



**Consolidated Financial Statements and Report of  
Independent Certified Public Accountants**

**The Annenberg Foundation**

**June 30, 2011 and 2010**

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## Report of Independent Certified Public Accountants

Board of Directors and Management  
The Annenberg Foundation

We have audited the accompanying consolidated statements of financial position of The Annenberg Foundation (the Foundation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Annenberg Foundation as of June 30, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Los Angeles, California  
November 30, 2011

The Annenberg Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2011	2010
Cash and cash equivalents	\$ 60,315,290	\$ 139,086,448
Restricted cash	2,500,000	5,200,000
Due from the Estate of Walter Annenberg	-	181,439
Investment income and other receivables	3,484,837	3,717,878
Investments in marketable securities, at fair value (cost \$1,431,993,269 and \$1,483,197,727, respectively)	1,629,757,253	1,448,444,874
Inventory	567,053	548,414
Prepaid excise taxes	1,735,296	439,578
Property and equipment, net	<u>21,746,041</u>	<u>19,288,205</u>
Total assets	<u>\$ 1,720,105,770</u>	<u>\$ 1,616,906,836</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	\$ 97,689,900	\$ 94,807,860
Due to The Annenberg Foundation Trust at Sunnylands, net	57,088,158	96,301,323
Accounts payable	3,893,844	3,707,390
Federal excise tax payable	3,970,153	-
Royalties and contracts payable	<u>715,499</u>	<u>1,421,416</u>
Total liabilities	<u>163,357,554</u>	<u>196,237,989</u>
Net assets		
Unrestricted net assets		
Accumulated change in net assets	1,556,747,215	1,420,667,847
Capital stock (1,000 shares authorized, issued and outstanding; \$1 par value)	<u>1,000</u>	<u>1,000</u>
Total unrestricted net assets	<u>1,556,748,215</u>	<u>1,420,668,847</u>
Total liabilities and net assets	<u>\$ 1,720,105,769</u>	<u>\$ 1,616,906,836</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Annenberg Foundation

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30,

	2011	2010
Revenues and gains		
Investment income		
Dividends	\$ 8,427,704	\$ 15,833,867
Interest	5,411,228	5,391,340
Net realized and unrealized gains	<u>250,938,234</u>	<u>188,583,282</u>
Total investment income	264,777,166	209,808,489
Investment expenses	(15,007,552)	(14,062,697)
Federal excise tax provision	<u>(2,670,326)</u>	<u>(1,987,000)</u>
Total investment expenses and taxes	<u>(17,677,878)</u>	<u>(16,049,697)</u>
Net investment income	247,099,288	193,758,792
Program revenue - Annenberg Learner	1,959,055	2,369,998
Other income	<u>144,192</u>	<u>223,131</u>
Total revenue	<u>249,202,535</u>	<u>196,351,921</u>
Expenses		
Grants	78,555,554	42,551,660
Program-related administrative	3,919,607	4,540,590
Direct programs		
Annenberg Learner	4,943,267	5,447,112
Annenberg Space for Photography	7,835,268	5,942,768
Annenberg Interpretive Center at LPV	1,203,487	725,636
Explore LLC	4,870,027	3,915,057
Metabolic Studio LLC	<u>5,506,207</u>	<u>5,014,782</u>
Total direct programs	24,358,256	21,045,355
General and administrative	<u>6,289,750</u>	<u>5,247,246</u>
Total expenses	<u>113,123,167</u>	<u>73,384,851</u>
Change in unrestricted net assets	136,079,368	122,967,070
Unrestricted net assets, beginning of year	<u>1,420,668,847</u>	<u>1,297,701,777</u>
Unrestricted net assets, end of year	<u>\$ 1,556,748,215</u>	<u>\$ 1,420,668,847</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Annenberg Foundation

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended June 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in unrestricted net assets	\$ 136,079,368	\$ 122,967,070
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Depreciation	3,070,879	2,923,331
(Gain) loss on disposal of fixed assets	(377,269)	271,269
Deferred federal excise tax	3,966,640	-
Realized gains on the sale of investments	(27,343,494)	(43,465,172)
Unrealized gains on investments	(223,594,740)	(145,118,110)
Changes in assets and liabilities		
Prepaid excise taxes	(1,295,718)	225,038
Due from the Estate of Walter Annenberg	181,236	38,276
Investment income and other receivables	236,757	275,590
Inventory	(18,639)	(8,475)
Grants payable	2,882,040	(79,993,052)
Due to The Annenberg Foundation Trust at Sunnylands	(39,213,165)	(17,498,677)
Accounts payable	186,454	(187,569)
Royalties and contracts payable	(705,917)	(824,955)
Net cash used in operating activities	<u>(145,945,568)</u>	<u>(160,395,436)</u>
Cash flows from investing activities		
Proceeds from sale of investments	1,415,879,031	1,596,297,107
Purchase of investments	(1,346,253,176)	(1,406,993,933)
Restricted cash	2,700,000	1,304,665
Purchase of property and equipment	<u>(5,151,446)</u>	<u>(6,870,853)</u>
Net cash provided by investing activities	<u>67,174,409</u>	<u>183,736,986</u>
Net (decrease) increase in cash and cash equivalents	(78,771,159)	23,341,550
Cash and cash equivalents, beginning of year	<u>139,086,448</u>	<u>115,744,898</u>
Cash and cash equivalents, end of year	<u>\$ 60,315,289</u>	<u>\$ 139,086,448</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for taxes	<u>\$ -</u>	<u>\$ 1,760,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Annenberg Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Annenberg Foundation (the Foundation) was organized on October 16, 1958 as a stock nonprofit educational organization and was reclassified as a private foundation under Section 509(a) of the Internal Revenue Code effective July 1, 1989.

Ambassador Walter H. Annenberg, the sole shareholder of the stock of the Foundation, passed away on October 1, 2002. Under his will, all of the shares of stock of the Foundation were bequeathed to a trust known as The Annenberg Foundation Trust, created by Walter H. Annenberg as settlor and sole trustee on December 1, 1992. The shares are intended to be held by The Annenberg Foundation Trust in perpetuity, subject to the terms and conditions of the Trust.

The Foundation is the sole member of Explore Annenberg LLC, Metabolic Studio LLC and Annenberg Interpretive Center at Lower Point Vicente LLC. All intercompany accounts and transactions have been eliminated in consolidation.

2. Basis of Presentation

The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP).

The Foundation also classifies net assets and revenues, gains, expenses and losses as unrestricted, temporarily restricted or permanently restricted. All of the Foundation's net assets at June 30, 2011 and 2010 are unrestricted.

3. Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits and highly liquid debt instruments with an original maturity of three months or less.

4. Restricted Cash

Restricted cash consists of cash held for future payments of a grant included in grants payable per the terms of the grant agreement.

5. Inventory

Inventory purchased for use primarily in the Annenberg Learner Project is carried at the lower of first-in, first-out, cost or market.

(Continued)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Investments

Investments in marketable securities are stated at fair value. Investment transactions are recorded on the trade date, and dividend income is recorded when earned. Realized gains and losses are recorded as the difference between historical cost and fair value, and are shown on a net basis. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods.

Other investments include commingled funds, hedge funds and limited partnership interests. These investments are recorded at net asset value (NAV). The Foundation also reviews audited financial statements of the underlying funds or partnerships, when available, and other information provided by fund managers or general partners. Investments in such funds do carry certain risks, including lack of regulatory oversight, interest rate risk and market risk. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in risk factors in the near term would materially affect the amounts reported in the consolidated statements of financial position.

7. Property and Equipment

Property and equipment are carried at cost. Contributed assets are stated at fair market value as of the date donated. Expenditures for major additions and improvements are capitalized; maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation of property sold or otherwise disposed of are removed from the accounts, and any gain or loss thereon is credited or charged to income. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the estimated useful life or term of the lease.

8. Grants

Unconditional grants are recorded as an expense in the period in which the grant has been approved by the President or a Vice President of the Foundation. Conditional grants are recorded as an expense when the grantee has substantially met the conditions of the grant.

9. Tax Status

The Annenberg Foundation has been recognized by the Internal Revenue Service as an organization that is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and is further classified as a private foundation under IRC Section 4940(a). IRC Section 4940(a) generally imposes a two-percent federal excise tax on "net investment income" as defined by the Code. IRC Section 4940(e) provides for a reduction of the tax to one percent if the Foundation makes sufficient qualifying distributions exceeding a threshold amount determined based on a formula provided by the IRC. During fiscal 2011, the Foundation did not make sufficient qualifying distributions to qualify for the reduced one-percent tax.

The current federal excise tax benefit for the year ended June 30, 2011 is \$1,299,827.

(Continued)



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

Deferred taxes are associated with unrealized gains recorded as of June 30, 2011. Deferred federal excise tax is computed based on the differences between the carrying value and tax basis of the Foundation's investments. If investments are sold and a gain is realized, then the Foundation will owe excise taxes. If the investments are sold at a loss, no excise tax is recognized. The deferred federal excise tax expense for the year ended June 30, 2011 is \$3,970,153 and is included in federal excise tax provision in the statement of activities.

The Foundation is also subject to income taxes on net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. The Foundation's obligation for unrelated business income tax for the year ended June 30, 2011 is immaterial to the consolidated financial statements taken as a whole, and therefore, no provisions for federal or state income taxes are presented.

Tax positions taken related to the Foundation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Foundation would more likely than not be sustained on examination. Accordingly, the Foundation has not recorded an income tax liability for uncertain tax benefits as of June 30, 2011, and the Foundation does not anticipate a material change in its uncertain tax benefits for the 12 months following June 30, 2011. As of June 30, 2011, the Foundation tax years ending June 30, 2008 through June 30, 2011 for the federal tax jurisdiction remain open to examination.

**10. Concentration of Credit Risk**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash equivalents and investments. At times, the Foundation's cash may be in excess of the Federal Deposit Insurance Corporation limit of \$250,000. The Foundation manages the credit risk associated with cash equivalents and investments by investing its portfolio with high quality banking institutions and investment managers. The Foundation has not experienced any losses as a result of the nonperformance by the custodians and investment managers of its cash equivalents or investments. Further, the Foundation believes that it is not exposed to any significant credit risk that will result in a loss in the future.

**11. Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and gains and expenses and losses during the reporting period. Actual results could differ from those estimates. The most significant estimates and assumptions relate to the determination of the alternative investment values, useful lives of fixed assets, fair value of contributions payable and the reported values of certain of the Foundation's assets and liabilities.

The Annenberg Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - INVESTMENTS

The investment objective of the Foundation is to invest assets in a manner that will achieve a total real return sufficient to replace the assets spent for ordinary grants and expenses and to recoup any value lost due to inflation.

Investments held at June 30, were as follows:

	2011		2010	
	Fair value	Cost basis	Fair value	Cost basis
Equities	\$ 137,171,642	\$ 108,072,057	\$ 104,252,989	\$ 99,124,065
Fixed income	308,281,155	304,936,895	329,763,857	324,698,756
Alternative investments:				
Commingled funds	332,246,252	295,020,048	300,923,594	358,210,324
Hedge funds	153,348,082	135,874,085	316,996,099	311,164,582
Limited partnerships	629,832,417	527,085,785	396,508,335	390,000,000
Private equity	14,304,399	14,304,399	-	-
Real assets	54,573,306	46,700,000	-	-
	<u>\$ 1,629,757,253</u>	<u>\$ 1,431,993,269</u>	<u>\$ 1,448,444,874</u>	<u>\$ 1,483,197,727</u>

Net realized gains on the sale of investments for the years ended June 30, 2011 and 2010 were \$27,343,494 and \$43,465,172, respectively. Net unrealized gains on investments for fiscal years 2011 and 2010 were \$223,594,740 and \$145,118,110, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Useful life	2011	2010
Art		\$ 236,070	\$ 130,038
Computer software and equipment	3 years	2,662,112	2,265,901
Office furniture, fixtures and equipment	5 - 7 years	3,671,763	3,314,724
Leasehold improvements	2 - 5 years	13,753,431	12,918,530
Construction in progress (building)		2,000,000	2,000,000
Construction in progress		<u>8,368,565</u>	<u>4,911,302</u>
		30,691,941	25,540,495
Less accumulated depreciation and amortization		<u>(8,945,900)</u>	<u>(6,252,290)</u>
Net property and equipment		<u>\$ 21,746,041</u>	<u>\$ 19,288,205</u>

Depreciation expense was \$3,070,879 and \$2,923,331 for the years ended June 30, 2011 and 2010, respectively.

The Annenberg Foundation decided to withdraw its application to create a discovery park at Lower Point Vicente. The process to identify alternative site(s) has begun. Subsequent to June 30, 2011, management has estimated that \$4,582,000 of capital construction costs will be expensed.

The Annenberg Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE D - GRANTS PAYABLE

Unpaid grant commitments are recorded in the consolidated financial statements at net present value (based on discount rates between 2.44% and 8.60%). Unpaid unconditional grant commitments are scheduled for payment as follows:

Fiscal year ending June 30:

2012	\$ 59,360,712
2013	23,304,236
2014	17,331,768
2015	2,100,401
Thereafter	<u>3,058,427</u>
Total	105,155,544
Less amount representing discount	<u>(7,465,644)</u>
Total at present value	\$ <u>97,689,900</u>

Unpaid conditional grant commitments of \$560,000 payable the year ended June 30, 2011 are not recorded in the consolidated financial statements and consist of matching and reimbursement grants.

NOTE E - PAYABLE TO RELATED PARTY

On May 14, 2001, the Foundation created The Annenberg Foundation Trust at Sunnylands (Sunnylands Trust), a Pennsylvania charitable trust, which is classified as a private operating foundation and tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Concurrently, the Foundation transferred \$205 million to the Sunnylands Trust to be used for operations of the Sunnylands Trust.

In July 2004, the Foundation and Sunnylands Trust entered into an agreement whereby the Foundation agreed to provide \$125 million in additional funding to the Sunnylands Trust; \$40 million for the planning, design and construction of a Visitors Center in Rancho Mirage, CA and \$85 million to the Sunnylands Trust endowment, payable over three annual installments, upon completion of a capital construction project. Amounts for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Payable	\$ 58,666,666	\$ 98,800,000
Less discount	<u>(1,578,508)</u>	<u>(2,498,677)</u>
Payable, net	\$ <u>57,088,158</u>	\$ <u>96,301,323</u>

The Foundation made payments of \$40,133,334 and \$15,000,000 during the years ended June 30, 2011 and 2010, respectively.

The Annenberg Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - LEASES

The Foundation leases office space in Los Angeles, California; Conshohocken, Pennsylvania; and Washington, DC. Future minimum payments, net of sublease income, under these operating leases consist of the following:

Fiscal year ending June 30:

	<u>CA</u>	<u>PA</u>	<u>DC</u>	<u>Total</u>
2012	\$ 1,790,265	\$ 147,867	\$ 194,425	\$ 2,132,557
2013	1,836,932	151,576	199,284	2,187,792
2014	1,908,968	155,377	204,258	2,268,603
2015	1,765,636	159,271	209,350	2,134,257
Thereafter	<u>1,750,780</u>	<u>164,596</u>	<u>105,315</u>	<u>2,020,691</u>
	<u>\$ 9,052,581</u>	<u>\$ 778,687</u>	<u>\$ 912,632</u>	<u>\$ 10,743,900</u>

Rent expense, net of sublease rental income, under the operating leases was \$1,797,688 and \$1,968,124 for the years ended June 30, 2011 and 2010, respectively.

NOTE G - CONTRIBUTIONS FROM THE ESTATE OF WALTER H. ANNENBERG

Walter H. Annenberg, the sole shareholder of the stock of The Annenberg Foundation, passed away on October 1, 2002. As of June 30, 2003, the Foundation's residuary interest in the Estate totaled \$346 million and was recorded as a receivable.

In accordance with the terms of Walter H. Annenberg's estate plan, his wife, Leonore Annenberg, was granted a life interest in the Pennsylvania property known as Inwood and certain related personal effects. The Foundation was granted a remainder interest in this property. During the year ended June 30, 2007, this property was sold, and the Foundation's remainder interest became unconditional and estimable. As of June 30, 2010, the receivable balance was \$181,439. All funds were received during the year ended June 30, 2011.

NOTE H - FAIR VALUE MEASUREMENTS

The Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy under SFAS No. 157 are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

(Continued)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

**NOTE H - FAIR VALUE MEASUREMENTS - Continued**

Level 2 Financial assets and liabilities whose values are based on one or more of the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. 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 asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that the Foundation has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

(Continued)

The Annenberg Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE H - FAIR VALUE MEASUREMENTS - Continued

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of June 30, 2011 and indicates the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value.

June 30, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments				
Equities	\$ 79,625,004	\$ 57,546,638	\$ -	\$ 137,171,642
Fixed income	-	308,281,155	-	308,281,155
Alternative investments				
Commingled funds	-	293,744,177	38,502,075	332,246,252
Hedge funds	-	-	207,921,388	207,921,388
Limited partnerships	-	93,005,439	551,131,377	644,136,816
Total investments	<u>79,625,004</u>	<u>752,577,409</u>	<u>797,554,840</u>	<u>1,629,757,253</u>
Total assets	<u>\$ 79,625,004</u>	<u>\$ 752,577,409</u>	<u>\$ 797,554,840</u>	<u>\$ 1,629,757,253</u>
June 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments				
Equities	\$ 60,293,883	\$ 43,959,106	\$ -	\$ 104,252,989
Fixed income	-	329,763,857	-	329,763,857
Alternative investments				
Commingled funds	-	270,733,555	30,190,039	300,923,594
Hedge funds	-	-	316,996,099	316,996,099
Limited partnerships	-	70,118,821	326,389,514	396,508,335
Total investments	<u>60,293,883</u>	<u>714,575,339</u>	<u>673,575,652</u>	<u>1,448,444,874</u>
Total assets	<u>\$ 60,293,883</u>	<u>\$ 714,575,339</u>	<u>\$ 673,575,652</u>	<u>\$ 1,448,444,874</u>

(Continued)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

## NOTE H - FAIR VALUE MEASUREMENTS - Continued

A financial instrument's level within fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

	Fair value measurement (Level 3)	
	2011	2010
Balance, beginning of year	\$ 673,575,652	\$ 460,897,291
Net purchases and transfers	16,041,838	149,947,704
Net realized investment gains (losses)	6,757,851	(22,185,146)
Net unrealized investment gains	112,300,284	92,594,176
Management and incentive fees	<u>(11,120,785)</u>	<u>(7,678,373)</u>
Balance, end of year	<u>\$ 797,554,840</u>	<u>\$ 673,575,652</u>

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2011 were as follows:

Category		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Cash Management Fund	(a)	\$ 29,847,091	\$ --	Daily	1 day
Global Equity	(b)	389,792,888	--	Daily/Monthly	1 - 30 days
Multi-strategy Hedge Fund-of-Funds & Limited Partnerships	(c)	436,870,986	--	Monthly/Annually	45 - 125 days
Multi-strategy Hedge Funds & Limited Partnerships	(d)	174,034,207	1,252,000	Quarterly/Annually	60 - 65 days
Private Equity	(e)	<u>6,739,547</u>	<u>80,000,000</u>	Not eligible for redemption	N/A
Total		<u>\$ 1,037,284,719</u>	<u>\$ 81,252,000</u>		

(Continued)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

## NOTE H - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010 were as follows:

<u>Category</u>		<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Cash Management Fund	(a)	\$ 90,171,480	\$ --	Daily	1 day
Global Equity	(b)	344,882,700	--	Daily/Monthly	1 - 30 days
Multi-strategy Hedge Fund-of-Funds & Limited Partnerships	(c)	449,106,478	--	Monthly/Annually	45 - 125 days
Multi-strategy Hedge Funds & Limited Partnerships	(d)	<u>83,941,051</u>	<u>--</u>	Quarterly/Annually	60 - 65 days
Total		<u>\$968,101,709</u>	<u>\$ --</u>		

- (a) Institutional liquidity fund which invests in certificates of deposit, U.S. Treasury and sponsored agency obligations, commercial paper, repurchase agreements and other short-term fixed income holdings. The fair values have been estimated using the net asset value (NAV) per share of the investments. This investment has daily liquidity and a one-day redemption notice requirement.
- (b) Comprised of various mutual, commingled, and unit trusts funds which primarily hold long-only global equity. The fair values have been estimated using the NAV per share/unit of the investments. As of June 30, 2011, investments with fair values comprising 18% of this category have a 30-day redemption notice period.
- (c) Comprised of various commingled hedge fund-of-funds and limited partnership investments, these multi-strategy portfolios primarily invest in long and short positions in U.S. and global common stock, natural resources, and non-directional market neutral strategies, including event-driven, relative value, and credit strategies. Fair values are estimated using the NAV per share of the investments. Investments in this category require a 45- to 125-day redemption notice. As of June 30, 2010, investments with fair values comprising 38% of this category cannot be redeemed due to holding period restrictions for 12 to 18 months. The remaining 62% can be redeemed within six months.
- (d) Comprised of various direct hedge fund and limited partnership investments which include multi-strategy portfolios invested primarily in fundamental long and short positions in U.S. and global common stock, event-oriented, distressed credit, asset-based financing, derivative and private investments. Fair values are estimated using the NAV per share of the investments. In the case of private investments, independent third-party firms typically provide valuations. Investments in this category require a 60- to 65-day redemption notice. As of June 30, 2011, this investment cannot be redeemed for 18 to 24 months.

(Continued)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE H - FAIR VALUE MEASUREMENTS - Continued

- (e) Includes investments in limited partnership investments and funds-of-funds holding underlying positions in private assets. Underlying investments are valued by the manager and have restrictive liquidity provisions. Fair values are estimated using NAV per share of underlying investments.

The following provides a brief description of the types of recurring financial instruments the Foundation holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate:

Investments

***Equities:*** These investment values are based on quoted market prices in active markets and are classified as Level 1 and 2 inputs.

***Fixed Income:*** Funds designed to add value above the return of the broad U.S. bond market over a full market cycle and reduce the risk in comparison to that of investing in the index. The underlying investments are valued at closing prices reported on the market; these items are considered Level 2 inputs.

***Hedge funds:*** Funds designed to outperform the S&P index over a full market cycle, while also providing some protection during down markets. Valued at net asset value as provided by the fund manager, these funds are considered Level 3 inputs.

***Limited Partnership:*** Funds used to protect against inflation and have a primary objective of creating income and capital preservation over the long term. Valued at net asset value as provided by the fund manager, these investments are considered Level 2 and 3 inputs.

NOTE I - SUBSEQUENT EVENTS

The Foundation evaluated its June 30, 2011 consolidated financial statements for subsequent events through November 30, 2011, the date the consolidated financial statements were available to be issued. The Foundation is not aware of any subsequent events, except as noted in Note C, which would require recognition or disclosure in the consolidated financial statements.