

***The California
Endowment
(A California Nonprofit Public
Benefit Corporation)***

*Financial Statements for the Years Ended
February 28, 2007 and 2006, and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The California Endowment:

We have audited the accompanying statements of financial position of The California Endowment ("The Endowment"), a California nonprofit public benefit corporation, as of February 28, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Endowment's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Endowment's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Endowment as of February 28, 2007 and 2006, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 3 to the financial statements, the statements of financial position include investments valued at \$729,797,000 (18.0 percent of net assets) and \$495,122,000 (13.2 percent of net assets) as of February 28, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers.

Deloitte & Touche LLP

June 26, 2007

THE CALIFORNIA ENDOWMENT
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
FEBRUARY 28, 2007 AND 2006
(In thousands)

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 37,742	\$ 53,578
FUNDS HELD BY TRUSTEE	1,435	10,513
DIVIDENDS, INTEREST, AND OTHER RECEIVABLES	6,037	6,560
INVESTMENTS — At fair value	3,646,991	3,390,634
COLLATERAL RECEIVED UNDER SECURITIES LENDING PROGRAM	450,177	453,197
INVESTMENTS LENT UNDER SECURITIES LENDING PROGRAM — At fair value	436,234	437,747
INVESTMENT SALES RECEIVABLE	83,930	45,974
PROGRAM-RELATED INVESTMENTS — Net	18,000	18,000
PROPERTY AND EQUIPMENT — Net	91,649	89,135
OTHER ASSETS	<u>1,647</u>	<u>3,866</u>
TOTAL	<u>\$ 4,773,842</u>	<u>\$ 4,509,204</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Accounts payable and other liabilities	\$ 8,058	\$ 14,154
Payable under securities lending program	450,177	453,197
Investment purchases payable	96,744	103,265
Grants payable — net	65,060	91,522
Long-term debt	84,351	84,479
Deferred excise taxes payable	<u>17,781</u>	<u>14,905</u>
Total liabilities	722,171	761,522
UNRESTRICTED NET ASSETS	<u>4,051,671</u>	<u>3,747,682</u>
TOTAL	<u>\$ 4,773,842</u>	<u>\$ 4,509,204</u>

See notes to financial statements.

THE CALIFORNIA ENDOWMENT
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
YEARS ENDED FEBRUARY 28, 2007 AND 2006
(In thousands)

	2007	2006
INVESTMENT RETURN:		
Net realized and unrealized gains on investments	\$ 411,656	\$ 361,152
Dividend, interest, and other investment income	<u>84,238</u>	<u>85,425</u>
	495,894	446,577
Less investment expenses	<u>13,349</u>	<u>12,356</u>
Net investment gain	<u>482,545</u>	<u>434,221</u>
EXPENSES:		
Grants awarded	120,160	146,365
Direct charitable expenses	14,109	5,753
Relocation expenses		2,505
Program operating expenses	19,158	18,309
General and administrative expenses	11,600	12,339
Interest expense	3,880	674
Federal excise tax provision:		
Current	6,773	3,352
Deferred	<u>2,876</u>	<u>2,220</u>
Total expenses	<u>178,556</u>	<u>191,517</u>
CHANGE IN UNRESTRICTED NET ASSETS	303,989	242,704
UNRESTRICTED NET ASSETS — Beginning of year	<u>3,747,682</u>	<u>3,504,978</u>
UNRESTRICTED NET ASSETS — End of year	<u>\$ 4,051,671</u>	<u>\$ 3,747,682</u>

See notes to financial statements.

THE CALIFORNIA ENDOWMENT
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2007 AND 2006
(In thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	\$ 303,989	\$ 242,704
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(411,656)	(361,152)
Depreciation and amortization	4,449	1,869
(Gain) loss from sale of property	(5)	596
Interest income recognized on settlement of note payable		(71)
Provision for losses on program-related investments		2,000
Changes in operating assets and liabilities:		
Dividends, interest, and other receivables	523	1,196
Other assets	2,183	(2,315)
Accounts payable and other liabilities	(3,190)	(9,666)
Grants payable	(26,462)	(3,222)
Deferred excise taxes payable	2,876	2,220
	<u>(127,293)</u>	<u>(125,841)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in funds held by trustee	9,078	43,776
Purchases of property and equipment	(9,956)	(49,698)
Purchases of investments	(2,768,026)	(5,623,774)
Proceeds from sale of investments	2,880,361	5,812,092
	<u>111,457</u>	<u>182,396</u>
CASH FLOWS FROM FINANCING ACTIVITIES — Repayment of note payable		
		<u>(2,977)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(15,836)	53,578
CASH AND CASH EQUIVALENTS — Beginning of year	53,578	<u> </u>
CASH AND CASH EQUIVALENTS — End of year	\$ 37,742	\$ 53,578

(Continued)

THE CALIFORNIA ENDOWMENT
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2007 AND 2006
(In thousands)

	2007	2006
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for federal excise tax	<u>\$ 4,200</u>	<u>\$ 5,500</u>
Cash paid during the year for interest (net of capitalized interest)	<u>\$ 4,045</u>	<u>\$ 674</u>
Change in collateral received under securities lending program	<u>\$ 3,020</u>	<u>\$ (3,436)</u>
Change in payable under securities lending program	<u>\$ (3,020)</u>	<u>\$ 3,436</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES — At February 28, 2007 and 2006, The Endowment had \$320 and \$3,354, respectively, included in other liabilities for the purchase of property and equipment and building construction costs.

See notes to financial statements.

(Concluded)

THE CALIFORNIA ENDOWMENT

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED FEBRUARY 28, 2007 AND 2006

1. ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents — Cash and cash equivalents are defined as short-term, highly liquid investments with maturities of three months or less at the date of purchase.

Investments — Investments in debt and equity securities that are traded on national security exchanges are recorded at fair value as determined by quoted market prices. Investments for which readily determinable market values do not exist, including private equity funds, real estate funds, and hedge funds, are recorded at fair value as determined by The Endowment with the assistance of external investment managers, using methods and significant assumptions The Endowment considers appropriate based on its understanding of the underlying characteristics of the investments.

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

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

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

Securities Lending — The Endowment participates in securities lending transactions with their investment custodian, whereby The Endowment lends a portion of its investments to various approved borrowers in exchange for collateral for the securities loaned, usually on a short-term basis. Collateral provided by borrowers is maintained at levels of at least 100% of the fair value, plus accrued interest of the borrowed securities, and is adjusted daily for market fluctuations. The Endowment maintains effective control of the loaned securities through its investment custodian during the term of the arrangement wherein they may be recalled at any time. Under the terms of the agreement, the borrower must return equivalent securities of an identical type, nominal value, description, and amount as were borrowed. The market value of collateral held for loaned securities is reported as collateral received under securities lending program, and a corresponding obligation is reported for repayment of such collateral upon settlement of the lending transaction. At February 28, 2007 and 2006, the market value of the securities on loan was \$436,234,000 and \$437,747,000, respectively.

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

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

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

Grants — Unconditional grants are recognized as an expense in the period in which they are approved. Grants which are conditioned on future uncertain events are expensed when those conditions are substantially met. There were \$1,375,000 and \$1,634,000 in conditional grants at February 28, 2007 and 2006, respectively, which are conditioned principally on grantees raising certain matching gifts by a specified date.

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

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

Recent Accounting Pronouncements — In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Endowment is currently evaluating the effect that adoption of this statement will have on its financial position or change in net assets.

In September 2006, the FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires an employer to recognize in its statement of financial position an asset for a plan’s overfunded status or a liability for a plan’s underfunded status. It also requires an employer to measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes are to be reported as a separate line item within the statement of changes in net assets. SFAS No. 158 is effective for The Endowment’s fiscal years ending after June 15, 2007. The Endowment is currently evaluating the effect that adoption of this statement will have on its financial position or change in net assets.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. SFAS No. 159 allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Endowment is currently evaluating the effect that adoption of this statement will have on its financial position or change in net assets.

Reclassifications — Certain prior year amounts have been reclassified to conform to the current year's presentation. Specifically, interest expense, which was presented as components of program operating expenses and general and administrative expenses in the 2006 statement of activities, has been reclassified to conform to the 2007 presentation in which it is presented as a separate caption. Additionally, investment sales receivable and investment purchases payable, which were netted against the investments balance in the 2006 statement of financial position, have been reclassified to conform to the 2007 presentation in which they are presented as separate captions.

3. INVESTMENTS

At February 28, 2007 and 2006, investments consist of the following (in thousands):

2007	Fair Value
Commercial paper and treasury bills	\$ 151,108
Government and corporate obligations	460,299
Equity securities	2,742,021
Private equity and other	<u>729,797</u>
	4,083,225
Less investments lent under securities lending program	<u>(436,234)</u>
Total investments	<u>\$ 3,646,991</u>
2006	Fair Value
Commercial paper and treasury bills	\$ 216,720
Government and corporate obligations	492,348
Equity securities	2,624,191
Private equity and other	<u>495,122</u>
	3,828,381
Less investments lent under securities lending program	<u>(437,747)</u>
Total investments	<u>\$ 3,390,634</u>

The Endowment has entered into certain agreements with various private limited partnership investment funds to make future investments in such funds. As of February 28, 2007, the unfunded commitments related to these investments totaled \$310,968,000.

In the normal course of business, The Endowment uses various financial instruments, including derivative financial instruments, to maintain desired asset allocations, primarily in fixed income securities. Interest rate futures and options are purchased and sold to manage the interest rate risk on government and corporate obligations. The fair value of interest rate futures is included in investments.

Derivative financial instruments are recorded at their current market value with any changes reflected as a change in net assets during the period of the change. The Endowment's investment managers are permitted, under the terms of individual investment guidelines, to utilize such financial instruments.

In addition to the above derivative positions, The Endowment also has equity and currency futures and swap positions with net fair values of \$832,000 and \$1,468,000 at February 28, 2007 and 2006, respectively. Delivery dates for futures contracts extend through December 2008 and swap contracts through June 2037. All of the instruments are supported by government and corporate obligations for fixed income or equity holdings for equity derivatives.

4. PROGRAM-RELATED INVESTMENTS

The Endowment invests a portion of its funds in projects that advance its philanthropic purposes by providing noninterest-bearing loans to certain organizations. At February 28, 2007 and 2006, these loans totaled \$18,000,000, which is net of potentially uncollectible amounts of \$3,150,000 at February 28, 2007 and 2006. The loans mature on September 2013 and March 2029 and are expected to be repaid in various installments over their terms beginning in July 2007.

5. PROPERTY AND EQUIPMENT

At February 28, 2007 and 2006, property and equipment consist of the following (in thousands):

	2007	2006
Building	\$ 73,200	\$ 67,691
Land and easement improvements	11,549	11,549
Leasehold improvements	3,468	1,798
Equipment	8,568	9,175
Furnishings	<u>5,707</u>	<u>5,520</u>
Total	102,492	95,733
Less accumulated depreciation	<u>(10,843)</u>	<u>(6,598)</u>
Property and equipment — net	<u>\$ 91,649</u>	<u>\$ 89,135</u>

Depreciation expense of \$4,413,000 and \$1,905,000 was recorded for the fiscal year end February 28, 2007 and 2006, respectively.

In January 2006, The Endowment completed the relocation of its principal offices to new facilities it constructed. The facilities include a community conference center.

6. GRANTS PAYABLE

At February 28, 2007 and 2006, grants payable are as follows (in thousands):

	2007	2006
Amounts due in:		
Less than one year	\$ 57,503	\$ 64,571
One year to five years	<u>8,178</u>	<u>28,653</u>
 Gross grants payable	 65,681	 93,224
 Less unamortized discount to present value	 <u>(621)</u>	 <u>(1,702)</u>
 Grants payable — net	 <u>\$ 65,060</u>	 <u>\$ 91,522</u>

7. LONG-TERM DEBT

In December 2003, the California Statewide Communities Development Authority (the “Authority”) issued \$80,600,000 aggregate principal of Revenue Bonds, Series 2003 (the “Bonds”) resulting in \$84,756,000 in bond proceeds. Concurrent with the issuance, the Authority and The Endowment executed an agreement under which the Authority loaned The Endowment the bond proceeds. The loan, which is unsecured, accrues interest at rates ranging between 4% and 5.25% per annum. Interest only is payable semiannually through January 2007. Thereafter, principal and interest are payable semiannually through July 2036. The Endowment recognized interest expense of \$3,880,000 and \$674,000 for the years ended February 28, 2007 and 2006, respectively. Additionally, the Endowment capitalized \$2,525,000 of interest during the year ended February 28, 2006. These amounts are net of interest of \$165,000 and \$846,000 earned on temporary investment of the bond proceeds for the years ended February 28, 2007 and 2006, respectively.

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

Years Ending February 28	
2008	\$ 1,353
2009	1,403
2010	1,453
2011	1,513
2012	1,573
Thereafter	<u>77,056</u>
 Total future principal payments including amortized premium	 <u>\$ 84,351</u>

The Endowment incurred \$1,177,000 of costs in connection with the financing. These costs, which have been deferred, are included in other assets in the accompanying statements of financial position and are being amortized over the loan term using the straight-line method. As of February 28, 2007 and 2006, deferred financing costs were \$1,063,000 and \$1,099,000, respectively.

8. FUNDS HELD BY TRUSTEE

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

9. COMMITMENTS AND CONTINGENCIES

The Endowment leases its regional office facilities and certain equipment under various agreements. Rental expense was approximately \$1,314,000 and \$2,936,000 for the fiscal years ended February 28, 2007 and 2006, respectively. These amounts are net of sublease income of \$736,000 and \$61,000 for the years ended February 28, 2007 and 2006, respectively. Future minimum rental payments related to noncancelable operating leases as of February 28, 2007, are as follows (in thousands):

Years Ending February 28	
2008	\$ 2,326
2009	1,242
2010	1,253
2011	1,119
2012	1,022
Thereafter	<u>320</u>
Total minimum future rentals	<u>\$ 7,282</u>

Prior to relocating its headquarter facilities, The Endowment leased its principal office space in Woodland Hills. In January 2006, The Endowment entered into a sublease agreement for the office space. Sublease rentals to be received of \$1,407,000 are less than The Endowment's future minimum rental payments related to the noncancelable operating lease. As a result, during the year ended February 28, 2006, The Endowment recorded an expense of \$921,000, included in relocation expenses in the accompanying statements of activities.

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

10. FEDERAL EXCISE TAXES

The Endowment is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3). The Endowment is subject to federal excise taxes imposed on private foundations at 2% or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal tax law, which includes interest and dividend income, and realized gains, net of investment expenses, among other items. Deferred excise taxes arise primarily from unrealized gains on investments and are calculated at the effective rate expected to be paid by The Endowment. At February 28, 2007 and 2006, \$17,781,000 and \$14,905,000 of deferred taxes were recorded, respectively.

11. DISTRIBUTION REQUIREMENTS

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

For the period March 2001 through February 2006, The Endowment exceeded the minimum distribution requirements by \$236 million. The IRC allows The Endowment to utilize all or some of this excess to meet future years' distribution requirements. Each fiscal year's excess distributions carryover expires after five years.

12. RETIREMENT PLAN

The Endowment maintains a qualified 401(k) Employee Investment Plan that provides for uniform employer contributions of 75 cents for every dollar contributed by a participant up to 6% of the participant's salary deferral contribution. The Endowment's contribution to this plan for the years ended February 28, 2007 and 2006, was \$534,000 and \$444,000, respectively.

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

The Endowment's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts as deemed to be appropriate. There are no required contributions to the Plan that must be paid in fiscal year 2008.

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

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

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

	Target	2007	2006
Equity securities	70-80%	75 %	79 %
Debt securities	20-30	25	21
Other	0-5		

The Endowment uses its fiscal year end as the measurement date for the Plan. The following table sets forth the Plan's funded status and amounts recognized in the statement of financial position at February 28, 2007 and 2006 (in thousands):

	2007	2006
Projected benefit obligation	\$ 5,741	\$ 5,054
Plan assets at fair value	<u>5,969</u>	<u>3,645</u>
Overfunded (unfunded) status	<u>\$ 228</u>	<u>\$ (1,409)</u>
Accrued benefit asset (liability) recognized in the statements of financial position	<u>\$ 76</u>	<u>\$ (1,354)</u>

Weighted-average assumptions used to determine benefit obligations at February 28, 2007 and 2006, are as follows:

	2007	2006
Discount rate	5.50 %	5.50 %
Rate of compensation increase	5.00	5.00

Weighted-average assumptions used to determine net periodic pension costs at February 28, 2007 and 2006, are as follows:

	2007	2006
Discount rate	5.50 %	5.75 %
Expected return on Plan assets	7.50	7.50
Rate of compensation increase	5.00	5.00

Net periodic benefit cost, employer contributions, and benefits paid for fiscal years 2007 and 2006, are as follows (in thousands):

	2007	2006
Net periodic benefit cost	\$ 801	\$ 955
Employer contributions	2,231	165
Benefits paid	349	416

The accumulated benefit obligation for the Plan was \$4,645,000 and \$4,627,000 at February 28, 2007 and 2006, respectively.

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

Years Ending February 28	
2008	\$ 132
2009	155
2010	374
2011	154
2012	275
2013–2017	<u>3,163</u>
Total	<u>\$ 4,253</u>

In March 2002, The Endowment adopted a defined contribution Supplemental Executive Retirement Plan (SERP), which provides supplemental retirement benefits to certain key management employees and is funded solely from the general assets of The Endowment. SERP expense for the years ended February 28, 2007 and 2006, was \$63,000 and \$69,000, respectively.

In November 2002, The Endowment adopted a Section 457(b) Deferred Compensation Plan, which permits certain key management employees to make voluntary contributions on a pretax basis. Total compensation deferred for the years ended February 28, 2007 and 2006, was \$75,000 and \$59,000, respectively.

* * * * *