

**The William and Flora
Hewlett Foundation**

**Financial Statements as of and for the Years Ended
December 31, 2020 and 2019**



Report of Independent Auditors

To the Board of Directors of The William and Flora Hewlett Foundation:

We have audited the accompanying financial statements of The William and Flora Hewlett Foundation (“The Foundation”), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets and of cash flows for the years then ended.

Management’s Responsibility 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; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

May 27th, 2021

The William and Flora Hewlett Foundation
Statements of Financial Position
December 31, 2020 and 2019
(dollars in thousands)

	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 54,551	\$ 5,040
Investments, at fair value (Notes 3 and 4)	13,168,740	10,894,651
Unrelated business income (UBI) tax refund due	13,779	8,985
Prepaid expenses and other assets	29,075	28,972
Property and equipment, net (Note 5)	<u>27,184</u>	<u>23,490</u>
 Total assets	 \$ <u>13,293,329</u>	 \$ <u>10,961,138</u>
 Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 13,965	\$ 13,174
Debt payable	250,000	-
Accrued postretirement health care benefit (Note 6)	6,793	6,493
Deferred federal excise tax liability	71,328	46,014
Grants payable (Note 7)	<u>253,930</u>	<u>255,315</u>
 Total liabilities	 596,016	 320,996
 Net assets, unrestricted	 <u>12,697,313</u>	 <u>10,640,142</u>
 Total liabilities and net assets	 \$ <u>13,293,329</u>	 \$ <u>10,961,138</u>

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2020 and 2019
(dollars in thousands)

	<u>2020</u>	<u>2019</u>
Revenue		
Interest, dividends and other income	\$ 57,754	\$ 105,175
Gain on investment portfolio (Note 3)	2,565,586	1,502,679
Investment management expense	<u>(15,376)</u>	<u>(15,749)</u>
Net investment income	2,607,964	1,592,105
Tax (expense) benefit on net investment income (Note 9)	<u>(33,507)</u>	<u>7,363</u>
Net investment revenue	<u>2,574,457</u>	<u>1,599,468</u>
Expense		
Grants awarded, net of cancellations	(465,869)	(454,458)
Direct and other charitable activities	(7,606)	(8,057)
Program expenses (Note 10)	(27,248)	(27,338)
Supporting expenses (Note 10)	(15,490)	(12,569)
Other tax expense	(1,021)	(813)
Post-retirement plan - actuarial (loss)	<u>(52)</u>	<u>(743)</u>
Total expense	<u>(517,286)</u>	<u>(503,978)</u>
Change in net assets, unrestricted	2,057,171	1,095,490
Net assets, unrestricted		
Beginning of year	<u>10,640,142</u>	<u>9,544,652</u>
End of year	<u>\$ 12,697,313</u>	<u>\$ 10,640,142</u>

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(dollars in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows used in operating activities:		
Interest and dividends received	\$ 61,292	\$ 105,425
Cash paid for taxes	(12,903)	(13,686)
Cash paid to suppliers and employees	(64,891)	(58,059)
Grants paid	<u>(467,254)</u>	<u>(352,996)</u>
Net cash used in operating activities	<u>(483,756)</u>	<u>(319,316)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,691)	(2,185)
Cash received from partnership distributions	333,923	374,424
Proceeds from sale of investments	20,238,716	24,897,481
Purchase of investments	<u>(20,284,681)</u>	<u>(24,954,210)</u>
Net cash from investing activities	<u>283,267</u>	<u>315,510</u>
Cash flows from financing activities:		
Cash received from lines of credit	500,000	25,000
Cash paid on lines of credit	<u>(250,000)</u>	<u>(25,000)</u>
Net cash from financing activities	<u>250,000</u>	<u>-</u>
Net change in cash	49,511	(3,806)
Cash, beginning of year	<u>5,040</u>	<u>8,846</u>
Cash, end of year	<u>\$ 54,551</u>	<u>\$ 5,040</u>

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(dollars in thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of change in net unrestricted assets to net cash used in operating activities:		
Change in net assets, unrestricted	\$ <u>2,057,171</u>	\$ <u>1,095,490</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	998	1,287
Net unrealized and realized gain on investments	(2,565,586)	(1,502,679)
Changes in operating assets and liabilities:		
Decrease (Increase) in prepaid expenses and other assets	3,435	(14,155)
(Increase) in UBI tax refund due	(4,794)	(2,956)
Increase in accounts payable and accrued liabilities	791	3,198
(Decrease) Increase in grants payable	(1,385)	101,462
Increase (Decrease) in deferred federal excise tax liability	25,314	(1,960)
Increase in accrued postretirement health care benefit	<u>300</u>	<u>997</u>
Net cash used in operating activities	\$ <u><u>(483,756)</u></u>	\$ <u><u>(319,316)</u></u>

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Notes to Financial Statements
December 31, 2020 and 2019
(dollars in thousands)

1. The Organization

The William and Flora Hewlett Foundation (the “Foundation”) is a private foundation incorporated in 1966 as a non-profit 501(c)(3) charitable organization. The Foundation’s grantmaking activities are concentrated in the program areas of education, environment, performing arts, global development and population, U.S democracy, and advancing the field of philanthropy. More detailed information regarding the Foundation’s charitable activities can be obtained from the Foundation’s website at www.hewlett.org.

2. Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Investments

To the extent available, the Foundation’s investments are recorded at fair value based on quoted prices in active markets. The Foundation’s investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. Futures, forwards, swaps and options that are traded on exchanges are valued at the last reported sale price or, if they are traded over-the-counter, at the most recent bid price. For alternative investments, which are principally limited partnership investments in private equity, real assets, fixed income, absolute return and distress/credit funds, the value is primarily based on the net asset value (NAV) of the underlying investments. The NAV is reported by external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. These investments are generally less liquid than other investments. For these, the value reported may differ from the values that would have been reported had a ready market for these investments existed, and the difference could be material to the change in net assets of the Foundation.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on sales of investments are determined on the specific identification basis.

Foreign currency amounts are translated into U.S. dollars based upon exchange rates as of December 31. Transactions in foreign currencies are translated into U.S. dollars at the exchange rate prevailing on the transaction date.

Cash equivalents categorized as investments include money market mutual funds, foreign currency held for investment purposes, and fixed income securities with an original maturity of three months or less.

The William and Flora Hewlett Foundation
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Cash

Cash consists of funds held in commercial interest-bearing accounts for operating expenses.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line basis over their estimated useful lives. The headquarters building and associated fixtures are depreciated over ten to fifty years. Furniture, computers and office equipment are depreciated over estimated useful lives of three to ten years.

Net Asset Classification

The Foundation's net assets are all classified as net assets without donor restrictions. The Foundation has no assets with board restrictions.

Grant Expense

Grant expense is recognized in the period when the grant award is approved by the Foundation.

Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) and is classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal excise taxes and taxes on unrelated business income.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

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Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, amending the ASC 842. This update requires lessees to recognize operating and financing lease liabilities and corresponding right-of use assets on the statement of financial position. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which stated that the new guidance is effective for the Foundation beginning January 1, 2022. The Foundation is currently evaluating the impact that this guidance will have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The new guidance was effective for the Foundation beginning January 1, 2020, and early adoption was permitted. The Foundation adopted this guidance effective January 1, 2020. There was no impact to the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. This guidance was effective for the Foundation beginning January 1, 2020 and early adoption was permitted. The Foundation adopted this guidance effective January 1, 2018. Based on the new pronouncement, certain changes were made to the ASC 820 Fair Value disclosure in footnote 4.

The William and Flora Hewlett Foundation
Notes to Financial Statements
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3. Investments

The investment goal of the Foundation is to maintain or grow its asset size and spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation's program objectives. The Foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, all financial assets of the Foundation are managed by external investment management firms selected by the Foundation. All financial assets of the Foundation are held in custody by a major commercial bank, except for assets invested with partnerships and commingled funds. These financial assets have separate arrangements related to their legal structure.

The Foundation's investment portfolio at December 31 consists of the following:

	<u>2020</u>	<u>2019</u>
Investments, at fair value		
Public equities	\$ 3,794,569	\$ 3,478,100
Alternative assets	8,030,093	6,318,149
Fixed income	888,643	1,619,543
Net payable on forward fixed income transactions	(93,012)	(739,018)
Cash equivalents	535,476	188,102
Net receivable from investments	12,926	31,289
Derivatives	45	(1,514)
Total	<u>\$ 13,168,740</u>	<u>\$ 10,894,651</u>

Approximately 39% and 42% of the Foundation's assets at December 31, 2020 and 2019, respectively, were invested (directly or indirectly) in publicly traded equities, which are listed on national exchanges, quoted on NASDAQ, or in the over-the-counter market; treasury and agency bonds of the U.S. government; and investment grade corporate bonds for which active trading markets exist.

Alternative assets consist of private equity, real assets, fixed income, absolute return and distress/credit assets, held in partnership or trust format. Approximately 61% and 58% of the Foundation's investments at December 31, 2020 and 2019, respectively, were invested with various limited partnerships and managers that invest in the securities of companies that are not immediately liquid, such as venture capital and buyout firms, and real estate limited partnerships that have investments in various types of properties. At December 31, 2020 and 2019, the Foundation's commitment to contribute additional capital in future years to various partnerships was approximately \$2,208,958 and \$2,397,868, respectively.

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Net realized and unrealized gains on investments are reflected in the statements of activities and changes in net assets. The net gain on the Foundation's investment portfolio for the years ended December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Net realized gain	\$ 852,396	\$ 658,716
Net unrealized gain	<u>1,713,190</u>	<u>843,963</u>
	<u>\$ 2,565,586</u>	<u>\$ 1,502,679</u>

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Foundation's investments and total net assets balance could fluctuate materially. The Foundation's holdings in limited partnerships entail liquidity risk. The underlying investments held within these partnerships are generally in privately held companies. There is no readily available market for such privately held companies, and investments in those may be subject to legal restrictions on transfer. As a result, there is no assurance that the Foundation will be able to realize liquidity for such investments in a specified time frame.

The Foundation maintains a custody account with a major custodian bank. Although the Foundation monitors and believes that it is an appropriate custodian, there is no guarantee that the custodian, or any other custodian that the Foundation may use from time to time, will not become insolvent.

The Foundation holds repurchase agreement and reverse repurchase agreement securities in its investment portfolio. The Foundation held reverse repurchase agreements in 2020, and both repurchase agreements and reverse repurchase agreements in 2019. These securities are held in a separately managed account, and the majority of these securities are in the distress/credit portion of the portfolio. In a repurchase agreement, the Foundation buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future at an agreed upon price. In a reverse repurchase agreement, the Foundation sells a security to another party (usually a financial institution) with the agreement that it be bought back in the future at an agreed upon price. Repurchase and reverse repurchase agreements subject the Foundation to counterparty risk, meaning that the Foundation could lose money if the other party fails to perform under the terms of the agreement. For repurchase agreements, the Foundation attempts to mitigate this risk by ensuring that its repurchase agreements are collateralized by U.S. government agency securities and treasury securities. For reverse repurchase agreements, the Foundation attempts to mitigate this risk by ensuring that it receives cash in exchange for the security. All collateral is held by the custodian and is monitored daily to ensure that it continues to meet the terms of the repurchase agreements. Investments in repurchase and reverse repurchase agreements are also based on a review of the credit quality of the counterparty.

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Notes to Financial Statements
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For the years ended December 31, 2020 and 2019, purchases and sales of securities included “in-kind” distributions from underlying private equity funds totaling \$386,365 and \$244,882, respectively.

At December 31, 2020, the Foundation’s net receivable from investments included a receivable from brokers of \$115,403 and a payable to brokers of \$102,477. At December 31, 2019, the net receivable from investments included a receivable from brokers of \$116,384 and a payable to brokers of \$85,095.

Derivative Instruments

The Foundation transacts in a variety of derivative instruments including futures, forwards, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, foreign exchange or equity risk. The fair value of these derivative instruments, held in the Foundation’s separately managed accounts, is included in the investments line item in the statements of financial position with changes in fair value reflected as realized gains (losses) or unrealized gains (losses) on investment portfolio in the statements of activities and changes in net assets.

The Foundation does not designate any derivative instruments as hedging instruments under U.S. GAAP.

For certain derivatives, the Foundation has a master netting arrangement which allows the counterparty to the transactions to net applicable collateral held on behalf of the Foundation against applicable liabilities of the Foundation to the counterparty.

Some investment managers retained by the Foundation have been authorized to use certain financial derivative instruments in a manner set forth by the Foundation’s written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, financial derivative instruments may be used for the following purposes: (1) currency forward contracts and options are used to hedge non-dollar 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.

Certain investment managers purchase or sell fixed income securities on a delayed delivery or forward settled basis. These transactions involve a commitment by the Foundation to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period, typically from 1 to 3 months. If a security is purchased on a delayed delivery basis, the Foundation assumes the rights and risks of ownership of the security at the time of the purchase, including the risk of price and yield fluctuations. Subsequently, the Foundation reflects such fluctuations in its net assets. The investment 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 realized gain or loss. At December 31, 2020, the Foundation’s net liability for these forward purchases and sales included a receivable from investment managers of \$119,383 and a payable to investment managers of \$212,395. At December 31, 2019, the Foundation’s net liability for these forward purchases and sales included a receivable from investment managers of \$143,482 and a payable to investment managers of \$882,500.

The William and Flora Hewlett Foundation
Notes to Financial Statements
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Net premiums received with respect to open options contracts at December 31, 2020 and 2019 were \$4 and \$59, respectively. The total value of investments pledged with respect to options and futures contracts at December 31, 2020 and 2019 was \$0. The value of restricted cash held at brokers as collateral for variation margin at December 31, 2020 and 2019 was \$2,520 and \$7,764, respectively.

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

The William and Flora Hewlett Foundation
Notes to Financial Statements
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The following table lists the fair value of derivative assets and liabilities, and reverse repurchase agreements, by contract type. These are included and reported as investments in the statement of financial position at December 31, 2020. The table excludes exposures relating to derivatives held indirectly through commingled funds.

	Assets			Liabilities			Net Amounts of Assets Presented in the Statement of Financial Position	Collateral Pledged / (Received) ¹	Net Amount
	Average Notional	Average # of Contracts	Gross Amounts of Recognized Assets	Average Notional	Average # of Contracts	Gross Amounts Offset in the Statement of Financial Position			
Derivatives not designated as hedging instruments under ASC 815									
Interest rate contracts	\$ 30,591	14,722	\$ 857	\$ 37,015	8,866	\$ (2,420)	\$ (1,563)	\$ 778	\$ (785)
Futures - Interest rate contracts	-	-	114	-	(1)	(87)	27	(27)	-
Credit contracts	71,758	-	1,652	21,257	4,280	(52)	1,600	(1,565)	35
Equity contracts	493	(3,520)	-	695	4,084	-	-	-	-
Foreign exchange contracts	29,725	-	5,786	(29,736)	-	(5,805)	(19)	-	(19)
Total derivatives			<u>\$ 8,409</u>			<u>\$ (8,364)</u>	<u>\$ 45</u>	<u>\$ (814)</u>	<u>\$ (769)</u>
Repurchase agreements			\$ -			\$ -	\$ -	\$ -	\$ -
Reverse repurchase agreements			-			(121,147)	(121,147)	121,147	-
Total offsetting financial instruments			<u>\$ 8,409</u>			<u>\$ (129,511)</u>	<u>\$ (121,102)</u>	<u>\$ 120,333</u>	<u>\$ (769)</u>

¹ Excess collateral pledged / received is not shown for financial reporting purposes.

The William and Flora Hewlett Foundation
Notes to Financial Statements
December 31, 2020 and 2019
(dollars in thousands)

The following table lists the fair value of derivatives assets and liabilities, and reverse repurchase agreements, by contract type. These are included and reported as investments in the statement of financial position at December 31, 2019. The table excludes exposures relating to derivatives held indirectly through commingled funds.

	Assets			Liabilities			Net Amounts of Assets Presented in the Statement of Financial Position	Collateral Pledged / (Received) ¹	Net Amount
	Average Notional	Average # of Contracts	Gross Amounts of Recognized Assets	Average Notional	Average # of Contracts	Gross Amounts Offset in the Statement of Financial Position			
Derivatives not designated as hedging instruments under ASC 815									
Interest rate contracts	\$ 94,919	16,142	\$ 3,961	\$ 109,751	15,649	\$ (7,351)	\$ (3,390)	\$ 3,011	\$ (379)
Futures - Interest rate contracts	-	1	1,841	-	-	(4,030)	(2,189)	2,189	-
Credit contracts	185,738	-	4,014	6,266	12,420	(68)	3,946	-	3,946
Equity contracts	2,817	3,520	636	2,645	25,760	(383)	253	-	253
Foreign exchange contracts	77,218	-	60,401	(77,291)	-	(60,535)	(134)	134	-
Total derivatives			<u>\$ 70,853</u>			<u>\$ (72,367)</u>	<u>\$ (1,514)</u>	<u>\$ 5,334</u>	<u>\$ 3,820</u>
Repurchase agreements			\$ 13,300			\$ -	\$ 13,300	\$ (13,300)	\$ -
Reverse repurchase agreements			-			(79,718)	(79,718)	78,794	(924)
Total offsetting financial instruments			<u>\$ 84,153</u>			<u>\$ (152,085)</u>	<u>\$ (67,932)</u>	<u>\$ 70,828</u>	<u>\$ 2,896</u>

¹ Excess collateral pledged / received is not shown for financial reporting purposes.

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The following table indicates the gains and losses recognized as income on derivatives, by contract type. These are included and reported as part of gain on investment portfolio in the statement of activities and changes in net assets for the year ended December 31, 2020.

	Change in Unrealized Gain or (Loss)	Realized Gain or (Loss)
Derivatives not designated as hedging instruments under ASC 815		
Interest rate contracts	\$ 754	\$ (4,493)
Futures - Interest rate contracts	2,217	13,245
Credit contracts	(1,526)	(60)
Equity contracts	(98)	(1,198)
Foreign exchange contracts	115	(390)
Total gain on derivatives, net	<u>\$ 1,462</u>	<u>\$ 7,104</u>

The following table indicates the gains and losses recognized as income on derivatives, by contract type. These are included and reported as part of gain on investment portfolio in the statement of activities and changes in net assets for the year ended December 31, 2019.

	Change in Unrealized Gain or (Loss)	Realized Gain or (Loss)
Derivatives not designated as hedging instruments under ASC 815		
Interest rate contracts	\$ (1,129)	\$ (4,043)
Futures - Interest rate contracts	(5,475)	9,913
Credit contracts	2,784	3,071
Equity contracts	170	8,075
Foreign exchange contracts	(214)	84
Total gain (loss) on derivatives, net	<u>\$ (3,864)</u>	<u>\$ 17,100</u>

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Credit Default Swaps

The Foundation's investment managers enter into credit default swaps. Credit default swaps are used to reduce risk where the Foundation has exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default. The reference obligation of the swap can be a single issuer, a "basket" of issuers, or an index. The underlying referenced assets are typically corporate debt, sovereign debt and asset backed securities.

The buyer of a credit default swap is generally obligated to pay the seller fixed periodic payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the par value (equal to the notional amount less recovery value of the security or underlying securities) of the reference obligation, though the actual payment may be mitigated by terms of the International Swaps and Derivative Agreement ("ISDA"), allowing for netting arrangements and collateral.

The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. If the Foundation's investment manager is a buyer and no credit event occurs, the Foundation may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the Foundation receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the Foundation may be obligated to pay the buyer an amount up to the full notional value of the reference obligation.

As of December 31, 2020 and 2019, the Foundation is the buyer ("receiving protection") on a total notional amount of \$0 and \$2,100, respectively, and is the seller ("providing protection") on a total notional amount of \$66,043 and \$165,759, respectively. The notional amounts of the swaps are not recorded in the financial statements; however, the notional amount does approximate the maximum potential amount of future payments that the Foundation could be required to make if the Foundation were the seller of protection and a credit event were to occur.

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Those credit default swaps for which the Foundation was providing protection as December 31, 2020 are summarized as follows:

Written Credit Derivative Contracts Reference Asset:	Single Name Credit Default Swaps			Credit Default Swap Index	Total
	Corporate Debt	Sovereign Debt	Asset Backed Securities	Corporate Debt	
Fair value of written credit derivatives	\$ (29)	\$ (12)	\$ 3	\$ 1,638	\$ 1,600
Maximum potential amount of future payments	\$ 912	\$ 1,500	\$ 367	\$ 63,264	\$ 66,043
Recourse provisions with 3rd parties to recover any amounts paid under the credit derivative					\$ -

<u>Maximum Potential Amount of Future Payments By Contract Term</u>					
	<u>0-12 months</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>Over 10 years</u>	<u>Total</u>
Current rating on underlying:					
AAA	\$ -	\$ -	\$ -	\$ -	\$ -
AA	367				367
A		3,304			3,304
BBB	2,100	54,500			56,600
<BBB		5,772			5,772
Total	<u>\$ 2,467</u>	<u>\$ 63,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,043</u>

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Those credit default swaps for which the Foundation was providing protection at December 31, 2019 are summarized as follows:

Written Credit Derivative Contracts Reference Asset:	Single Name Credit Default Swaps		Credit Default Swap Index		Total
	Corporate Debt	Sovereign Debt	Asset Backed Securities	Corporate Debt	
Fair value of written credit derivatives	\$ 97	\$ 17	\$ 48	\$ 3,830	\$ 3,992
Maximum potential amount of future payments	\$ 4,373	\$ 5,000	\$ 4,386	\$ 152,000	\$ 165,759
Recourse provisions with 3rd parties to recover any amounts paid under the credit derivative					\$ -

<u>Maximum Potential Amount of Future Payments By Contract Term</u>					
	<u>0-12 months</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>Over 10 years</u>	<u>Total</u>
Current rating on underlying:					
AAA	\$ -	\$ -	\$ -	\$ 4,386	\$ 4,386
AA					-
A	112				112
BBB	100	157,361			157,461
<BBB	3,800				3,800
Total	<u>\$ 4,012</u>	<u>\$ 157,361</u>	<u>\$ -</u>	<u>\$ 4,386</u>	<u>\$ 165,759</u>

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4. Valuation of Investments

U.S. GAAP has established a framework to measure fair value and defined the required disclosures about fair value measurements. FASB Accounting Standards Codification ASC 820 on Fair Value Measurements favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I – Investments whose values are based on quoted market prices in active markets for identical securities are classified as Level I. The type of investments in Level I include listed equities, derivatives and U.S. Treasury securities.

Level II – Investments that trade in markets that are not actively traded, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources for similar assets or liabilities are classified as Level II. These investments include certain U.S. government and sovereign obligations, government agency obligations, derivatives and certain limited marketable securities. In instances where valuation models are used, inputs can include market prices for reference securities, yield curves, exchange rates or interest rates.

Level III – Investments classified as Level III have significant unobservable pricing inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstances, including the use of models, and may require significant management judgment. Investments in this category include certain thinly traded securities for which quoted market prices are not readily available.

NAV – Investments include privately held investments and securities held in partnership or trust format, and for these the Net Asset Value (NAV) as a practical expedient has been used. These investments have not been classified in the fair value hierarchy and the amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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The following table summarizes the valuation of the Foundation's investments by the ASC 820 fair value hierarchy levels as of December 31, 2020:

	Level I	Level II	Level III	NAV	Total
Public Equities	\$ 445,309	\$ -	\$ -	\$ 3,349,260	\$ 3,794,569
Fixed Income ¹	622,503	67,279	-	198,861	888,643
Cash Equivalents	405,229	130,247			535,476
Alternative Assets:					
Private Equity				4,460,342	4,460,342
Real Assets				893,586	893,586
Distress / Credit		227,610	15,348	1,565,798	1,808,756
Absolute Return				867,409	867,409
Derivatives - Assets	6,669	1,740			8,409
	\$ 1,479,710	\$ 426,876	\$ 15,348	\$ 11,335,256	\$ 13,257,190
Derivatives - Liabilities	(7,671)	(693)			(8,364)
	\$ 1,472,039	\$ 426,183	\$ 15,348	\$ 11,335,256	13,248,826
Accrued Income and Net Payables and Receivables					(80,086)
Total Investments					\$ 13,168,740

¹ Within the fixed income portion of portfolio, the Foundation holds certain asset-backed securities which are traded on a to be announced (TBA) basis. At December 31, 2020, the fair value of the long and short positions of these TBA securities were \$68,444 and (\$2,649), respectively.

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The following table summarizes the valuation of the Foundation's investments by the ASC 820 fair value hierarchy levels as of December 31, 2019:

	Level I	Level II	Level III	NAV	Total
Public Equities	\$ 452,951	\$ -	\$ -	\$ 3,025,149	\$ 3,478,100
Fixed Income ¹	1,157,236	288,236	350	173,721	1,619,543
Cash Equivalents	23,861	164,241			188,102
Alternative Assets:					
Private Equity				2,920,567	2,920,567
Real Assets				843,201	843,201
Distress / Credit		223,373	13,230	1,395,572	1,632,175
Absolute Return				922,206	922,206
Derivatives - Assets	64,762	6,091			70,853
	\$ 1,698,810	\$ 681,941	\$ 13,580	\$ 9,280,416	\$ 11,674,747
Derivatives - Liabilities	(69,605)	(2,762)			(72,367)
	\$ 1,629,205	\$ 679,179	\$ 13,580	\$ 9,280,416	11,602,380
Accrued Income and Net Payables and Receivables					(707,729)
Total Investments					\$ 10,894,651

¹ Within the fixed income portion of portfolio, the Foundation holds certain asset-backed securities which are traded on a to be announced (TBA) basis. At December 31, 2019, the fair value of the long and short positions of these TBA securities were \$292,598 and (\$6,637), respectively.

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The following table includes the Foundation's Level III activity for the year ended December 31, 2020:

	Purchases	Transfers Into Level III	Transfers Out of Level III
Public Equities	\$ -	\$ -	\$ -
Distress / Credit	6,592		
Total	\$ 6,592	\$ -	\$ -

The following table includes the Foundation's Level III activity for the year ended December 31, 2019:

	Purchases	Transfers Into Level III	Transfers Out of Level III
Public Equities	\$ -	\$ -	\$ 1,623
Distress / Credit			
Total	\$ -	\$ -	\$ 1,623

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The Foundation uses the NAV as a practical expedient to determine the fair value of all the underlying investments which (a) do not have a 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.

The following table lists investments in investment funds (in partnership or trust format) by major category as of December 31, 2020:

	Strategy	Fair Value	Remaining Life (Years)	Unfunded Commitments	Redemption Terms
Public Equities	Global, primarily long-only in equities	\$ 3,349	0 to 5	\$ 14	Generally, lock up provisions ranging from 0 to 3 years. After initial lock up expires, daily to annual redemptions are available with 1 to 365 days prior notice.
Fixed Income	Global private fixed income	199	0 to 7	191	Not eligible for redemption
Private Equity	Global venture and buyout	4,460	0 to 14	1,092	Not eligible for redemption
Real Assets	Real estate and natural resources, primarily in the U.S.	894	0 to 14	630	Not eligible for redemption
Distress / Credit	Global distressed asset and credit strategies	1,566	0 to 12	191	Funds that are in private equity structures are not eligible for redemption. Otherwise, generally, lock up provisions ranging from 0 to 2 years. After initial lock up expires, daily to annual redemptions are available with 7 to 90 days prior notice.
Absolute Return	Global equity and fixed income in market neutral strategies	867	0 to 1	91	Generally, lock up provisions ranging from 0 to 2 years. After initial lock up expires, monthly to annual redemptions are available with 5 to 60 days prior notice.
Total		<u>\$ 11,335</u>		<u>\$ 2,209</u>	

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The following table lists investments in investment funds (in partnership or trust format) by major category as of December 31, 2019:

	Strategy	Fair Value	Remaining Life (Years)	Unfunded Commitments	Redemption Terms
Public Equities	Global, primarily long-only in equities	\$ 3,025	0 to 5	\$ 64	Generally, lock up provisions ranging from 0 to 4 years. After initial lock up expires, daily to annual redemptions are available with 1 to 365 days prior notice.
Fixed Income	Global private fixed income	174	0 to 7	229	Not eligible for redemption
Private Equity	Global venture and buyout	2,920	0 to 14	1,129	Not eligible for redemption
Real Assets	Real estate and natural resources, primarily in the U.S.	843	0 to 14	663	Not eligible for redemption
Distress / Credit	Global distressed asset and credit strategies	1,396	0 to 12	212	Funds that are in private equity structures are not eligible for redemption. Otherwise, generally, lock up provisions ranging from 0 to 2 years. After initial lock up expires, daily to annual redemptions are available with 7 to 180 days prior notice.
Absolute Return	Global equity and fixed income in market neutral strategies	922	0 to 1	101	Generally, lock up provisions ranging from 0 to 2 years. After initial lock up expires, monthly to annual redemptions are available with 5 to 90 days prior notice.
Total		<u>\$ 9,280</u>		<u>\$ 2,398</u>	

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5. Property and Equipment, Net

Property and equipment consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Building, land lease and land improvements	\$ 34,391	\$ 34,391
Furniture and fixtures	6,220	6,198
Computer and office equipment	3,338	3,114
Work in progress	<u>6,398</u>	<u>2,236</u>
	50,347	45,939
Less accumulated depreciation and amortization	<u>(23,163)</u>	<u>(22,449)</u>
	<u>\$ 27,184</u>	<u>\$ 23,490</u>

6. Benefit Plans

Retirement Plans

The Foundation sponsors a 403(b) defined contribution plan for its eligible employees. Foundation contributions to the plan totaled \$2,843 and \$2,683 in 2020 and 2019, respectively.

The Foundation also has an unfunded 457(b) deferred compensation plan. Subject to statutory limits, the Foundation contributes to the plan on behalf of eligible employees that did not receive their full contributions to the defined contribution plan due to Internal Revenue Service limits. In relation to this plan, at December 31, 2020 and 2019 the Foundation held assets of \$2,605 and \$2,252, respectively, which are included in Prepaid expenses and other assets. These assets are designated by the Foundation to pay future 457(b) plan liabilities. The corresponding liability of \$2,605 and \$2,252, respectively, are included in accounts payable and accrued liabilities.

Postretirement Health Care Benefit

The Foundation provides a health care benefit to retired employees and their eligible dependents. Net periodic benefit costs totaled \$358 and \$402 in 2020 and 2019, respectively. The liability for the postretirement benefit obligation was \$6,793 and \$6,493 as of December 31, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
Discount rate to determine benefit obligations	2.31%	3.07%
Discount rate to determine the net periodic benefit cost	3.07%	4.12%

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7. Grants Payable

At December 31, 2020 and 2019, grants payable totaled \$253,930 and \$255,315, respectively. Grants payable activity consisted of the following:

	<u>2020</u>	<u>2019</u>
Grants payable balance, beginning of year	\$ 255,315	\$ 153,853
Awards	471,403	458,042
Payments	(468,490)	(353,109)
Cancellations and adjustments	<u>(4,298)</u>	<u>(3,471)</u>
Grants payable balance, end of year	\$ <u>253,930</u>	\$ <u>255,315</u>

Grants authorized but unpaid at December 31, 2020 are payable as follows:

<u>Year Payable</u>	<u>Amount</u>
2021	\$ 205,372
2022	41,580
2023	5,878
2024	<u>1,100</u>
	\$ <u>253,930</u>

8. Credit Facilities and Liquidity

The Foundation has a collateralized revolving line of credit (“LOC”) of \$300,000. This LOC does not have an expiration date and is collateralized by two securities accounts. In addition, as of December 31, 2020, the Foundation had a one-year committed revolving LOC of \$200,000 which was scheduled to expire on April 16, 2021. On April 9, 2021, the Foundation renewed its \$200,000 revolving LOC and it is now scheduled to expire on April 8, 2022.

At December 31, 2020 and 2019, there were outstanding principal balances of \$250,000 and \$0, respectively. The \$250,000 outstanding balance was paid off by the end of January 2021. The interest rates on these lines of credit were variable and indexed to the one-month London Interbank Offered Rate (“LIBOR”), whereby LIBOR was subject to floors between 50 and 100 bps.

In addition to the two separate line of credit agreements which can be drawn upon in the event of immediate liquidity needs, the Foundation has various sources of liquidity at its disposal including cash equivalents and marketable debt and equity securities to meet short-term needs.

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9. Federal Excise and Unrelated Business Income Tax

The Foundation is a private foundation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Private foundations were historically subject to a 2% federal excise tax on net investment income, which consists of interest and dividend income and net realized gains on the sale of investments. Foundations could reduce their excise tax rate from 2% to 1% by meeting certain distribution requirements for the year.

On December 20, 2019, the Further Consolidated Appropriations Act of 2020 (the “Act”) was signed into law simplifying the federal excise tax on private foundations. The Act eliminated the two-tiered system of excise tax on net investment income described above and replaced it with a flat excise tax rate of 1.39%. This flat rate was effective January 1, 2020 for the Foundation. The Foundation’s provision for current federal excise tax is based on a 1.39% excise tax rate on net investment income in 2020 and a 2% excise tax rate on net investment income in 2019.

Deferred tax items are created when certain income and expense items are accounted for in different time periods for financial statement purposes than for tax purposes. Deferred federal excise taxes (benefits) result from changes in unrealized investments. The financial statements for the year ended December 31, 2020 and 2019 reflect deferred taxes at the 1.39% rate.

The Foundation is also subject to current federal and state unrelated business income (UBI) tax, in connection with certain of its limited partnership interests.

	<u>2020</u>	<u>2019</u>
Current federal excise tax expense	\$ 13,844	\$ 13,739
Deferred federal excise tax expense (benefit)	<u>23,967</u>	<u>(2,736)</u>
Excise tax expense	37,811	11,003
Current UBI tax benefit	(4,389)	(2,166)
Deferred UBI tax expense (benefit)	<u>85</u>	<u>(16,200)</u>
UBI tax benefit	(4,304)	(18,366)
Tax expense (benefit) on investment income	<u>\$ 33,507</u>	<u>\$ (7,363)</u>

The Foundation believes that it has appropriate support for the excise and other tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation’s financial position or change in total net assets.

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10. Functional Expenses

The Foundation's operating expenses include costs for programs and supporting services. These expenses have been summarized on a functional basis in the accompanying statement of activities and changes in net assets. Certain costs, principally occupancy, telecommunications and technology, are allocated among the programs and supporting services on the basis of headcount in the respective functional area. Other expenses include recruitment and relocation costs, legal, tax and audit fees, employee training, and other miscellaneous costs.

These expenses are summarized on a functional basis below:

	2020		
	Program	Supporting	Total
Compensation and Benefits	\$ 16,727	\$ 8,908	\$ 25,635
Professional services	8,126	1,189	9,315
Interest expense	-	2,426	2,426
Occupancy	1,035	636	1,671
Telecommunications and technology	455	1,108	1,563
Travel	440	49	489
Other	465	1,174	1,639
Total program and supporting expenses	<u>\$ 27,248</u>	<u>\$ 15,490</u>	<u>\$ 42,738</u>

	2019		
	Program	Supporting	Total
Compensation and Benefits	\$ 16,386	\$ 8,273	\$ 24,659
Professional services	6,557	1,004	7,561
Travel	2,539	217	2,756
Occupancy	1,022	660	1,682
Telecommunications and technology	314	1,103	1,417
Other	520	1,312	1,832
Total program and supporting expenses	<u>\$ 27,338</u>	<u>\$ 12,569</u>	<u>\$ 39,907</u>

11. Subsequent Events

The Foundation has evaluated subsequent events for the period from December 31, 2020 through May 27, 2021, the date the financial statements were issued, and believes no additional disclosures are required in the financial statements.