

# The James Irvine Foundation

Financial Statements for the Years Ended  
December 31, 2010 and 2009, and  
Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The James Irvine Foundation  
San Francisco, California

We have audited the accompanying statements of financial position of The James Irvine Foundation (the "Foundation") as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 Foundation'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 Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include investments valued at \$892,723,538 (58% of net assets) and \$779,441,130 (56% of net assets) as of December 31, 2010 and 2009, 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 or the general partners.

*Deloitte + Touche LLP*

June 15, 2011

# THE JAMES IRVINE FOUNDATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2010 AND 2009

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	2010	2009
<b>ASSETS</b>		
CASH — Interest-bearing deposits	\$ 18,438	\$ 16,029
COLLATERAL UNDER SECURITIES LENDING PROGRAM	77,609,490	63,761,283
RECEIVABLE FROM SALES/REDEMPTIONS OF INVESTMENTS	16,837,446	22,614,457
INTEREST AND DIVIDENDS RECEIVABLE	1,778,798	2,272,162
INVESTMENT CONTRIBUTIONS PAID IN ADVANCE		44,529,249
INVESTMENTS — Including \$75,096,606 and \$61,628,667 of securities loaned for 2010 and 2009, respectively — at fair value	1,568,653,184	1,377,507,067
PROPERTY AND EQUIPMENT — Net	1,463,608	1,835,284
OTHER ASSETS	<u>602,059</u>	<u>419,249</u>
TOTAL	<u>\$1,666,963,023</u>	<u>\$1,512,954,780</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Payable for purchases of securities	\$ 537,244	\$ 215,072
Payable under securities lending program	77,609,490	63,761,283
Accounts payable and other accrued liabilities	3,113,049	2,745,336
Deferred federal excise taxes	2,374,851	
Grants payable — net	<u>51,893,034</u>	<u>48,020,377</u>
Total liabilities	135,527,668	114,742,068
NET ASSETS — Unrestricted	<u>1,531,435,355</u>	<u>1,398,212,712</u>
TOTAL	<u>\$1,666,963,023</u>	<u>\$1,512,954,780</u>

See notes to financial statements.

# THE JAMES IRVINE FOUNDATION

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
INVESTMENT INCOME:		
Interest	\$ 8,742,647	\$ 9,343,174
Dividends and other income	10,915,263	13,287,062
Securities lending income	<u>147,868</u>	<u>285,691</u>
Investment income before net realized and unrealized gains on investments	19,805,778	22,915,927
Net realized and unrealized gains on investments	<u>195,961,816</u>	<u>217,753,278</u>
Total investment income	215,767,594	240,669,205
INVESTMENT EXPENSES	<u>7,080,281</u>	<u>6,124,112</u>
NET INVESTMENT GAIN BEFORE EXCISE AND INCOME TAXES	208,687,313	234,545,093
EXCISE AND INCOME TAXES	<u>2,742,543</u>	<u>433,016</u>
NET INVESTMENT INCOME	<u>205,944,770</u>	<u>234,112,077</u>
EXPENSES:		
Grants approved by the Board of Directors	64,508,450	66,288,370
Conditional grant activity and other — net	<u>32,296</u>	<u>482,191</u>
Grant expense — net	64,540,746	66,770,561
Program administration expenses	<u>8,181,381</u>	<u>7,655,039</u>
Total noninvestment expenses	<u>72,722,127</u>	<u>74,425,600</u>
CHANGE IN NET ASSETS — Unrestricted	133,222,643	159,686,477
NET ASSETS — Unrestricted:		
Beginning of year	<u>1,398,212,712</u>	<u>1,238,526,235</u>
End of year	<u>\$1,531,435,355</u>	<u>\$1,398,212,712</u>

See notes to financial statements.

# THE JAMES IRVINE FOUNDATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets — unrestricted	\$ 133,222,643	\$ 159,686,477
Adjustments to reconcile change in net assets — unrestricted to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	434,763	412,846
Net realized and unrealized gains on investments	(195,961,816)	(217,753,278)
Changes in operating assets and liabilities:		
Interest and dividends receivable	493,364	896,397
Other assets	(182,810)	913,083
Accounts payable and other accrued liabilities	367,713	(213,206)
Deferred federal excise taxes	2,374,851	-
Grants payable	<u>3,872,657</u>	<u>146,730</u>
Net cash and cash equivalents used in operating activities	<u>(55,378,635)</u>	<u>(55,910,951)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(348,200,745)	(561,353,643)
Proceeds from sales, maturities, and distributions from investments	373,519,314	634,735,233
Change in non-cash collateral under securities lending program	(10,411,449)	(13,931,960)
Change in investment contribution paid in advance	44,529,249	(44,529,249)
Purchases of property and equipment	<u>(63,087)</u>	<u>(490,752)</u>
Net cash and cash equivalents provided by investing activities	<u>59,373,282</u>	<u>14,429,629</u>
CASH FLOWS FROM FINANCING ACTIVITY — Change in payable under securities lending program		
	<u>13,848,207</u>	<u>(14,409,427)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,842,854	(55,890,749)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>62,231,746</u>	<u>118,122,495</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 80,074,600</u>	<u>\$ 62,231,746</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Excise and income taxes paid (refunded)		
	<u>\$ 239,705</u>	<u>\$ (653,003)</u>

See notes to financial statements.

# THE JAMES IRVINE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

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### 1. ORGANIZATION

The James Irvine Foundation (the “Foundation”) is a private foundation dedicated to expanding opportunity for the people of California to participate in a vibrant, successful, and inclusive society. The Foundation’s grantmaking is organized around three program areas: Arts, Youth, and California Democracy, which focuses on increasing public understanding of critical issues facing the state and infusing new ideas into the policy development process.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** — The accompanying financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At December 31, 2010 and 2009, the Foundation had no temporarily or permanently restricted net assets.

**Cash and Cash Equivalents** — Cash and cash equivalents consisting of cash and short-term, fixed-income investments with maturities of three months or less at date of purchase at December 31, 2010 and 2009, are as follows:

	2010	2009
Cash, interest-bearing deposits	\$ 18,438	\$ 16,029
Short-term, fixed-income investments	26,790,081	12,386,394
Cash collateral under securities lending program	<u>53,266,081</u>	<u>49,829,323</u>
Total	<u>\$80,074,600</u>	<u>\$ 62,231,746</u>

**Investment Contributions Paid in Advance** — The 2009 balance represents contributions to investments which were made by December 31, 2009 but effective in January of 2010.

**Investments** — The Foundation maintains the following categories of investments:

- Short-term, fixed-income investments include commercial paper, demand notes, foreign currency, and corporate and government bonds. For statement of cash flows presentation purposes, these securities are considered to be cash equivalents, as such securities have original maturities of three months or less.
- Equity securities primarily consist of investments in both domestic and foreign corporate common stock securities.
- Alternative investments represent investments in limited partnerships, limited liability companies, onshore and offshore hedge funds, private real estate investment trusts, and other nonpublic investments.

- Fixed-income securities include holdings in corporate and municipal bonds, as well as U.S. government securities, various mortgage and asset-backed bonds, and convertible corporate debentures.
- Derivatives are financial instruments or contracts whose values depend on or are derived from (in whole or in part) the variability of one or more underlyings.

**Short Sales** — Shorting securities refers to selling investments that the manager may or may not own in anticipation of a decline in the price of such securities or in order to hedge portfolio positions, with the obligation to purchase such investments at a future date. The Foundation invests in partnerships and other private investment vehicles that engage in short selling. These securities have market risk to the extent that the Foundation's managers, in satisfying their obligations, may have to repurchase securities at a higher amount than that for which they were sold.

**Derivatives** — The Foundation does not designate any derivatives as hedges. Thus, the changes in fair value of derivative instruments are reported in net realized and unrealized gains (losses) on investments on the statements of activities and changes in net assets. Derivative investments are discussed further in Note 3.

**Property and Equipment** — Property and equipment are stated at cost and depreciated using the straight-line method over estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term.

**Grants** — Grants are expensed when the unconditional promise to give is approved by the Board of Directors. Conditional promises to give, consisting primarily of grants with matching requirements, are recognized as grant expense in the period in which the recipient meets the terms of the condition. Such conditions may also include other requirements, such as the requirement for a newly formed organization to successfully establish its 501(c)(3) status before the grant becomes unconditional. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded.

**Functional Expense Allocations** — Expenses, such as salaries and payroll taxes, travel and meeting expense, depreciation and amortization, and rent, are allocated among investment expenses and program administration expenses based on employee ratios and estimates made by the Foundation's management. Investment expenses include investment management fees, custodial fees, and an allocation of the Foundation's operating expenses.

**Pension Plan** — The Foundation provides a defined contribution pension plan for all its employees. The plan is funded by the Foundation and maintained by an independent trustee.

The Foundation also has an unfunded deferred compensation plan for a select group of highly compensated or management employees under Internal Revenue Code Section 457(b). Subject to statutory limits, the Foundation contributes to the plan on behalf of eligible employees that did not receive their full contributions to the James Irvine Foundation Money Purchase Plan due to the Internal Revenue Service limits covering that plan. In addition, employees with annual base salaries of \$150,000 or above are eligible to make voluntary contributions. At December 31, 2010 and 2009, the Foundation held \$297,000 and \$222,000, respectively, in other assets which are designated to pay future deferred compensation liabilities under the plan of \$297,000 and \$222,000, respectively, that are included in other liabilities on the statements of financial position.

The Foundation's contributions to these plans were approximately \$1,109,000 and \$998,000 in 2010 and 2009, respectively.

**Estimated Fair Value of Financial Instruments** — The carrying amounts of cash, receivable from sales of securities, interest and dividends receivable, accounts payable and other accrued liabilities, and payable for purchases of securities approximate fair value because of the short maturity of these financial instruments. The carrying amount of grants payable approximates fair value because such liabilities are recorded at estimated net present value based on anticipated future cash flows.

Investments are held at estimated fair value. In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAVs) as allowed under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Fair value is discussed further in Note 3.

**Concentrations of Credit Risk** — Financial instruments, which potentially subject the Foundation to credit risk, consist primarily of cash, cash equivalents, and investments. The Foundation maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits.

**Tax Exempt Status** — The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

**Income Taxes** — The Foundation recognizes and measures its unrecognized tax benefits in accordance with Accounting Standards Codification (ASC) 740-10, which requires the Foundation to determine whether tax positions of the Foundation are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2010, the Foundation has analyzed the inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction) and has concluded that no reserve for uncertain tax positions is required.

**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. These estimates and assumptions 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 revenue and expenses during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of the fair value of investments (including alternative investments), the discount on grants payable, the calculation of federal excise taxes expense, and the functional expense allocation. Actual results could differ from those estimates.

**Recent Accounting Pronouncements** — In January 2010, the FASB issued and the Foundation adopted ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels I and II of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective January 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level III asset reconciliation; this is effective January 2011. The adoption of this guidance did not have a material impact on the Foundation's financial statements.

### 3. INVESTMENTS

The net realized and unrealized gains (losses) on investments for the years ended December 31, 2010 and 2009, are comprised as follows:

	2010	2009
Net realized gains (losses) on investments sold	\$ 20,273,999	\$ (1,162,659)
Net unrealized gains on investments	<u>175,687,817</u>	<u>218,915,937</u>
Net realized and unrealized gains on investments	<u>\$ 195,961,816</u>	<u>\$ 217,753,278</u>

**Fair Value Measurements** — The Foundation is subject to the provisions of ASC 820-10, *Fair Value Measurements*. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price). In accordance with FASB ASU No. 2009-12, *Investment in Certain Entities that Calculate Net Asset Value Per Share*, the net asset value (NAV) per share or its equivalent is used to fair value investments that follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV.

ASC 820-10 also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories. The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

*Level I* — Quoted prices are available in active markets for identical investments as of the reporting date. This category includes active exchange traded money market funds and equity securities.

*Level II* — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

*Level III* — Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format. Reported valuations of Level III securities may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following tables present the financial assets and liabilities carried on the Statement of Financial Position by level within the valuation hierarchy as of December 31, 2010 and 2009.

	Fair Value Measurements			
	2010			
	Level I	Level II	Level III	Total
Assets:				
Collateral under securities lending program:				
Cash fund	\$ -	\$ 53,266,081	\$ -	\$ 53,266,081
Non-cash		24,343,409		24,343,409
	<u>-</u>	<u>77,609,490</u>	<u>-</u>	<u>77,609,490</u>
Short-term, fixed income investments		26,790,081		26,790,081
Equity securities	408,361,281	105,895,704		514,256,985
Fixed-income securities	8,589,009	124,396,586		132,985,595
Alternative investments:				
Private equity			410,958,752	410,958,752
Real estate investments			129,267,293	129,267,293
Absolute return			333,250,366	333,250,366
Real assets			19,247,127	19,247,127
Derivatives — total return swap		1,896,985		1,896,985
	<u>416,950,290</u>	<u>258,979,356</u>	<u>892,723,538</u>	<u>1,568,653,184</u>
Total investments				
Total assets	<u>\$ 416,950,290</u>	<u>\$ 336,588,846</u>	<u>\$ 892,723,538</u>	<u>\$ 1,646,262,674</u>

	Fair Value Measurements			
	2009			
	Level I	Level II	Level III	Total
Assets:				
Collateral under securities lending program:				
Cash fund	\$ -	\$ 49,829,323	\$ -	\$ 49,829,323
Non-cash		13,931,960		13,931,960
	<u>-</u>	<u>63,761,283</u>	<u>-</u>	<u>63,761,283</u>
Short-term, fixed income investments		12,386,394		12,386,394
Equity securities	369,005,191	74,176,751		443,181,942
Fixed-income securities	1,370,989	138,764,704		140,135,693
Alternative investments:				
Private equity			341,211,014	341,211,014
Real estate investments			99,830,569	99,830,569
Absolute return			320,473,307	320,473,307
Real assets			17,926,240	17,926,240
Derivatives — total return swap		2,361,908		2,361,908
	<u>370,376,180</u>	<u>227,689,757</u>	<u>779,441,130</u>	<u>1,377,507,067</u>
Total investments				
Total assets	<u>\$ 370,376,180</u>	<u>\$ 291,451,040</u>	<u>\$ 779,441,130</u>	<u>\$ 1,441,268,350</u>

The changes in investments classified as Level III are as follows for the years ended December 31, 2010 and 2009:

	Private Equity	Real Estate	Absolute Return	Real Assets	Total
Balance — January 1, 2010	\$341,211,014	\$ 99,830,569	\$320,473,307	\$ 17,926,240	\$779,441,130
Total realized and unrealized gains	37,217,886	5,134,091	52,096,979	1,320,887	95,769,843
Transfers in and/or out of Level III	-	-	-	-	-
Purchases	51,254,132	31,103,557	18,584,250	-	100,941,939
Sales	<u>(18,724,280)</u>	<u>(6,800,924)</u>	<u>(57,904,170)</u>	<u>-</u>	<u>(83,429,374)</u>
Balance — December 31, 2010	<u>\$410,958,752</u>	<u>\$129,267,293</u>	<u>\$333,250,366</u>	<u>\$ 19,247,127</u>	<u>\$892,723,538</u>
Change in unrealized gains included in the changes in net assets relating to Level III investments still held at December 31, 2010	<u>\$ 38,848,299</u>	<u>\$ 5,134,091</u>	<u>\$ 52,687,178</u>	<u>\$ 1,320,887</u>	<u>\$ 97,990,455</u>
	Private Equity	Real Estate	Absolute Return	Real Assets	Total
Balance — January 1, 2009	\$243,939,681	\$132,405,005	\$228,377,488	\$ 19,759,720	\$624,481,894
Total realized and unrealized gains (losses)	37,105,207	(52,981,952)	86,290,064	(1,833,480)	68,579,839
Transfers in and/or out of Level III	-	-	-	-	-
Purchases (sales) — net	<u>60,166,126</u>	<u>20,407,516</u>	<u>5,805,755</u>	<u>-</u>	<u>86,379,397</u>
Balance — December 31, 2009	<u>\$341,211,014</u>	<u>\$ 99,830,569</u>	<u>\$320,473,307</u>	<u>\$ 17,926,240</u>	<u>\$779,441,130</u>
Change in unrealized gains (losses) included in the changes in net assets relating to Level III investments still held at December 31, 2009	<u>\$ 37,146,616</u>	<u>\$ (52,981,952)</u>	<u>\$ 79,633,750</u>	<u>\$ (1,833,480)</u>	<u>\$ 61,964,934</u>

Total realized and unrealized gains and losses recorded for Level III investments, if any, are reported in “Net realized and unrealized gains (losses) on investments” in both the statements of activities and changes in net assets and the statements of cash flows.

There were no significant transfers between Level I, Level II and Level III of the fair value hierarchy during 2009 or 2010.

**Alternative Investment Capital Contributions** — The Foundation made capital contributions in 2010 and 2009 to alternative investments as called for by the investment agreements.

	2010	2009
Absolute return	\$ 9,055,001	\$ 55,274,541
Private equity	51,254,132	65,223,278
Real estate	<u>31,103,557</u>	<u>21,488,438</u>
Total	<u>\$ 91,412,690</u>	<u>\$ 141,986,257</u>

**Alternative Investment Strategy and Redemption Information** — The following table summarizes the investment strategy types and various features of the alternative investment portfolio as of December 31, 2010. The Foundation has commitments under the associated investment agreements to make additional capital contributions as noted.

	Fair Value	Unfunded Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period (Days)
Absolute return (a)	\$ 333,250,366	\$ 35,933,559	Quarterly/semi-annually/annually/bi-annually	45–180
Private equity funds (b)	410,958,752	225,665,340		60–365
Real estate funds (c)	129,267,293	69,539,001		
Real assets (d)	<u>19,247,127</u>	<u>-</u>		
Total	<u>\$ 892,723,538</u>	<u>\$ 331,137,900</u>		

- (a) These funds invest both long and short primarily in U.S. and international equity or credit securities. Management of the hedge funds has the ability to shift investment strategies. Some of these investments contain redemption restrictions, including funds in partnership format which do not allow for redemption. Generally, the remaining restriction period for redeemable investments range up to 48 months at December 31, 2010, excluding any extension agreements. Several funds have entered a mandatory wind down mode and it is estimated that all capital from those funds will be returned over the next 4 years.
- (b) These funds invest in various public and private companies, both domestic and international. With the exception of two funds, these investments can never be redeemed. Rather, proceeds will be received when the funds' assets are liquidated. It is estimated that the underlying assets of all but those two funds will be liquidated over the next 15 years (by the year 2025), including likely extension agreements. Of the two remaining funds, one extends until the year 2039 and the other indefinitely. Both of those funds reset every 4 years, at which time the Foundation can opt out with proper notice.
- (c) These funds invest in U.S. and international commercial real estate. Generally, these funds cannot be redeemed. Rather, proceeds will be received when the funds' assets are liquidated and one fund has imposed withdrawal restrictions for the next three years. It is estimated that most of these funds will likely be liquidated over 3 to 10 years, including likely extension agreements.
- (d) This fund invests in various timberland holdings, both domestic and international. These investments can never be redeemed. Rather, proceeds will be received when the fund's assets are liquidated. It is estimated that the underlying assets will be liquidated over the next 4 years, excluding any extension agreements.

**Derivatives** — The Foundation accounts for derivative financial instruments as either assets or liabilities measured at fair value.

The Foundation uses derivative instruments to manage its exposure to market risks including inflation, for income enhancement and to provide diversification without actual ownership of the underlying asset. The Foundation's management believes the use of such instruments in its investment management

program is appropriate in providing for the long- and short-term financial needs of the Foundation. Though the use of these instruments reduces certain investment risks and generally adds value to the portfolio, the instruments themselves do involve some investment and counterparty risk.

Investment Managers retained by the Foundation may enter into forward currency contracts with various counterparties, primarily to facilitate securities settlements. Forward currency contracts are over-the-counter contracts for delayed delivery of currency in which the buyer agrees to buy and the seller agrees to deliver a specified currency at a specified price on a specified date. Because the terms of forward contracts are not standardized, they are not traded on organized exchanges and generally can be terminated or closed-out only by the agreement of both parties to the contract. During the period the forward contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the forward contract is closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from or the cost of the closeout of the contract and the original contract price. As of December 31, 2010 and December 31, 2009, forward currency contract activity is not material to the financial statements.

The Foundation may also enter into swap contracts as part of its investment strategy. Total return swaps involve the exchange by the Foundation with another party of respective commitments to pay or receive interest or total return based on the value of a security, index or some other instrument applied to a notional amount throughout the lives of the agreements. Swaps may involve greater risks than if the Foundation had invested in the underlying security or index directly. In addition to the general market risks, swaps may be subject to greater liquidity risk and counterparty credit risk. The Foundation enters into swaps with counterparties that it considers to be well established and which meet certain criteria for financial strength. The notional amount of swaps is not recorded in the financial statements. Swaps are carried at fair value on the statements of financial position. The change in fair value is recorded as unrealized gains (losses) until the termination of the swap, at which time a realized gain or loss is recorded. At December 31, 2010 and 2009, the Foundation was a party to one commodities total return swap which settles monthly and can be canceled at any time by the Foundation without penalty; no collateral was pledged with the counterparty in conjunction therewith.

The notional and fair values of derivative investments at December 31, 2010 and 2009, and the realized and unrealized gains and losses on derivatives as included in the statement of activities and changes in net assets for the years then ended are summarized in the following table. This table excludes exposures relating to derivatives held indirectly through commingled funds and alternative investments:

	<b>Notional</b>	<b>Fair Value</b>	<b>Realized Gain (Loss)</b>	<b>Unrealized Gain (Loss)</b>
<b>2010</b>				
Total return swap	<u>\$ 30,000,000</u>	<u>\$ 1,896,985</u>	<u>\$ 6,601,016</u>	<u>\$ 1,896,985</u>
<b>2009</b>				
Total return swap	<u>\$ 30,000,000</u>	<u>\$ 2,361,908</u>	<u>\$ (195,805)</u>	<u>\$ 2,361,908</u>

#### 4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010 and 2009, consist of:

	<b>2010</b>	<b>2009</b>
Office furniture and equipment	\$ 1,440,915	\$ 1,377,828
Leasehold improvements	<u>1,874,680</u>	<u>1,874,680</u>
Total	3,315,595	3,252,508
Accumulated depreciation and amortization	<u>(1,851,987)</u>	<u>(1,417,224)</u>
Property and equipment — net	<u>\$ 1,463,608</u>	<u>\$ 1,835,284</u>

#### 5. GRANTS

The following table summarizes for the years ended December 31, 2010 and 2009, the Foundation's grant activity:

	<b>2010</b>	<b>2009</b>
Grants approved by the Board of Directors	<u>\$ 64,508,450</u>	<u>\$ 66,288,370</u>
Add (deduct) conditional grant activity and other:		
Conditional grants made	(417,040)	-
Conditions met on conditional grants made in prior years	50,000	100,000
Change in discounts on multiyear grants — net	732	45,789
Matching gifts program	<u>398,604</u>	<u>336,402</u>
Conditional grant activity and other — net	<u>32,296</u>	<u>482,191</u>
Grant expense — net	<u>\$ 64,540,746</u>	<u>\$ 66,770,561</u>

Future minimum grant disbursements as of December 31, 2010, are scheduled as follows:

	<b>Unconditional</b>	<b>Conditional</b>
2011	\$ 40,999,581	\$ 208,557
2012	8,173,868	208,483
2013	<u>2,759,000</u>	<u>-</u>
Total	51,932,449	417,040
Less discounts on multiyear grants	<u>(39,415)</u>	<u>-</u>
Grant payable — net	<u>\$ 51,893,034</u>	<u>\$ 417,040</u>

## 6. EXCISE AND INCOME TAXES

In accordance with the applicable provisions of the Code, the Foundation is subject to an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on its net investment income, excluding unrealized gains, as defined, and is subject to corporate income tax rates on unrelated business income. The Foundation was subject to the 1% rate in 2010 and 2009. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2010 and 2009, the Foundation had made the required minimum distributions.

Deferred excise taxes arise primarily from unrealized gains on investments. At December 31, 2010, deferred federal excise tax is estimated at 2%, which is the maximum rate payable.

The provision for current and deferred federal excise and income taxes for the years ended December 31, 2010 and 2009, is as follows:

	<b>2010</b>	<b>2009</b>
Current	\$ 367,692	\$ 433,016
Deferred	<u>2,374,851</u>	<u>-</u>
Excise and income tax expense	<u>\$ 2,742,543</u>	<u>\$ 433,016</u>

## 7. LEASE COMMITMENTS

The Foundation leases its facilities under long-term noncancelable operating leases. Approximate future minimum lease payments, subject to adjustments based on changes in real property taxes and maintenance expenses, as of December 31, 2010, are as follows:

<b>Years Ending December 31</b>	<b>Total</b>
2011	\$ 826,818
2012	836,866
2013	850,586
2014	864,402
2015	356,108
Thereafter	<u>375,238</u>
Total	<u>\$4,110,018</u>

Rental expense was approximately \$709,000 and \$718,000 in 2010 and 2009, respectively.

## 8. SECURITIES LENDING

Through a securities lending program, managed by its investment custodian, the Foundation loans certain marketable securities included in its investment portfolio. The Foundation's investment custodian has indemnified the Foundation against the counterparty risk. The custodian's loan agreements require the borrowers to maintain collateral in the form of cash or securities equal to 102% to 105% of the fair value of the securities loaned. The Foundation maintains control over the collateral and also continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Foundation. The Foundation has the right under the lending agreement to recover the securities from the borrower on

demand. The principal risks to the Foundation of securities lending are that the yield earned on the collateral may be insufficient to cover the rebate owed to the borrower and that an investment purchased via the collateral reinvestment process may become impaired.

The value of securities on loan at December 31, 2010 and 2009, was \$75,096,606 and \$61,628,667, respectively. The value of collateral received at December 31, 2010 and 2009, was \$77,609,490 and \$63,761,283, respectively.

## **9. SUBSEQUENT EVENTS**

The Foundation evaluated subsequent events through June 15, 2011, the date the financial statements were available to be issued, and determined that no additional disclosures were necessary.

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