-only fixed income funds	45.7	2	N/A	-	N/A	Ranges between 1 to 4 years	1 fund liquidating within 1 year; 1 fund has 3-year lock	1 fund liquidating within 1 year; 1 fund has a 3-year lock
	Total	$1,225.4	80		$ 316.0				

* These funds are in private equity structure, with no ability to be redeemed.

7. 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 March 31, 2010 and February 28, 2009, these loans totaled $16,600,000 and $18,000,000, respectively, which are net of potentially uncollectible amounts of $2,000,000 at March 31, 2010 and February 28, 2009. The remaining loan matures in March 2029 and is expected to be repaid in various installments over the terms beginning in March 2010 (in thousands).

Years Ending March 31,	
2011	$ 700
2012	700
2013	700
2014	800
2015	800
Thereafter	14,900
	18,600
Less reserves	(2,000)
Program related investments, net	$ 16,600

8. Property and Equipment

At March 31, 2010 and February 28, 2009, property and equipment consist of the following (in thousands):

	2010	**2009**
Building, easement and leasehold improvements	$ 78,187	$ 74,387
Land	14,106	13,996
Furnishings and equipment	11,481	11,484
Software	1,864	1,598
Construction-in-Progress	1,119	1,045
Total	106,757	102,510
Less accumulated depreciation	(20,295)	(15,932)
Property and equipment, net	$ 86,462	$ 86,578

Depreciation expense of $5,133,000 and $4,726,000 was recorded for the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009, respectively.

9. Grants Payable

At March 31, 2010 and February 28, 2009, grants payable are as follows (in thousands):

	2010	2009
Amounts due in		
Less than one year	$ 11,645	$ 51,373
One year to five years	6,105	10,839
Gross grants payable	17,750	62,212
Less unamortized discount to present value	(90)	(176)
Grants payable, net	$ 17,660	$ 62,036

10. Bonds Payable

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 $4,229,000 and $3,957,000 for the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009, respectively. These amounts are net of interest of $0 and $5,000 earned on temporary investment of the bond proceeds for the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009, respectively. The fair value of the long-term debt was $77,968,000 and $78,956,000 at March 31, 2010 and February 28, 2009, respectively.

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

Years Ending March 31,	
2011	$ 1,513
2012	1,573
2013	1,648
2014	1,723
2015	1,803
Thereafter	71,872
Total future principal payments including amortized premiums	$ 80,132

10. Bonds Payable (continued)

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 consolidated statements of financial position and are being amortized over the loan term using the straight-line method. As of March 31, 2010 and February 28, 2009, deferred financing costs were $951,000 and $990,000, respectively.

Net amortization of the premium and deferred issuance costs of $99,000 and $92,000 was recorded for the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009, respectively.

The bonds are subject to various redemption periods prior to their stated maturity dates. Bonds maturing on or after July 1, 2014 are subject to redemption prior to their stated maturity at the option of the Authority as directed by The Endowment on or after July 1, 2013. The redemption price is equal to the principal amount of bonds called for redemption including accrued interest through the date of redemption. Bonds maturing beginning July 2028 and thereafter are subject to various redemption schedules under the loan agreement.

The Endowment's outstanding bond payable is subject to certain requirements relating to amending or modifying the terms of the bond and provision of certain quarterly and annual financial information, both unaudited and audited. The Endowment was in compliance with these requirements during the 13-month period and 12-month period ended March 31, 2010 and February 28, 2009, respectively.

11. Commitments and Contingencies

The Endowment leases its regional office facilities under various agreements. Rental expense was approximately $1,463,000 and $1,217,000 for the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009, respectively, which is net of sublease income of $799,000 and $370,000. Future minimum rental payments related to noncancelable operating leases as of March 31, 2010, are as follows (in thousands):

Years Ending March 31,	
2011	$ 1,958
2012	1,932
2013	1,337
2014	702
2015	294
Thereafter	229
Total minimum future rentals	$ 6,452

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. Credit Facility

In January 2010, The Endowment entered into a Secured Demand Line of Credit Note ("LOC") with BNY Mellon Wealth Management. The LOC has a credit limit of $90 million with an interest rate of LIBOR plus 100 basis points on all outstanding balances. The Endowment has pledged equity securities valued at $154 million at March 31, 2010 to secure the LOC. To date, The Endowment has not utilized the LOC nor incurred any interest expense. Either The Endowment or BNY Mellon may terminate the LOC at any time. No fees accrue if the facility is not utilized.

13. Taxes

The Endowment is exempt from federal income taxes under Internal Revenue Code 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.

The Endowment is also subject to income tax on unrelated business income. An operating loss carry forward of approximately $2,444,000 is available to offset future taxable income of The Endowment through the year ended March 31, 2026.

The components of the deferred tax asset and liability recognized in the consolidated statements of financial position were as follows:

(in thousands)	**2010**	**2009**
Net operating loss/deferred tax asset	$ 996	$ 2,096
Deferred excise taxes payable	(4,279)	-
Total (liabilities)/assets	$ (3,283)	$ 2,096

The components of the provision (benefit) for federal and state income taxes recognized in the consolidated statements of activities for the 13-month period ended March 31 and 12-month period ended February 28 were as follows:

(in thousands)	**2010**	**2009**
Current excise tax provision	$ 1,936	$ 2,145
Deferred excise tax provision (benefit)	4,279	(8,644)
Unrelated business income tax (benefit) provision	(951)	-
	$ 5,264	$ (6,499)

14. 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 the 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.

For the period March 2004 through February 2009, The Endowment exceeded the minimum distribution requirements by $146 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.

15. 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 March 31, 2010 and February 28, 2009 was $493,000 and $599,000, 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 for the first two years, with full vesting at the end of three 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. There are no required contributions to the Plan that must be paid in the fiscal year beginning April 1, 2010 to March 31, 2011.

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	2010	2009
Equity securities	70–80%	59 %	59 %
Debt securities	20–30	26	34
Cash and Other	0–5	15	7

15. Retirement Plan (continued)

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

	2010	2009
Projected benefit obligation at beginning of the year	$ 6,037,516	$ 5,513,712
Service cost	533,133	818,730
Interest cost	348,265	360,982
Actuarial loss (gain)	790,796	(53,041)
Benefits paid by employer	(523,290)	(369,790)
Curtailments	-	(233,077)
Projected benefit obligation at end of the year	$ 7,186,420	$ 6,037,516
Fair value of plan assets at beginning of the year	$ 3,838,685	$ 6,881,560
Actual return on plan assets	2,246,340	(2,673,085)
Employer contributions	2,770,000	-
Benefits paid	(523,290)	(369,790)
Fair value of plan assets at end of the year	$ 8,331,735	$ 3,838,685
Amounts recognized in the Statement of Financial Position		
Noncurrent assets	$ 1,145,315	$ -
Noncurrent liabilities		(2,198,831)
Total assets (liabilities)	$ 1,145,315	$ (2,198,831)
Amounts recognized in unrestricted net assets		
Prior service cost	$ -	$ 30,462
Amortization of prior service cost	4,707	12,120
Amortization of net gain	119,289	-
Net actuarial gain (loss)	1,195,884	(2,897,292)
Total amounts recognized in unrestricted net assets	$ 1,319,880	$ (2,854,710)
Net periodic pension cost and amounts recognized in unrestricted net assets		
Service cost	$ 533,133	$ 818,730
Interest cost	348,265	360,982
Expected return on plan assets	(259,660)	(510,325)
Amortization of prior service cost	4,707	12,120
Amortization of net loss	119,289	-
Curtailments	-	30,462
Net periodic pension cost	$ 745,734	$ 711,969

15. Retirement Plan (Continued)

Weighted-average assumptions used to determine benefit obligations at March 31, 2010 and February 28, 2009 are as follows:

	2010	**2009**
Discount rate	5.91 %	6.85 %
Rate of compensation increase	5.00	5.00

Weighted-average assumptions used to determine net periodic pension costs at March 31, 2010 and February 28, 2009 are as follows:

	2010	**2009**
Discount rate	6.85 %	6.64 %
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 the 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009, are as follows (in thousands):

	2010	**2009**
Net periodic benefit cost	$ 745	$ 712
Employer contributions	2,770	-
Benefits paid	523	370

The accumulated benefit obligation for the Plan was $6,465,000 and $5,042,000 at March 31, 2010 and February 28, 2009, respectively.

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

Years Ending March 31,	
2011	$ 2,377
2012	95
2013	188
2014	163
2015	358
Years 2016 through 2020	2,665

15. Retirement Plan (Continued)

The following is a description of the valuation methodologies used for Plan assets measured at fair value. There have been no changes in the methodologies used at March 31, 2010 and February 28, 2009.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds: Valued at a net asset value ("NAV") of $1 per unit.

The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2010:

	Level 1	Level 2	Level 3	Total
Equities	$ 7,682,208	$ -	$ -	$ 7,682,208
Mutual funds	-	649,527	-	649,527
	$ 7,682,208	$ 649,527	$ -	$ 8,331,735

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 13-month period ended March 31, 2010 and 12-month period ended February 28, 2009 was $43,000 and $75,000, respectively.

16. Related Parties

In September 2009, the LLC engaged The Endowment to provide various management and administrative services, equipment, supplies, and other goods and services on its behalf under an administrative services agreement. Under the terms of the agreement, The Endowment shall be compensated annually by the LLC for $1 and the agreement shall have a term of one year, with an automatic annual renewal unless otherwise terminated by either party for cause. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

17. Subsequent Events

The Endowment has evaluated events subsequent to March 31, 2010 to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated by The Endowment through July 15, 2010, the date the consolidated financial statements were issued.