

**The William and Flora  
Hewlett Foundation**

**Financial Statements as of and for the years ended  
December 31, 2023 and 2022**

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**GRANT THORNTON LLP**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors  
The William and Flora Hewlett Foundation

**Opinion**

We have audited the financial statements of The William and Flora Hewlett Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 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.

**Other matter**

The financial statements of the Foundation as of December 31, 2022 and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated May 25, 2023.

**Basis for opinion**

We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's 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 for one year after the date the financial statements are available to be issued.

**Auditor's 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 auditor's 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 US GAAS 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 US GAAS, 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 control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

*Grant Thornton LLP*

New York, New York  
June 14, 2024

**The William and Flora Hewlett Foundation**  
**Statements of Financial Position**  
**December 31, 2023 and 2022**  
**(dollars in thousands)**

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	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Cash	\$ 81,981	\$ 84,295
Investments, at fair value (Notes 3 and 4)	13,177,852	12,625,467
Unrelated business income ("UBI") tax refund due	9,818	9,280
Prepaid expenses and other assets	38,528	33,614
Property and equipment, net (Note 5)	<u>23,994</u>	<u>26,453</u>
 Total assets	 <u>\$ 13,332,173</u>	 <u>\$ 12,779,109</u>
 <b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 21,079	\$ 17,879
Accrued postretirement health care benefit (Note 6)	4,995	4,835
Deferred federal excise tax liability (Note 10)	64,259	56,496
Grants payable (Note 7)	<u>258,679</u>	<u>244,111</u>
 Total liabilities	 349,012	 323,321
 Net assets, without donor restrictions	 <u>12,983,161</u>	 <u>12,455,788</u>
 Total liabilities and net assets	 <u>\$ 13,332,173</u>	 <u>\$ 12,779,109</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, 2023 and 2022**  
**(dollars in thousands)**

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	<u>2023</u>	<u>2022</u>
<b>Revenue</b>		
Interest, dividends and other income	\$ 106,854	\$ 117,531
Gain (loss) on investment portfolio (Note 3)	1,117,530	(1,543,402)
Investment management expense	<u>(19,756)</u>	<u>(22,475)</u>
Net investment income (loss)	1,204,628	(1,448,346)
Tax (expense) benefit on net investment income (Note 10)	<u>(11,708)</u>	<u>13,609</u>
Net investment revenue (loss)	<u>1,192,920</u>	<u>(1,434,737)</u>
<b>Expense</b>		
Grants awarded, net of cancellations	(602,304)	(557,601)
Direct and other charitable activities	(8,991)	(7,502)
Program expenses	(36,901)	(34,678)
Supporting expenses	(15,638)	(16,406)
Other tax expense	(1,778)	(1,787)
Post-retirement plan - actuarial gain	<u>65</u>	<u>2,175</u>
Total expense	<u>(665,547)</u>	<u>(615,799)</u>
Change in net assets, without donor restrictions	527,373	(2,050,536)
Net assets, without donor restrictions		
Beginning of year	<u>12,455,788</u>	<u>14,506,324</u>
End of year	\$ <u><u>12,983,161</u></u>	\$ <u><u>12,455,788</u></u>

See accompanying notes to the financial statements.

**The William and Flora Hewlett Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**  
**(dollars in thousands)**

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	<u>2023</u>	<u>2022</u>
<b>Cash flows used in operating activities</b>		
Interest and dividends received	\$ 104,953	\$ 121,346
Cash paid for taxes	(8,140)	(12,702)
Cash paid to suppliers and employees	(76,150)	(82,586)
Cash paid to grantees	<u>(587,736)</u>	<u>(558,038)</u>
Net cash used in operating activities	<u>(567,073)</u>	<u>(531,980)</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(386)	(81)
Proceeds from sales of investments	20,125,905	20,545,152
Purchases of investments	<u>(19,560,760)</u>	<u>(19,935,583)</u>
Net cash from investing activities	<u>564,759</u>	<u>609,488</u>
Net change in cash	(2,314)	77,508
Cash, beginning of year	<u>84,295</u>	<u>6,787</u>
Cash, end of year	\$ <u><u>81,981</u></u>	\$ <u><u>84,295</u></u>

See accompanying notes to the financial statements.

**The William and Flora Hewlett Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**  
**(dollars in thousands)**

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	<u>2023</u>	<u>2022</u>
<b>Reconciliation of change in net assets without donor restrictions to net cash used in operating activities</b>		
Change in net assets, without donor restrictions	\$ <u>527,373</u>	\$ <u>(2,050,536)</u>
<b>Adjustments to reconcile change in net assets to net cash used in operating activities</b>		
Depreciation and amortization	2,845	2,922
Net unrealized and realized (gain) loss on investments	(1,117,530)	1,543,402
<b>Changes in operating assets and liabilities</b>		
(Increase) decrease in UBI tax refund due	(538)	2,978
(Increase) decrease in prepaid expenses and other assets	(4,914)	658
Increase in accounts payable and accrued liabilities	3,200	471
Increase (decrease) in accrued postretirement health care benefit	160	(1,889)
Increase (decrease) in deferred federal excise tax liability	7,763	(29,549)
Increase (decrease) in grants payable	<u>14,568</u>	<u>(437)</u>
Net cash used in operating activities	\$ <u><u>(567,073)</u></u>	\$ <u><u>(531,980)</u></u>

See accompanying notes to the financial statements.

**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
**December 31, 2023 and 2022**  
**(dollars in thousands)**

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**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, gender equity and governance, 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](http://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, low and intermediate risk assets (“LIRA”) 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 from the date of purchase.

**Cash**

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



**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
**December 31, 2023 and 2022**  
**(dollars in thousands)**

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**Property and Equipment**

Property and equipment over \$50,000 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 three to ten years. Internally developed software is depreciated over an estimated useful life of 5 years.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2023 and 2022.

**Net Asset Classification**

The Foundation's net assets are available for use in general operations and not subject to donor-imposed restrictions. The Foundation has no assets with board designations.

**Grants and Direct Charitable Activities**

Grant expense is recognized in the period when the grant award is approved by the Foundation. Direct and other charitable activities include convenings, technical assistance and research studies for grantees and the field.

**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.

**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
**December 31, 2023 and 2022**  
**(dollars in thousands)**

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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 of the Foundation’s financial assets are managed by external investment management firms selected by the Foundation. The Foundation’s financial assets 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>2023</u>	<u>2022</u>
Investments, at fair value		
Public equities	\$ 3,200,101	\$ 3,090,514
Alternative assets	9,268,976	8,971,291
Fixed income	210,065	388,074
Net payable on forward fixed income transactions	(164,298)	(236,103)
Cash equivalents	765,584	422,057
Net payable to investments	(112,530)	(12,978)
Derivatives	9,954	2,612
Total	<u>\$ 13,177,852</u>	<u>\$ 12,625,467</u>

Approximately 30% and 29% of the Foundation’s assets at December 31, 2023 and 2022, 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, and low and intermediate risk assets (“LIRA”) held in partnership or trust format. Approximately 70% and 71% of the Foundation’s investments at December 31, 2023 and 2022, 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, 2023 and 2022, the Foundation’s commitment to contribute additional capital in future years to various partnerships was approximately \$2,685,241 and \$2,960,029, respectively.

**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
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Net realized and unrealized gains (losses) on investments are reflected in the statements of activities and changes in net assets. The net gain (loss) on the Foundation's investment portfolio for the years ended December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Net realized gain	\$ 492,284	\$ 504,220
Net unrealized gain (loss)	<u>625,246</u>	<u>(2,047,622)</u>
	<u>\$ 1,117,530</u>	<u>\$ (1,543,402)</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 assets 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 and reverse repurchase agreement securities in its investment portfolio, and it held both repurchase and reverse repurchase agreements in 2023 and 2022. These securities are held in a separately managed account, and the majority of these securities are in the LIRA 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.

**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
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**(dollars in thousands)**

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For the years ended December 31, 2023 and 2022, purchases and sales of securities included “in-kind” distributions from underlying private equity funds totaling \$193,250 and \$291,877, respectively.

At December 31, 2023, the Foundation’s net payable to investments included a receivable from brokers of \$70,888 and a payable to brokers of \$183,418. At December 31, 2022, the Foundation’s net payable to investments included a receivable from brokers of \$36,993 and a payable to brokers of \$49,971.

**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, 2023, the Foundation’s net liability for these forward purchases and sales included a receivable from investment managers of \$186,185 and a payable to investment managers of \$350,483. At December 31, 2022, the Foundation’s net liability for these forward purchases and sales included a receivable from investment managers of \$417,495 and a payable to investment managers of \$653,598.

**The William and Flora Hewlett Foundation**  
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At December 31, 2023 and 2022, there were no open options contracts, and consequently, no net premiums were received. Furthermore, the total value of investments pledged with respect to options and futures contracts remained at \$0 for both periods. The value of restricted cash held at brokers as collateral for variation margin at December 31, 2023 and 2022 was \$5,650 and \$16,288, 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**  
**December 31, 2023 and 2022**  
**(dollars in thousands)**

The following table lists the fair value of derivative assets and liabilities, and repurchase and reverse repurchase agreements, by contract type. These are included and reported as investments in the statement of financial position at December 31, 2023. 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 <sup>1</sup>	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	\$ 83,840	-	\$ 17,572	\$ (11,680)	-	\$ (17,805)	\$ (233)	\$ 233	\$ -
Futures - Interest rate contracts	-	2	10,346	-	1	(129)	10,217	-	10,217
Equity contracts	45	-	-	-	-	-	-	-	-
Foreign exchange contracts	4,305	-	2,370	(4,297)	-	(2,400)	(30)	30	-
Total derivatives			<u>\$ 30,288</u>			<u>\$ (20,334)</u>	<u>\$ 9,954</u>	<u>\$ 263</u>	<u>\$ 10,217</u>
Repurchase agreements			\$ 33,596			\$ -	\$ 33,596	\$ -	\$ 33,596
Reverse repurchase agreements			-			(160,383)	(160,383)	160,383	-
Total offsetting financial instruments			<u>\$ 63,884</u>			<u>\$ (180,717)</u>	<u>\$ (116,833)</u>	<u>\$ 160,646</u>	<u>\$ 43,813</u>

<sup>1</sup> Excess collateral pledged is not shown for financial reporting purposes.

**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
**December 31, 2023 and 2022**  
**(dollars in thousands)**

The following table lists the fair value of derivative assets and liabilities, and repurchase and reverse repurchase agreements, by contract type. These are included and reported as investments in the statement of financial position at December 31, 2022. The table excludes exposures relating to derivatives held indirectly through commingled funds.

	Assets			Liabilities			Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Collateral Pledged <sup>1</sup>	Net Amount
	Average Notional	Average # of Contracts	Gross Amounts of Recognized Assets	Average Notional	Average # of Contracts					
Derivatives not designated as hedging instruments under ASC 815										
Interest rate contracts	\$ 31,357	(620)	\$ 19,394	\$ 20,689	(16,556)	\$ (19,452)	\$ (58)	\$ 58	\$ -	
Futures - Interest rate contracts	-	1	3,023	-	1	(316)	2,707	-	2,707	
Credit contracts	33,261	-	-	4,945	-	-	-	-	-	
Foreign exchange contracts	10,606	-	9,638	(10,610)	-	(9,675)	(37)	-	(37)	
Total derivatives			<u>\$ 32,055</u>			<u>\$ (29,443)</u>	<u>\$ 2,612</u>	<u>\$ 58</u>	<u>\$ 2,670</u>	
Repurchase agreements			\$ 28,400			\$ -	\$ 28,400	\$ -	\$ 28,400	
Reverse repurchase agreements			-			(160,454)	(160,454)	158,928	(1,526)	
Total offsetting financial instruments			<u>\$ 60,455</u>			<u>\$ (189,897)</u>	<u>\$ (129,442)</u>	<u>\$ 158,986</u>	<u>\$ 29,544</u>	

<sup>1</sup> Excess collateral pledged is not shown for financial reporting purposes.

**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
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**(dollars in thousands)**

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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 (loss) on investment portfolio in the statement of activities and changes in net assets for the year ended December 31, 2023.

	<u>Change in Unrealized Gain</u>	<u>Realized Gain (Loss)</u>
Derivatives not designated as hedging instruments under ASC 815		
Interest rate contracts	\$ 196	\$ 2,879
Futures - Interest rate contracts	7,510	8,369
Credit contracts	-	(2)
Equity contracts	-	9,155
Foreign exchange contracts	7	323
Total gain on derivatives, net	<u>\$ 7,713</u>	<u>\$ 20,724</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 (loss) on investment portfolio in the statement of activities and changes in net assets for the year ended December 31, 2022.

	<u>Change in Unrealized Gain (Loss)</u>	<u>Realized Gain (Loss)</u>
Derivatives not designated as hedging instruments under ASC 815		
Interest rate contracts	\$ 3,701	\$ 1,166
Futures - Interest rate contracts	4,958	(24,538)
Credit contracts	(86)	(552)
Foreign exchange contracts	15	(223)
Total gain (loss) on derivatives, net	<u>\$ 8,588</u>	<u>\$ (24,147)</u>



**The William and Flora Hewlett Foundation**  
**Notes to Financial Statements**  
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**(dollars in thousands)**

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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 the 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.

**The William and Flora Hewlett Foundation**  
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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, 2023:

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>NAV</b>	<b>Total</b>
Public Equities	\$ 181,733	\$ -	\$ -	\$ 3,018,368	\$ 3,200,101
Fixed Income <sup>1</sup>	52,438	157,627			210,065
Cash Equivalents	652,749	112,835			765,584
Alternative Assets:					
Private Equity				4,402,251	4,402,251
Real Assets				1,332,054	1,332,054
LIRA		314,013	1,264	3,219,394	3,534,671
Derivatives - Assets	13,029	17,259			30,288
	<u>\$ 899,949</u>	<u>\$ 601,734</u>	<u>\$ 1,264</u>	<u>\$ 11,972,067</u>	<u>\$ 13,475,014</u>
Derivatives - Liabilities	(20,098)	(236)			(20,334)
	<u>\$ 879,851</u>	<u>\$ 601,498</u>	<u>\$ 1,264</u>	<u>\$ 11,972,067</u>	13,454,680
Accrued Income and Net Payables and Receivables					<u>(276,828)</u>
Total Investments					<u>\$ 13,177,852</u>

<sup>1</sup> 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, 2023, the fair value of the long and short positions of these TBA securities were \$153,203 and (\$471), 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, 2022:

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>NAV</b>	<b>Total</b>
Public Equities	\$ 245,052	\$ -	\$ -	\$ 2,845,462	\$ 3,090,514
Fixed Income <sup>1</sup>	229,084	158,990			388,074
Cash Equivalents	319,539	102,518			422,057
Alternative Assets:					
Private Equity				4,294,722	4,294,722
Real Assets				1,281,982	1,281,982
LIRA		283,477	17,502	3,093,608	3,394,587
Derivatives - Assets	13,613	18,442			32,055
	<u>\$ 807,288</u>	<u>\$ 563,427</u>	<u>\$ 17,502</u>	<u>\$ 11,515,774</u>	<u>\$ 12,903,991</u>
Derivatives - Liabilities	(28,101)	(1,342)			(29,443)
	<u>\$ 779,187</u>	<u>\$ 562,085</u>	<u>\$ 17,502</u>	<u>\$ 11,515,774</u>	12,874,548
Accrued Income and Net Payables and Receivables					(249,081)
Total Investments					<u>\$ 12,625,467</u>

<sup>1</sup> 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, 2022, the fair value of the long and short positions of these TBA securities were \$194,133 and (\$35,505), respectively.

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The following table includes the Foundation's Level III activity for the year ended December 31, 2023:

	Purchases	Transfers Into Level III	Transfers Out of Level III
LIRA	\$ -	\$ -	\$ 18,010
Total	\$ -	\$ -	\$ 18,010

There was no Level III activity for the year ended December 31, 2022.

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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, 2023:

	Strategy	Fair Value	Remaining Life (Years)	Unfunded Commitments	Redemption Terms
Public Equities	Global, primarily long-only in equities	\$ 3,019	0 to 5	\$ 63	Generally, lock up provisions extend up to 3 years. After initial lock up expires, daily to annual redemptions are available with 1 to 120 days prior notice.
Private Equity	Global venture and buyout	4,402	0 to 14	1,389	Generally not eligible for redemption
Real Assets	Real estate and natural resources, primarily in the U.S.	1,332	0 to 14	838	Not eligible for redemption
LIRA	Credit, fixed income, distressed assets, and market neutral strategies	3,219	0 to 14	395	12% by value are in private equity structure, not eligible for redemption. Otherwise, generally, lock up provisions extend up to 2 years. After initial lock up expires, daily to annual redemptions are available with 1 to 90 days prior notice.
Total		<u>\$ 11,972</u>		<u>\$ 2,685</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, 2022:

	Strategy	Fair Value	Remaining Life (Years)	Unfunded Commitments	Redemption Terms
Public Equities	Global, primarily long-only in equities	\$ 2,845	0 to 5	\$ 118	Generally, lock up provisions extend up to 3 years. After initial lock up expires, daily to annual redemptions are available with 1 to 120 days prior notice.
Private Equity	Global venture and buyout	4,295	0 to 14	1,424	Not eligible for redemption
Real Assets	Real estate and natural resources, primarily in the U.S.	1,282	0 to 14	979	Not eligible for redemption
LIRA	Credit, fixed income, distressed assets, and market neutral strategies	3,094	0 to 14	439	12% by value are in private equity structure, not eligible for redemption. Otherwise, generally, lock up provisions extend up to 2 years. After initial lock up expires, daily to annual redemptions are available with 1 to 90 days prior notice.
Total		<u>\$ 11,516</u>		<u>\$ 2,960</u>	

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**5. Property and Equipment, Net**

Property and equipment consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Building, land lease and land improvements	\$ 35,411	\$ 35,134
Furniture and fixtures	6,426	6,340
Internally developed software	9,249	9,249
Computer and office equipment	<u>1,427</u>	<u>2,220</u>
	52,513	52,943
Less: accumulated depreciation and amortization	<u>(28,519)</u>	<u>(26,490)</u>
	<u>\$ 23,994</u>	<u>\$ 26,453</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 \$3,311 and \$2,820 in 2023 and 2022, 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, 2023 and 2022 the Foundation held assets of \$3,770 and \$2,920, 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 \$3,770 and \$2,920, respectively, is 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 \$375 and \$421 in 2023 and 2022, respectively. The liability for the postretirement benefit obligation was \$4,995 and \$4,835 as of December 31, 2023 and 2022, respectively.

	<u>2023</u>	<u>2022</u>
Discount rate to determine benefit obligations	4.78%	4.97%
Discount rate to determine the net periodic benefit cost	4.97%	2.69%

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**7. Grants Payable**

At December 31, 2023 and 2022, grants payable totaled \$258,679 and \$244,111, respectively. Grants payable activity consisted of the following:

	<u>2023</u>	<u>2022</u>
Grants payable balance, beginning of year	\$ 244,111	\$ 244,548
Awards	606,629	560,795
Payments	(587,908)	(558,099)
Cancellations and adjustments	<u>(4,153)</u>	<u>(3,133)</u>
Grants payable balance, end of year	<u>\$ 258,679</u>	<u>\$ 244,111</u>

Grants authorized but unpaid at December 31, 2023 are payable as follows:

<u>Year Payable</u>	<u>Amount</u>
2024	\$ 190,688
2025	61,672
2026	4,419
2027	<u>1,900</u>
	<u>\$ 258,679</u>

**8. Credit Facilities**

The Foundation has an uncommitted revolving line of credit (“LOC”) of \$300,000. This LOC does not have an expiration date and is collateralized by three securities accounts. In addition, as of December 31, 2023, the Foundation has a one-year committed revolving LOC of \$300,000 (and an uncommitted \$200,000 accordion) scheduled to expire on November 6, 2024.

At December 31, 2023 and 2022, there were no outstanding balances on either of the LOCs. The interest rates on these lines of credit were variable and indexed to the Secured Overnight Financing Rate (“SOFR”), plus spreads ranging from 45 to 60 basis points.



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**9. Liquidity**

The Foundation's financial assets readily available within one year of December 31, 2023 and 2022 to meet general expenditures include:

	<u>2023</u>	<u>2022</u>
Cash	\$ 81,981	\$ 84,295
Investment assets	<u>1,204,522</u>	<u>1,092,191</u>
	<u>\$ 1,286,503</u>	<u>\$ 1,176,486</u>

The Foundation's investments consist of funds without donor restrictions. The Foundation's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation has various sources of liquidity at its disposal including cash equivalents and marketable debt and equity securities to meet short-term needs. In addition, the Foundation has credit facilities in place (see note 8) which it could draw upon, as needed, to meet its liquidity needs.

# The William and Flora Hewlett Foundation

Notes to Financial Statements

December 31, 2023 and 2022

(dollars in thousands)

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## 10. 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.

The Foundation's provision for current federal excise tax is based on a 1.39% excise tax rate on net investment income in 2023 and 2022.

Deferred tax items are created when certain income and expense items are accounted for in different time periods for financial statement reporting purposes than for tax purposes. Deferred federal excise taxes result from unrealized gains/(losses) on investments. The financial statements for the years ended December 31, 2023 and 2022 reflect deferred taxes at the 1.39% rate, resulting in a deferred federal excise tax liability of \$64,259 and \$56,496 as of December 31, 2023 and 2022, respectively.

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

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.

	<u>2023</u>	<u>2022</u>
Current federal excise tax expense	\$ 5,137	\$ 12,901
Deferred federal excise tax expense (benefit)	<u>6,969</u>	<u>(29,921)</u>
Excise tax expense (benefit)	12,106	(17,020)
Current UBI tax (benefit) expense	<u>(398)</u>	<u>3,411</u>
UBI tax expense (benefit) expense	(398)	3,411
Tax expense (benefit) on net investment income	<u>\$ 11,708</u>	<u>\$ (13,609)</u>

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**11. 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 statements of activities and changes in net assets. Certain costs, principally occupancy, telecommunications and technology, and staff functions and development are allocated among the programs and supporting services on the basis of headcount in the respective functional area. Other expenses include legal, tax and audit fees, and other miscellaneous costs.

These expenses are summarized on a functional basis below:

	<b>2023</b>		
	<u>Program</u>	<u>Supporting</u>	<u>Total</u>
Grants, including direct and other charitable activities	\$ 611,295	\$ -	\$ 611,295
Compensation and benefits	20,935	11,835	32,770
Professional services	8,763	1,195	9,958
Occupancy	3,034	692	3,726
Travel	2,366	247	2,613
Telecommunications and technology	294	1,408	1,702
Recruitment and relocation	973	315	1,288
Staff functions and development	296	268	564
Interest (income) expense	-	(1,564)	(1,564)
Other	240	1,242	1,482
Total	\$ <u>648,196</u>	\$ <u>15,638</u>	\$ <u>663,834</u>
	<b>2022</b>		
	<u>Program</u>	<u>Supporting</u>	<u>Total</u>
Grants, including direct and other charitable activities	\$ 565,103	\$ -	\$ 565,103
Compensation and benefits	18,323	10,720	29,043
Professional services	9,954	1,363	11,317
Occupancy	2,998	702	3,700
Travel	1,505	610	2,115
Telecommunications and technology	337	1,253	1,590
Recruitment and relocation	991	106	1,097
Staff functions and development	475	427	902
Interest (income) expense	-	(429)	(429)
Other	95	1,654	1,749
Total	\$ <u>599,781</u>	\$ <u>16,406</u>	\$ <u>616,187</u>

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**12. Subsequent Events**

The Foundation has evaluated subsequent events for the period from December 31, 2023 through June 14, 2024, the date the financial statements were available to be issued, and believes no additional disclosures are required in the financial statements.