the Hertz FOUNDATION

Financial Statements
June 30, 2023
(With summarized comparative totals for June 30, 2022)

Together with
Independent Auditors' Report

FANNIE AND JOHN HERTZ FOUNDATION
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June 30, 2023

Robert Lee & Associates, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Fannie and John Hertz Foundation
Pleasanton, California

Opinion

We have audited the accompanying financial statements of The Fannie and John Hertz Foundation (a California public benefit corporation, the "Foundation"), which comprise the statement of financial position as of June 30, 2023, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors of
Fannie and John Hertz Foundation
Pleasanton, California

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 Foundation's internal controls. 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 Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
Fannie and John Hertz Foundation
Pleasanton, California

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robert Lee + Associates, LLP
San Jose, California
November 15, 2023

FANNIE AND JOHN HERTZ FOUNDATION

Statements of Financial Position

June 30, 2023

(With summarized comparative totals for June 30, 2022)

	June 30,	
	2023	2022
ASSETS		
Cash and cash equivalents	$ 359,114	$ 1,615,468
Prepaid expenses	106,671	280,878
Employee Retention Credit receivable	-	42,337
Contributions receivable, net (Note 4)	4,258,959	4,285,033
Investments (Note 5)	30,867,929	25,679,969
Other receivables	105,284	412
Property and equipment, net (Note 6)	14,772	13,550
Other assets	12,340	12,340
Total assets	$ 35,725,069	$ 31,929,987
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses (Note 7)	$ 309,178	$ 194,615
Deferred revenue (Note 8)	-	17,609
Fellowships and tuition liability (Note 9)	2,383,884	1,798,351
Total liabilities	2,693,062	2,010,575
Commitment and contingency (Note 17)		
Net assets without donor restrictions:		
Designated for future fellowship commitments (Note 10)	6,491,163	5,558,863
Board designated for quasi-endowment (Note 12)	1,596,487	1,506,595
Undesignated	5,476,875	5,576,559
Total net assets without donor restrictions	13,564,525	12,642,017
Net assets with donor restrictions (Note 11)	19,467,482	17,277,395
Total net assets	33,032,007	29,919,412
Total liabilities and net assets	$ 35,725,069	$ 31,929,987

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

FANNIE AND JOHN HERTZ FOUNDATION

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2023

(With summarized comparative totals for June 30, 2022)

	2023			
	Without donor restrictions	With donor restrictions	Total	2022 Totals *(Comparative)*
Support and revenue:				
Contributions	$ 3,270,357	$ 2,654,752	$ 5,925,109	$ 9,442,828
In-kind contributions	12,777	-	12,777	10,400
Realized and unrealized gains (losses), net	1,032,692	842,296	1,874,988	(2,918,717)
Interest and dividends	459,476	329,991	789,467	565,807
Forgiveness on Paycheck Protection Program loan	-	-	-	404,554
Employee Retention Credit	-	-	-	42,337
Loss on disposal of fixed assets	-	-	-	(6,802)
Miscellaneous income	11,070	-	11,070	-
Net assets released from restrictions	1,636,952	(1,636,952)	-	-
Total support and revenue	6,423,324	2,190,087	8,613,411	7,540,407
Expenses:				
Program services:				
Fellowship	3,069,293	-	3,069,293	2,556,634
Fellowship support	1,009,752	-	1,009,752	560,905
Total program services	4,079,045	-	4,079,045	3,117,539
Supporting services:				
Management and general	528,679	-	528,679	330,207
Fundraising	893,092	-	893,092	755,734
Total supporting services	1,421,771	-	1,421,771	1,085,941
Total expenses	5,500,816	-	5,500,816	4,203,480
Change in net assets	922,508	2,190,087	3,112,595	3,336,927
Net assets, beginning of year	12,642,017	17,277,395	29,919,412	26,582,485
Net assets, end of year	$ 13,564,525	$ 19,467,482	$ 33,032,007	$ 29,919,412

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

FANNIE AND JOHN HERTZ FOUNDATION

Statements of Functional Expenses

For the Year Ended June 30, 2023

(With summarized comparative totals for the year ended June 30, 2022)

	2023					
	Program services		Supporting services			
	Fellowship	Fellowship support	Management and general	Fundraising	Total	2022 Totals *(Comparative)*
Wages and benefits	$ 739,327	$ 483,676	$ 249,412	$ 575,376	$ 2,047,791	$ 1,693,085
Tuition and stipends	2,038,820	-	-	-	2,038,820	1,773,180
Professional services	151,860	103,475	113,831	202,170	571,336	351,870
Travel	80,998	391,944	21,718	72,328	566,988	91,855
Rent	693	878	95,232	1,034	97,837	105,654
Awards	48,100	-	-	200	48,300	19,562
Events	3,215	4,520	2,824	16,622	27,181	26,174
Supplies	1,824	5,078	11,519	8,421	26,842	25,514
Insurance	-	-	22,063	-	22,063	17,004
Advertising	-	12,654	45	4,328	17,027	9,895
Printing	24	4,192	206	9,880	14,302	26,390
Bank fees	-	-	6,548	23	6,571	4,937
Utilities	1,330	1,300	710	1,460	4,800	15,055
Postage	702	1,871	979	786	4,338	10,194
Depreciation	-	-	3,329	-	3,329	7,036
Technology	2,400	164	263	464	3,291	10,931
Maintenance	-	-	-	-	-	3,268
Moving expense	-	-	-	-	-	11,876
Total expenses	$ 3,069,293	$ 1,009,752	$ 528,679	$ 893,092	$ 5,500,816	$ 4,203,480

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

FANNIE AND JOHN HERTZ FOUNDATION

Statements of Cash Flows

For the Year Ended June 30, 2023

(With summarized comparative totals for the year ended June 30, 2022)

	June 30, 2023	June 30, 2022
Cash flows from operating activities:		
Change in net assets	$ 3,112,595	$ 3,336,927
Adjustments to reconcile change in net assets net cash used in operating activities:		
Change in allowance for doubtful accounts and present value discount of pledges receivable	169,611	149,106
Realized and unrealized losses (gains)	(2,006,209)	2,853,274
Forgiveness of Paycheck Protection Program loan	-	(404,554)
Loss on disposal of fixed assets	-	6,802
Depreciation and amortization	3,329	7,036
Changes in operating assets and liabilities:		
Prepaid expenses	174,207	(205,240)
Employee Retention Credit receivable	42,337	(42,337)
Contributions receivable	(143,537)	(23,005)
Other receivables	(104,872)	-
Other assets	-	(9,402)
Accounts payable and accrued expenses	114,563	(17,507)
Deferred revenue	(17,609)	17,609
Fellowships and tuition liability	585,533	(212,815)
Deferred rent	-	(3,482)
Net cash provided by operating activities	1,929,948	5,452,412
Cash flows from investing activities:		
Proceeds from sale of investments	2,129,195	46,300,013
Purchases of investments	(5,310,946)	(52,520,764)
Purchases of property and equipment	(4,551)	(13,287)
Net cash used by investing activities	(3,186,302)	(6,234,038)
Net decrease in cash and cash equivalents	(1,256,354)	(781,626)
Cash and cash equivalents, beginning of year	1,615,468	2,397,094
Cash and cash equivalents, end of year	$ 359,114	$ 1,615,468

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

Note 1 - Organization and operations:

The Fannie and John Hertz Foundation, commonly referred to as The Hertz Foundation (the "Foundation"), was incorporated in the State of Illinois in 1945. The principal objective of the Foundation is to identify and support the education and innovative research of the most talented and promising PhD candidates in math, science, and engineering in the United States. Through a national competition, the Foundation attempts to select candidates for the Hertz Fellowship who will become leaders in science and technology, exemplary faculty in U.S. universities, and key contributors to the advancement of technological and scientific discoveries and innovation on which the long-term well-being of the United States and the world depends. The Foundation's programs are supported through contributions, investment income and draw from its long-term assets.

The Foundation has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code where only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to Federal income tax. The Foundation currently has no unrelated business income.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting, which recognizes support and revenue when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation - The Foundation presents information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions* - net assets which are available to support all activities of the Foundation without restrictions and include those net assets who use is not restricted by donor, even though their use may be limited in other respects, such as by contract or board designation. Net assets without donor restrictions are classified as designated for future fellowship commitments on the accompanying statements of financial position include long-term tuition and stipend commitments to current fellows.

- *With donor restrictions* - net assets which represent contributions whose use is limited to donor-imposed stipulations that either expire by passage of time or other restrictions and for which the applicable restriction was not met as of the end of the current reporting period.

Note 2 - Summary of significant accounting policies (continued):

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include the present value discount and allowance of receivables, allocation of expenses by function and future fellowship commitments. Actual results could differ from these estimates.

Reclassification - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of current-year financial statements.

Fair value of financial instruments - Unless otherwise indicated, the fair values of all reported assets and liabilities approximate the carrying values of such amounts.

Cash and cash equivalents - The Foundation considers all highly liquid investments purchased with an original or remaining maturity of three months or less to be cash equivalents.

Prepaid expenses - Prepaid expenses include payments for insurance, various subscription services, contracts, and program related activities.

Employee Retention Credit receivable - Under section 2301 of the Coronavirus aid, relief, and Economic Security Act ("CARES Act"), the Foundation elected to claim the Employee Retention Credit ("ERC") which is a refundable tax credit against certain employment taxes. Management determined approximately $42,000 would be refunded back based on qualified wages incurred from January 1, 2020 through June 30, 2020. As conditions for the credit existed as of June 30, 2022, management recognized the benefit as a receivable and other income on the statement of financial position at June 30, 2022. Management collected the receivable during fiscal year 2023.

Contributions receivable and allowance for doubtful accounts - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Promises to give that are to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promise is received (8.25% and 5.75% for 2023 and 2022 fiscal years respectively, which is the Foundation's estimated incremental borrowing rate). Amortization of the discounts is included in contribution revenue.

Note 2 - Summary of significant accounting policies (continued):

Contributions receivable and allowance for doubtful accounts (continued) - Promises to give are either unconditional or conditional. Unconditional promises to give are promises that depend only on the passage of time or the demand by the donor for performance. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisor. The Foundation records unconditional promises to give as revenue at their fair value in the period the pledge is received. Conditional promises to give are not included as support until the conditions are substantially met. There were no conditional promises to give at June 30, 2023 and 2022.

The Foundation uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' credit losses and management's analysis of specific receivables. The financial statements reflect these receivables net of the allowance reserve. When an account is determined uncollectible, it is deducted from receivables and contribution income. The allowance for doubtful accounts was approximately $49,000 and $47,000 as of June 30, 2023 and 2022, respectively.

Investments - All investments are valued in accordance with Fair Value Measurements and Disclosure topics of the Financial Accounting Standards Board ("FASB") Accounting Standards Codifications. The value of investments are based on their closing quoted market prices. The Foundation's Board of Directors has established an investment policy and has engaged the services of an outside investment advisor to assist in such matters. Contributions of investments are recorded at estimated fair value at the date of donation and are sold as soon as reasonably possible. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains and losses resulting from the sales or maturities are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned. The Foundation invests in various investments, which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Property, equipment, and depreciation - Purchased property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of 5 years. The Foundation capitalizes property and equipment with a value over $2,000. Expenditures for maintenance and repairs that do not improve of extend the lives of the respective assets are expensed as incurred.

Note 2 - Summary of significant accounting policies (continued):

Deferred revenue - Deferred revenue consists of payments received in advance of revenue recognition of the services performed and is recognized as the revenue recognition criteria are met.

Fellowships and tuition liabilities - Fellowships are recorded when approved by the Board of Directors. Fellowship commitments due during the next fiscal year are recorded in the accompanying statements of financial position as a current liability. All future fellowship commitments are unconditional and included as designated net assets without donor restrictions.

Board designated future fellowship - Fellowships are granted for one year and are renewable annually based on the fulfillment of certain conditions and not to exceed five years of Fellowship support. Any fellowships that are renewed will require additional funding by the Foundation. The Board of Directors has designated funds without restrictions to fund future fellowship beyond fiscal year 2023.

Revenue recognition - The Foundation recognizes revenue in accordance with FASB Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. ASC 606 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

In accordance with ASC 606, the Foundation recognizes revenue upon the transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. The principles in ASC 606 are applied using the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Foundation satisfies its performance obligation(s). The Foundation recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration. The Foundation records the following revenues in its statements of activities and changes in net assets for the years ending June 30, 2023 and 2022:

Contribution revenue - The Foundation recognizes contributions when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal year. When the restriction is met on a contribution received in a prior fiscal year, the amount is shown as a reclassification of net assets with restrictions to net assets without donor restrictions. These contributions are generally expected to be collected in one year.

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition (continued) - *In-kind contributions* - Contributed services are reflected in the accompanying financial statements at their estimated fair value at the date of receipt and reported as expense when utilized. Contributed services, which require a specialized skill and which the Foundation would have paid for if not contributed, have been recorded at their estimated fair market value. The contributions of goods and services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Forgiveness on Paycheck Protection Program loan - The Foundation secured loans under the Paycheck Protection Program ("PPP"). The Foundation accounted for the PPP loans in accordance with the FASB guidance for debt ASC Topic 470. When recorded, the Foundation expected to meet the PPP's eligibility criteria, and concluded that the PPP loan represented, in substance, debt that was expected to be forgiven. Accordingly, the Foundation initially recorded the loan as a note payable and recorded the forgiveness when the loan obligation was legally released. See Note 14 for details.

Concentration of contributions receivable - Donor contributions receivable comprising greater than 10% of the Foundation's total contributions receivable are as follows at June 30:

	2023	2022
Donor A	25%	42%
Donor B	22%	27%
Donor C	16%	Less than 10%
Donor D	10%	Less than 10%

Concentration of contribution revenue - Donor contributions comprising greater than 10% of the Foundation's total contribution revenues are as follows for the years ended June 30:

	2023	2022
Donor A	33%	21%
Donor B	16%	Less than 10%
Donor C	Less than 10%	52%
Donor D	Less than 10%	15%

Note 2 - Summary of significant accounting policies (continued):

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, among the classifications.

Advertising - Advertising costs are expensed as incurred. Advertising expense for the fiscal years ended June 30, 2023 and 2022 were approximately $17,000 and $10,000, respectively.

Endowment accounting and interpretation of relevant law - In 2004, the Foundation established an endowment campaign whereby the income earned from its investments was to be used for fellowship support. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as including cumulative fair value adjustments of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment with donor restrictions, (b) the original value of subsequent gifts to the endowment with donor restrictions, (c) accumulations to the endowment with donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (d) less the lower of actual tuition and stipends or 5% of the endowed fund balance.

Accounting for uncertainty in income taxes - The Foundation evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonable estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2023 and 2022, management did not identify any material uncertain tax positions.

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions in which management believes to be quality financial institutions. These accounts are insured up to $250,000 per depositor by an agency of the federal government. At times, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits.

Note 2 - Summary of significant accounting policies (continued):

Recently adopted accounting principles - In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840*, *Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-10, *Codification Improvements to Topic 842, Leases;* ASU 2018-11, *Leases (Topic 842): Targeted Improvements;* ASU 2018-20, *Narrow-scope Improvements for Lessors;* and ASU 2019-01, *Leases (Topic 842)*: *Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize ROU assets and lease liabilities for operating and finance leases on the consolidated balance sheets. The Foundation adopted this ASU effective July 1, 2022. The adoption did not have an impact on the Foundation's statements of financial position and the statements of activities and changes in net assets given that the Foundation does not have any leases with a term greater than 12 months.

Subsequent events - Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and it had been determined that no material subsequent events that require an estimate to be recorded or disclosed as of June 30, 2023.

Note 3 - Liquidity and availability of financial assets:

Financial assets available for general expenditure, that is without restrictions limiting their use, within one year of the current statements of financial position date, comprise the following at June 30:

	2023	2022
Cash and cash equivalents	$ 359,114	$ 1,615,468
Contributions receivable, net (Note 4)	4,258,959	4,285,033
Investments (Note 5)	30,867,929	25,679,969
Other receivables	105,284	412
Total financial assets	35,591,286	31,580,882
Designated for future fellowship commitments (Note 10)	(6,491,163)	(5,558,863)
Board designated for quasi-endowment (Note 12)	(1,596,487)	(1,506,595)
Net assets with donor restrictions (Note 11)	(19,467,482)	(17,277,395)
Total financial assets available to meet cash needs for general expenditures within one year	$ 8,036,154	$ 7,238,029

Note 3 - Liquidity and availability of financial assets (continued):

The Foundation's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as those obligations come due. Although the Foundation does not intend to spend from its quasi-endowment, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

Note 4 - Contributions receivable:

Contributions receivable consisted of the following at June 30:

	2023	2022
Due in less than one year	$ 1,418,358	$ 1,560,452
Due in one to five years	3,396,195	2,716,000
Due in greater than five years	-	396,000
	4,814,553	4,672,452
Less: discount to net present value	(555,594)	(387,419)
	$ 4,258,959	$ 4,285,033

Note 5 - Investments:

The Foundation follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Note 5 - Investments (continued):

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

At June 30, 2023 and 2022, the Foundation was invested in Level 1 and Level 2 investments and had no investments in Level 3 inputs. The Foundation's investments at June 30 were as follows:

	Year Ended June 30, 2023		
	Level 1	Level 2	Total
Exchange traded funds	$ 14,476,336	$ -	$ 14,476,336
Corporate bonds	-	8,928,035	8,928,035
Cash and short term investments	7,259,234	-	7,259,234
Corporate equities	204,324	-	204,324
	$ 21,939,894	$ 8,928,035	$ 30,867,929

	Year Ended June 30, 2022		
	Level 1	Level 2	Total
Exchange traded funds	$ 12,041,834	$ -	$ 12,041,834
Corporate bonds	-	8,864,290	8,864,290
Cash and short term investments	4,773,845	-	4,773,845
	$ 16,815,679	$ 8,864,290	$ 25,679,969

The following schedule summarizes total investment returns as of June 30:

	2023	2022
Realized gains (losses), net	$ (48,848)	$ 6,051,162
Unrealized gains (losses), net	2,055,057	(8,904,436)
Interest and dividends	789,467	565,807
	2,795,676	(2,287,467)
Less: investment related expenses	(131,221)	(65,443)
	$ 2,664,455	$ (2,352,910)

Note 6 - Property and equipment:

Property and equipment consisted of the following at June 30:

		2023		2022
Office computers and equipment	$	20,437	$	15,886
Less accumulated depreciation		(5,665)		(2,336)
Total property and equipment, net	$	14,772	$	13,550

Depreciation expense for the years ended June 30, 2023 and 2022, was approximately $3,000 and $7,000, respectively.

Note 7 - Accounts payable and accrued expenses:

Accounts payable and accrued expenses consisted of the following at June 30:

		2023		2022
Accounts payable	$	99,652	$	67,421
Accrued salaries		37,602		10,813
Accrued vacation		112,310		95,942
Other accrued expenses		59,614		20,439
	$	309,178	$	194,615

Note 8 - Deferred revenue:

The activity balances for deferred revenue from contracts with customers are shown in the following table:

		2023		2022
Balance at beginning of the year	$	17,609	$	-
Revenue recognized		(17,609)		-
Payments received for future obligations		-		17,609
Balance at end of the year	$	-	$	17,609

Note 9 - Fellowships and tuition liability:

Fellowships are granted for one year but may be renewed, at the option of the Foundation, on a year-to-year basis not to exceed five years of fellowship support. Any fellowships that are renewed will require additional funding by the Foundation.

Fellowship commitments committed for fiscal year 2024 and designated for future years are as follows:

Fellowships and tuition liability		
2024	$	2,383,884
Designated for future fellowship commitments		
2025		2,262,654
2026		1,824,754
2027		1,547,155
2028		856,600
		6,491,163
Total fellowship commitment	$	8,875,047

Note 10 - Board designations of net assets without donor restrictions:

Board designated net assets consisted of the following as of June 30:

		2023		2022
Future fellowship commitments (Note 9)	$	6,491,163	$	5,558,863
Board designated for quasi-endowment (Note 12)		1,596,487		1,506,595
	$	8,087,650	$	7,065,458

Note 11 - Net assets with donor restrictions:

Net assets with donor restrictions activity for the year ended June 30, 2023 was as follows:

	Beginning balance	Additions	Releases	Ending balance
Subject to passage of time	$ 4,285,033	$ 1,396,174	$ (1,422,248)	$ 4,258,959
Subject to endowment spending	12,992,362	2,430,865	(214,704)	15,208,523
	$ 17,277,395	$ 3,827,039	$ (1,636,952)	$ 19,467,482

Net assets with donor restrictions activity for the year ended June 30, 2022 was as follows:

	Beginning balance	Additions	Releases	Ending balance
Subject to passage of time	$ 4,411,134	$ 1,324,160	$ (1,450,261)	$ 4,285,033
Subject to endowment spending	9,160,316	4,165,480	(333,434)	12,992,362
	$ 13,571,450	$ 5,489,640	$ (1,783,695)	$ 17,277,395

Note 12 - Endowments:

The endowment consists of fourteen individual funds comprising of net assets with donor restrictions and Board designated (quasi) endowments all of which are included with unrestricted assets under the custody of a third-party brokerage firm and commingled with non-restricted funds. The principal amounts of the gifts received are included in net assets with donor restrictions as stipulated by the gift agreements. The quasi endowments consist of Board designated net assets without donor restrictions. The investment gains consist of interest and dividend income, and cumulative fair value adjustment of the original gifts, which are recorded as net assets with donor restrictions or Board designation and are available for program expenditures based on the donor-approved expenditures. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12 - Endowments (continued):

The Board of Directors of the Foundation has interpreted UPMIFA as including cumulative fair value adjustments of the original gifts as part of investment income with donor restrictions absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment with donor restrictions, (b) the original value of subsequent gifts to the endowment with donor restrictions, (c) accumulations to the endowment with donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (d) less the lower of actual tuition and stipends or 5% of the endowed fund balance. The remaining portion of the endowment fund that is not classified in net assets with donor restrictions for specific purpose is classified as board designated net assets without donor restrictions subject to appropriated expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

For the year ended June 30, 2023, changes in endowment net assets were as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 1,506,595	$ 12,992,362	$ 14,498,957
Investment return:			
Contributions	-	1,258,578	1,258,578
Interest and dividend income	38,253	329,991	368,244
Realized and unrealized gains, net	97,639	842,296	939,935
Total investment return	135,892	2,430,865	2,566,757
Appropriation of endowment assets for expenditure	(46,000)	(214,704)	(260,704)
Endowment net assets, end of year	$ 1,596,487	$ 15,208,523	$ 16,805,010

FANNIE AND JOHN HERTZ FOUNDATION

Notes to Financial Statements

June 30, 2023

Note 12 - Endowments (continued):

For the year ended June 30, 2022, changes in endowment net assets were as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 1,704,959	$ 9,160,316	$ 10,865,275
Investment return:			
Contributions	-	5,000,000	5,000,000
Interest and dividend income	37,073	203,053	240,126
Realized and unrealized losses, net	(189,436)	(1,037,573)	(1,227,009)
Total investment return	(152,363)	4,165,480	4,013,117
Appropriation of endowment assets for expenditure	(46,001)	(333,434)	(379,435)
Endowment net assets, end of year	$ 1,506,595	$ 12,992,362	$ 14,498,957

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment and supplemented by net assets without donor restrictions. Under this policy, as approved by the Foundation's Board of Directors, the endowment assets are invested in a manner that is intended to provide a moderate average annual real return in excess of inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policies and how the investment objectives relate to spending policy: The Foundation has a policy of reviewing and approving distributions from the endowment each year. In addition, all dividends and interest earned from the endowment investments are re-invested in the endowment fund as received and are recorded as net assets with donor restrictions available for appropriation. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to maintain the purchasing power of the endowment assets held in perpetuity unless the funds depreciate. Should the spending policy not achieve this growth, the Board of Directors will supplement fellowship from unrestricted funds as needed and available.

Note 13 - In-kind contributions:

Contributed goods and services are included in the accompanying statements of activities and changes in net assets and are comprised of donated honorariums totaling approximately $13,000 and $10,000 for the years ended June 30, 2023 and 2022, respectively. All gifts-in-kind are recorded at their fair value based on industry rates.

Note 14 - Paycheck Protection Program loans:

On May 25, 2021 and May 7, 2020, the Foundation secured loans in the amount of approximately $223,000 and $180,000 respectively under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses based on average monthly payroll expenses of the qualifying business. PPP loans and accrued interest are forgivable after a "covered period" (8 or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount would have been reduced if the borrower terminated employees or reduced salaries by more than 25% during the covered period. Any unforgiven portion of a PPP loan would have been payable over two or five years at an interest rate of 1%, with a deferral of payments was extended until forgiveness could be determined.

On November 4, 2021 and April 4, 2022, the Foundation met the conditions for forgiveness of the PPP loans and the loans were fully forgiven by the Small Business Administration. The Foundation recognized the forgiveness of the loan principal and related accrued interest for each loan, totaling approximately $405,000 on the statements of activities and changes in net assets.

15 - Employee benefit plan:

The Foundation maintains a Simplified Employee Benefit Plan (SEP) IRA for the benefit of employees. Contributions are based on a percentage of employee compensation and totaled approximately $198,000 and $186,000 for the fiscal years ending June 30, 2023 and 2022.

Note 16 - Related-party transactions:

During the years ended June 30, 2023 and 2022, the Foundation had pledged contributions from Board members in the amount of $1,243,000 and $1,834,000, respectively.

Note 17 - Commitment and contingency:

Facility operating lease - The Foundation has lease commitments for its office spaces in Pleasanton, California through April 2024. Monthly payments on the leases for the 2023 fiscal year were approximately $7,000. The Foundation had a lease commitment for its office space in Livermore, California, which expired in May 2022. Monthly payments and related common area maintenance expenses on the lease totaled approximately $9,000 per month.

Rent expense charged to operations for the years ended June 30, 2023 and 2022 was approximately $98,000 and $106,000, respectively.

Future minimum payments on the lease commitments, all due in fiscal year 2024, total approximately $66,000.

Contingency: legal matters - Due to the nature of the Foundation's operations, claims and litigation may periodically arise. As of June 30, 2023, management has evaluated the status of any potential legal matters and in its judgement believes there are no items which will have a material effect on the financial statements.