THE KOHLBERG FOUNDATION, INC.

FINANCIAL STATEMENTS – INCOME TAX BASIS
(Together with Independent Auditors' Report)

YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Kohlberg Foundation, Inc.

Opinion

We have audited the financial statements of The Kohlberg Foundation, Inc. (the "Foundation"), which comprise the statement of assets, liabilities and net assets - income tax basis as of December 31, 2022, and the related statements of revenues, expenses and changes in net assets - income tax basis, functional expenses - income tax basis, and cash flows - income tax basis 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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with the basis of accounting the Foundation uses for income tax purposes as described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on 2021 Financial Statements

The financial statements of the Foundation, as of and for the year ended December 31, 2021 were audited by another auditor whose report dated November 3, 2022 expressed an unmodified opinion on those statements.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Foundation uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting described in Note 2, and for determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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.

Mayer Hoffman McCann CPAs

New York, NY
July 19, 2023

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS – INCOME TAX BASIS
AS OF DECEMBER 31, 2022 AND 2021
($ Amounts in Thousands)

	2022	2021
Assets		
Cash and cash equivalents (including funds held by investment custodians)	$ 7,445	$ 11,073
Equity investments, at quoted market value	101,351	129,814
Fixed income investments, at quoted market value	59,706	65,962
Limited partnerships/limited liability companies/other investment vehicles	32,311	47,652
Other assets	9,676	8,804
Total Assets	$ 210,489	$ 263,305

LIABILITIES AND NET ASSETS

	2022	2021
Liabilities		
Accounts payable and accrued expenses	$ -	$ 8
Total Liabilities	-	8
Net Assets Without Donor Restrictions	210,489	263,297
Total Liabilities and Net Assets	$ 210,489	$ 263,305

See accompanying notes to financial statements.

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – INCOME TAX BASIS
YEARS ENDED DECEMBER 31, 2022 AND 2021
($ Amounts in Thousands)

	2022	2021
Contributions Received	$ 2,113	$ -
Revenues and Gains		
Dividends/interest/other	40	3
Income and appreciation on fixed income portfolio	(7,088)	61
Income and appreciation on equity portfolio	(27,081)	19,925
Income and appreciation of limited partnerships/ limited liability companies/other investment vehicles	(509)	12,740
Other income	-	4
Total Revenues and Gains	(32,525)	32,733
Functional Expenses		
Program expenses	19,467	11,407
Management and general expenses	816	737
Total Functional Expenses	20,283	12,144
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(52,808)	20,589
Net Assets Without Donor Restrictions - Beginning of Year	263,297	242,708
Net Assets Without Donor Restrictions - End of Year	$ 210,489	$ 263,297

See accompanying notes to financial statements.

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES – INCOME TAX BASIS
YEARS ENDED DECEMBER 31, 2022 AND 2021
($ Amounts in Thousands)

	December 31, 2022			December 31, 2021		
	PROGRAM	MANAGEMENT AND GENERAL	TOTAL FUNCTIONAL EXPENSES	PROGRAM	MANAGEMENT AND GENERAL	TOTAL FUNCTIONAL EXPENSES
Grants authorized	$ 18,777	$ -	$ 18,777	$ 10,755	$ -	$ 10,755
Compensation	430	253	683	406	238	644
Payroll taxes and benefits	137	80	217	127	75	202
Professional fees	-	85	85	-	57	57
Occupancy	29	17	46	29	17	46
Travel	2	-	2	2	-	2
Office expense	37	22	59	33	19	52
Dues and subscriptions	9	-	9	7	-	7
Insurance	46	27	73	48	28	76
Licenses and fees	-	2	2	-	2	2
Provision for taxes	-	328	328	-	300	300
Annual report	-	2	2	-	1	1
Total Expenses	$ 19,467	$ 816	$ 20,283	$ 11,407	$ 737	$ 12,144

See accompanying notes to financial statements.

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF CASH FLOWS – INCOME TAX BASIS
YEARS ENDED DECEMBER 31, 2022 AND 2021
($ Amounts in Thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 2,113	$ -
Investment income	40	3
Cash grants paid	(18,777)	(10,755)
Cash paid for operating expenses	(1,172)	(1,079)
Federal and state excise taxes paid	(328)	(300)
Net Cash Used in Operating Activities	(18,124)	(12,131)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	16,117	17,418
Purchase of investments and other assets	(1,621)	(2,593)
Net Cash Provided by Investing Activities	14,496	14,825
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,628)	2,694
Cash and cash equivalents - beginning of year	11,073	8,379
Cash and cash equivalents - end of year	$ 7,445	$ 11,073

See accompanying notes to financial statements.

NOTE 1 – NATURE OF ACTIVITIES

The Kohlberg Foundation, Inc. (the "Foundation") is a private family foundation. The Foundation's primary focus is to provide support for health and medical research, education, and the environment.

The Foundation plans to file a Petition for Permission to Dissolve with the New York Attorney General in early fiscal year 2024. Subject to the necessary regulatory approvals, management expects distributions and dissolution in 2024.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

The Foundation's policy is to prepare its financial statements on the basis of accounting used for income tax reporting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. Consequently, contributions are recognized when cash is received rather than when pledged or promised, and certain expenses and grants are recognized when cash is disbursed rather than when the obligation is incurred. The Foundation's financial statements are prepared in accordance with reporting formats consistent with guidance on reporting information regarding financial position and activities for not-for-profit organizations. Under that guidance, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net Assets

The Foundation's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed stipulations. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations, including stipulations that will be met either by actions of the Foundation or the passage of time, stipulations that they be held in perpetuity by the Foundation, and unappropriated endowment earnings. The Foundation has no net assets with donor restrictions.

Investments

The Foundation follows the Financial Accounting Standards Board ("FASB") guidance on fair value, which, among other things, defines fair value, establishes a hierarchal framework for measuring fair value, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is organized into three levels based upon the assumptions (referred to as "inputs") used in pricing the asset or liability, as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, with fair value being determined through the use of models or other valuation methodologies.

Level 3: Inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs do not exist. Level 3 inputs require significant management judgment and estimation. Factors considered include the purchase cost, prices of recent private placements of the same issuer, liquidity of the investment, changes in financial condition of the issuer, and valuations of similar companies.

The Foundation values all of its investments using Level 1 inputs and the net asset value ("NAV") practical expedient. Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the statements of revenues, expenses and changes in net assets – income tax basis. Equities and fixed income securities listed or traded on a securities exchange are valued at the last sale price on the primary exchange where the security is traded. Money market accounts are valued as determined by the bank or money market manager.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)
Marketable securities held by a custodian, either in the Foundation's name or held for the Foundation's account in a street name, are valued by the custodian using a valuation methodology similar to above. Marketable securities held by mutual funds, pooled investment funds, and hedge funds are valued by the fund manager using a valuation methodology similar to the above. Alternative investments, including private equity interests, are valued using the most recent valuation available by the respective external fund manager. The Foundation reviews and evaluates the values provided for alternative investments by the general partner or fund manager and assesses the valuation methods and assumptions used in determining the fair value of the investments. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The Foundation reports investment income and gains and losses as increases or decreases in net assets without donor restrictions in the statements of revenues, expenses and changes in net assets – income tax basis unless a donor or law restricts their use.

The asset allocation of the Foundation's portfolio is intended to provide exposure to a diverse set of markets. These markets are subject to various risks such as interest rate, market, sovereign, and credit. The Foundation anticipates that the value of its investments may, from time to time, fluctuate as a result of these risks and anticipates that the structured diversification will mitigate market risks. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

The accounting policy concerning investment valuations relies on data from fund managers that cannot be substantiated by third parties and it is considered to have the largest potential for significant financial impact. Valuations for investments, principally alternative investments, are subjective and require judgment regarding significant matters such as the comparability of similar investments, liquidity, interest rates, and the determination of external events adequate to quantify changes in value. Changes in assumptions could have a significant effect on the fair value of these instruments.

Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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 Foundation regularly assesses these estimates and, while actual results may differ from these estimates, management believes that material changes will not occur in the near term.

Uncertainty in Income Taxes
The Foundation evaluates all significant tax positions as required by the income tax basis of accounting. As of December 31, 2022, the Foundation does not believe that it has taken any tax positions that would require recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

Functional Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses – income tax basis. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, insurance, compensation, office expenses and payroll taxes and benefits, which are allocated on the basis of estimates of time and effort.

Cash Equivalents
For purposes of the statements of cash flows – income tax basis, the Foundation considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

($ Amounts in Thousands)

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Foundation regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and marketable equity securities. For purposes of analyzing resources available to meet expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities as well as services undertaken to support those activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation anticipates collecting sufficient revenue to cover expenditures through investment activities. Refer to the statements of cash flows - income tax basis, which identify the sources and uses of the Foundation's cash and show negative cash used in operations for the years ended December 31, 2022 and 2021. As of December 31, financial assets were as follows:

	2022	2021
Cash and cash equivalents	$ 7,445	$ 11,073
Investments	193,368	243,428
Receivables (included in other assets)	9,397	8,517
	210,210	263,018
Less: amounts not available within one year:		
Illiquid investments	(32,311)	(47,652)
Total financial assets available for general use within one year	$ 177,899	$ 215,366

As part of the Foundation's liquidity management plan, the Foundation invests cash in excess of daily requirements in money market and other funds.

NOTE 4 – INVESTMENTS

The following tables present the Foundation's fair value hierarchy for those assets measured at fair value as of December 31:

	December 31, 2022		
	Level 1	NAV Practical Expedient	Fair Value
Financial assets:			
Equity investments	$ 101,351	$ -	$ 101,351
Fixed income investments	59,706	-	59,706
Limited partnerships/limited liability companies/other investment vehicles	-	32,311	32,311
Total Investments at Fair Value	$ 161,057	$ 32,311	$ 193,368

	December 31, 2021		
	Level 1	NAV Practical Expedient	Fair Value
Financial assets:			
Equity investments	$ 129,814	$ -	$ 129,814
Fixed income investments	65,962	-	65,962
Limited partnerships/limited liability companies/other investment vehicles	-	47,652	47,652
Total Investments at Fair Value	$ 195,776	$ 47,652	$ 243,428

($ Amounts in Thousands)

NOTE 4 – INVESTMENTS (Continued)

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments for which fair value is measured using the net asset value (NAV) per share practical expedient as of December 31:

December 31, 2022

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Private equity (b)	$ 31,218	$ 3,344	Illiquid	
Real estate and real assets (b)	1,093	-	Illiquid	
Total	$ 32,311	$ 3,344		

December 31, 2021

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds (a)	$ 8,375	$ -	Quarterly	90 days
Private equity (b)	38,092	5,866	Illiquid	
Real estate and real assets (b)	1,185	-	Illiquid	
Total	$ 47,652	$ 5,866		

(a) Hedge Fund Investments. Hedge fund strategies include relative value and event driven strategies. Some funds may invest in side pockets, which are a separate share class and are not available for redemption until the investment is liquidated by the manager.

(b) Non-Marketable Investment Strategies. Private equity strategies include: leveraged buyout, growth equity, venture capital, real estate, and distressed debt. Non-marketable funds do not permit redemptions; capital is returned to investors at the discretion of the investment manager and in accordance with limited partnership terms. Interim distributions of interest and dividends can be made; however, capital and realized gains are generally distributed when underlying investments are liquidated. Funds are able to recall distributions. It is expected that the majority of the non-marketable investments will be liquidated over the next ten years.

Quoted market values are used to value investments other than index funds, which are carried based on fair values provided by fund managers.

Limited partnership/limited liability companies/other investment vehicles use market values established by their managers where quoted market values are not available. The investment's basis of income used for income tax reporting has been used for certain investments where market values were not available. Realized gains or losses are determined by comparison of cost, determined on a first-in, first-out basis, to proceeds from sales. Investment transactions are recorded in the accounts on the trade date. The cost of investment securities represents the amount paid for securities purchased, adjusted for accretion of discount or amortization of premium on bonds purchased. Investment income related to each investment vehicle is included within the income and appreciation on that investment in the statements of revenues, expenses and changes in net assets – income tax basis.

Investments are subject to market volatility which could substantially change their fair values in the near term. Interest and dividend income for the years ended December 31, 2022 and 2021 was $4,414 and $4,447, respectively. Total investment gains (losses) for the years ended December 31, 2022 and 2021 were $12,135 and $17,173, respectively. Investment fee expenses, which are included with investment returns, were $388 in 2022 and $454 in 2021. These amounts are included in income and appreciation on the statements of revenues, expenses and changes in net assts – income tax basis.

($ Amounts in Thousands)

NOTE 4 – INVESTMENTS (Continued)

The primary emphasis of the investment policy is to safeguard and preserve the principal of the investments after inflation. Accordingly, the investment process seeks to achieve a total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Portfolio assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution in accordance with the spending policy (currently 5.5%), while growing the funds. Therefore, the Foundation's goal is for its investment assets, over time, to produce a long-term real rate of return, after inflation and net of fees, of approximately 6-7% annually.

Actual returns in any given year may vary. Investment risk is measured in terms of the total investment portfolio; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. In light of current market conditions, the Foundation annually reassesses its investment and spending policies.

NOTE 5 – TAXES

The Foundation is exempt from federal income taxes and qualifies as a private foundation under Section 501(c)(3) of the Internal Revenue Code. The private foundation excise tax, which private foundations pay on net investment income annually, is currently a flat rate of 1.39 percent. This percentage took effect in the 2020 tax year after legislation simplified the two-tiered system to a flat rate. The Foundation paid federal excise tax of 1.39% on its investment income as defined for tax purposes, for each of the years ended December 31, 2022 and 2021. The Foundation is also subject to the unrelated business income tax ("UBIT") on certain income from pass-through investments.

Taxes paid in the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Federal excise and UBIT taxes	$ 328	$ 300
State UBIT taxes and filing fees	-	-
Total Taxes Paid	$ 328	$ 300

NOTE 6 – GRANT COMMITMENTS

The Foundation has authorized, but unpaid grants outstanding of $4,900 as of December 31, 2022. Payments on authorized, but unpaid grants may be accelerated upon mutual agreement between the Foundation and the grantees. Additionally, the grants are conditional based on the grantees' meeting certain performance criteria.

NOTE 7 – RETIREMENT PLANS

The Foundation participates in two defined contribution retirement plans. The plans cover substantially all employees. The salary deferral plan allows employees to defer a portion of their salary into the plan. The plan contains a matching contribution provision where the Foundation may match the participants' contributions up to two percent of compensation. The money purchase plan requires the Foundation to contribute eight percent of annual eligible compensation, as defined, and is integrated with Social Security. Total pension expense, under both plans, for the years ended December 31, 2022 and 2021 was $66 and $62, respectively.

NOTE 8 – RELATED PARTIES

The Foundation shares personnel with other related not-for-profit entities. The associated costs have not been allocated to the other entities and are $148 and $153 for the years ended December 31, 2022 and 2021, respectively.

NOTE 9 – CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts at high-credit, quality financial institutions. Efforts are made to keep balances within federally insured limits; however, due to timing differences the balances, at times, may exceed federally insured limits. As of December 31, 2022, the Foundation's uninsured cash and cash equivalents balance totaled $6,625. Additionally, the Foundation maintains money market accounts at major investment firms.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 19, 2023, the date the financial statements were available to be issued.