The Kresge Foundation
(A Michigan Trustee Corporation)

Financial Statements as of and for the Year Ended December 31, 2006, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Kresge Foundation
Troy, Michigan

We have audited the accompanying statement of financial position of the Kresge Foundation (the "Foundation") as of December 31, 2006, and the related statements of income, expenditures, and changes in unrestricted net assets and of cash flows for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Foundation at December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include investments in limited partnerships, limited liability corporations, commingled funds, and hedge funds, whose fair values have been estimated in the absence of readily determinable fair values. Management's estimates are based on information provided by the external investment and fund managers or the general partners. Management also obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. However, the recorded value could differ from the value that would have been used had a readily available market existed for such investments.

Deloitte & Touche LLP

July 26, 2007

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2006

ASSETS

Cash	$ 212,924
Investments	3,308,753,242
Collateral under securities lending agreement	78,934,706
Accrued interest and dividends	2,789,927
Property and equipment — net	14,058,811
Other	4,041,212
TOTAL	$3,408,790,822

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES:	
Approved grants pending payment — net of discount	$ 173,394,237
Accounts payable and other liabilities	7,767,272
Payable under securities lending agreement	78,934,706
Deferred federal excise taxes	10,272,781
Total liabilities	270,368,996
UNRESTRICTED NET ASSETS	3,138,421,826
TOTAL	$3,408,790,822

See notes to financial statements.

THE KRESGE FOUNDATION
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STATEMENT OF INCOME, EXPENDITURES, AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006

INVESTMENT INCOME:	
Interest income	$ 17,941,899
Dividend income	13,209,444
Investment management fees	(5,656,812)
Federal tax expense	(4,435,617)
Net investment income	21,058,914
GRANTS APPROVED — net of discount	138,376,051
ADMINISTRATIVE EXPENSES	10,498,679
GRANTS AND EXPENSES IN EXCESS OF INCOME	(127,815,816)
NET REALIZED GAINS	252,539,718
CHANGE IN NET UNREALIZED MARKET APPRECIATION/DEPRECIATION	3,516,096
CHANGE IN ALTERNATIVE INVESTMENTS	152,541,840
Change in unrestricted net assets	280,781,838
UNRESTRICTED NET ASSETS:	
Beginning of year	2,857,639,988
End of year	$3,138,421,826

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in unrestricted net assets	$ 280,781,838
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities	
Depreciation	687,048
Net realized gains	(252,539,718)
Change in net unrealized market appreciation/depreciation	(3,516,096)
Change in alternative investments	(152,541,840)
(Increase) decrease in accrued interest and dividends	1,807,613
(Increase) decrease in other assets	(3,818,594)
Increase (decrease) in approved grants pending payment	20,512,248
Increase (decrease) in accounts payable and other liabilities	(1,284,842)
Increase (decrease) in deferred federal excise taxes	(2,575,625)
Net cash used in operating activities	(112,487,968)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sales of investments	2,134,724,965
Purchase of investments	(2,020,120,088)
Purchase of property and equipment	(2,021,952)
(Increase) decrease in collateral under securities lending agreement	(23,459,038)
Increase (decrease) in payable under securities lending agreement	23,459,038
Net cash provided by investing activities	112,582,925
NET INCREASE (DECREASE) IN CASH	94,957
CASH:	
Beginning of year	117,967
End of year	$ 212,924

See notes to financial statements.

1. ORGANIZATION

The Kresge Foundation (the "Foundation") is a tax-exempt private foundation. The mission of the Foundation is to strengthen nonprofit organizations that advance the well-being of humanity. The Foundation concentrates its programming on capital campaigns as a key opportunity for nonprofit growth. The Foundation was established in June 1924 as a Michigan Trustee Corporation. Its office is in Troy, Michigan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Financial Presentation* —** The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America.

***Property and Equipment* —** Property and equipment represents primarily land and buildings. The property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 45 years. The associated accumulated depreciation was $1,401,000 at December 31, 2006.

On December 11, 2002, the board of trustees approved the renovation and expansion of its Troy headquarters. The Foundation constructed an office building, renovated 19^{th} century farm buildings on the site, and restored a prairie landscape. The new facility's site orientation, use of geothermal wells and recycled materials, and management of storm water on site through constructed wetlands makes it a model in sustainable design. Depreciation of the capitalized building cost will be calculated on the straight-line method over the estimated useful life of the building. The new facility was placed into service on January 13, 2006.

***Grant Expenditures* —** The Foundation generally requires organizations to meet their fund raising goals before payment is made. It has been the Foundation's experience that substantially all grantees meet the challenge requirement. Accordingly, grants are considered unconditional and recorded as expense in the year approved.

***Tax Status* —** The foundation is an organization exempt from federal income taxation under Section 501(c)(3) and is a private foundation as described in Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal excise taxes. It is also subject to federal and state income tax on its unrelated business taxable income.

***Effect of New Accounting Pronouncements* —** In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP) and expands disclosures about fair value measurements. FASB Statement No. 157 applies where other accounting pronouncements require or permit fair value measurements; it does not require any new fair value measurements under GAAP. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in the Foundation's financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. The Foundation is assessing the impact the application of FASB Statement No. 157 will have on its financial statements.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*. FASB Statement No. 158 goes beyond the disclosures required under FASB Statement No. 87, *Employers' Accounting for Pensions* and FASB Statement No 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and requires reporting a postretirement benefit asset for plans that are overfunded and a postretirement benefit liability for plans that are underfunded. For nonpublic companies, adoption is required for fiscal years ending December 31, 2007. The Foundation estimates the adoption of FASB Statement No. 158 will have an immaterial impact on the pension plan and an increase of approximately $1,900,000 in the postretirement employee benefits liability.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option For Financial Assets and Financial Liabilities*, which provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. FASB Statement No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users' understanding of a reporting entity's choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities for which the reporting entity has chosen to measure at fair value. FASB Statement No. 159 is effective as of the beginning of a reporting entity's first fiscal year beginning afte November 15, 2007. The Foundation is assessing the impact the application of FASB Statement No. 159 will have on its financial statements.

In July 2006, the FASB issued FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income* Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN No. 48 requires an entity to recognize the tax benefit of uncertain tax positions only when it is more likely than not, based on the position's technical merits, that the position would be sustained upon examination by the respective taxing authorities. The tax benefit is measured as the largest benefit that is more than 50% likely of being realized upon final settlement with the respective taxing authorities. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Foundation is assessing the impact the application of FIN No. 48 will have on its financial statements.

Line of Credit — The Foundation has an unsecured $50,000,000 line of credit. Interest on amounts borrowed under the credit agreement is payable, at the Foundation's election, at 2% below the lender's Prime Rate or at LIBOR plus 20 basis points. No borrowings were outstanding under the revolving credit agreements at December 31, 2006.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses. Actual results could differ from those estimates.

3. INVESTMENTS

Temporary Investments —The Foundation considers investments with an original maturity of three months or less to be cash equivalents and such cash equivalents are included in the temporary investments balance.

Marketable Securities — Marketable securities are valued on the basis of quoted market prices at year end. Included in U.S. equity securities and foreign equity securities is $843,916,000 invested in commingled or hedge funds which primarily have underlying investments with readily determined fair market values. Commingled funds that hold securities directly are stated at fair value of the underlying securities, as determined by the administrator, based on readily determinable market values.

Investment income and expenses are reported on the accrual basis and investment transactions are reported on a trade-date basis. Included in the investment balance at December 31, 2006, the Foundation had unsettled trade purchases and sales of $1,102,000 and $22,976,000, respectively. Net realized gains (losses) and change in net unrealized market appreciation (depreciation) are determined by comparing cost to proceeds and fair market value, respectively. Cost is determined on a first-in first-out basis.

Alternative Investments — Alternative investments are comprised of real estate, private equities, hedge funds, oil and gas, and other types of limited partnerships. The Foundation records its alternative investments based on industry standards and in accordance with Internal Revenue Service guidelines. Limited Partnerships which do not have readily determinable market values as of December 31, 2006, are valued based on available partner capital account balances as reported by the partnerships to the Foundation as of September 30, 2006, adjusted for capital contributions and distributions during the period from October 1, 2006 through December 31, 2006. Accounts that are not separately managed, including hedge and commingled funds, are stated at fair value as determined by the administrators of each underlying fund, in consultation with fund investment managers. Generally, redemptions may be made with written notice ranging from one month to one year. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies, and derivatives. Audited information is only available annually based on the partnerships' or funds' year-end. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed.

The hedge funds utilize leverage and invest in derivatives including futures, options, and foreign currency forward contracts. The hedge funds also engage in the short selling of securities and derivatives. The real estate partnerships may utilize leverage. At December 31, 2006, the Foundation held forward exchange contracts related to its South Africa initiative with a notional amount of $6,683,000.

Change in alternative investments is comprised of interest and dividend income, net realized gains (losses), net of partnership fees and expenses and the change in net unrealized market appreciation (depreciation).

The Foundation's investments at December 31, 2006, consist of the following:

	Fair Value	Cost
MARKETABLE SECURITIES:		
Temporary investments	$ 180,889,271	$ 180,935,157
Fixed income securities	232,867,743	233,234,431
U.S. equity securities	434,252,555	387,861,158
Foreign equity securities	700,166,877	514,319,175
Total marketable securities	1,548,176,446	1,316,349,921
ALTERNATIVE INVESTMENTS:		
Hedge funds	816,496,660	680,945,711
Oil and gas	244,404,463	132,422,913
Private equity	457,180,530	448,162,696
Real estate	242,495,143	220,022,840
Total alternative investments	1,760,576,796	1,481,554,160
Total investments	$3,308,753,242	$2,797,904,081

The Foundation participates in a securities lending program with its custodian bank. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of loaned investments. All cash collateral received is invested in approved money market and short term funds. The Foundation maintains effective control of the loaned investments during the term of the agreement. At December 31, 2006, the Foundation had loaned securities with a total market value of $75,672,000 and received related cash collateral $78,935,000.

At December 31, 2006, the Foundation had commitments to contribute approximately $494,100,000 in additional capital under the terms of various agreements covering alternative partnership investments over the next 10 years.

4. GRANTS

Grants payable at December 31, 2006, represent the present value to grants using a 6.0% discount rate. The Foundation made grant payments of approximately $117,864,000 in 2006.

As of December 31, 2006, the Foundation had future grant commitments, which are scheduled for payment in future years as follows:

2007	$122,329,075
2008	45,775,000
2009	18,140,000
2010	1,150,000
	187,394,075
Discount	(13,999,838)
Net	$173,394,237

5. EXCISE TAX REQUIREMENTS

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), but is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined in the Code. The current excise tax is provided at 1% for 2006. The deferred excise tax provision is calculated assuming a 2% rate and is based on projected gains that assume complete liquidation of all assets. The current and deferred portions of the excise tax provision for 2006 were approximately $5,433,000 and ($2,576,000), respectively. Excise tax payments in 2006 were $5,350,000. The unrelated business income tax expense for 2006 was $590,000 net of $587,000 refund from prior years. State income tax expense for 2006 was $989,000.

6. RETIREE PENSION PLAN AND POST RETIREMENT EMPLOYEE BENEFITS

The Foundation sponsors a noncontributory qualified defined-benefit pension plan covering substantially all current and former full-time employees along with an unfunded nonqualified plan for restoration of pension benefits lost due to statutory limitations imposed upon qualified plans. The Foundation provides certain health care and life insurance benefits for retired employees. The Foundation's employees may become eligible for these postretirement employee benefits.

The following table sets forth the pension and other postretirement benefits plans' funded status and amounts recognized in the Foundation's statement of financial position and statement of income, expenditures, and changes in unrestricted net assets as of and for the year ended December 31, 2006:

	Pension Plan	Postretirement Employee Benefits
Fair value of plan assets	$ 10,853,598	$ -
Projected benefit obligation	(9,428,290)	(6,444,238)
Funded status of the plan	$ 1,425,308	$ (6,444,238)
Accrued benefit asset (liability) recognized in the statement of financial position	$ 1,075,619	$ (4,535,762)
Service cost	$ 549,190	$ 308,943
Interest cost	522,387	321,155
Expected return on plan assets	(617,282)	-
Transition obligation (asset) amortization	67,563	-
Prior service cost amortization	13,578	-
Immediate recognition of benefit income (cost) occurring this fiscal year	(119,737)	109,552
Benefit cost recognized in the statement of income, expenditures, and changes in unrestricted net assets	$ 415,699	$ 739,650
Employer contributions	$ 1,500,000	$ 137,363
Benefits paid	(201,207)	(137,363)
Accumulated benefit obligation	(7,737,660)	(6,444,238)

	Pension Plan	Postretirement Employee Benefits
Assumptions and Dates Used at Disclosure		
Discount rate	6.00 %	6.00 %
Compensation increase rate	4.50 %	4.50 %
Measurement date	12/31/2006	12/31/2006
Census date	01/01/2006	01/01/2004
Assumptions Used to Determine Expense		
Discount rate	5.75 %	5.75 %
Long-term rate of return on assets	7.00 %	n/a
Compensation increase rate	4.50 %	4.50 %
Health care cost trend rate assumptions		
Initial trend rate	n/a	11.00 %
Ultimate trend rate	n/a	5.00 %
Year ultimate trend is reached	n/a	2013
Expected benefit payments:		
2007	$ 190,190	$ 217,878
2008	1,398,277	250,751
2009	201,176	264,393
2010	196,278	276,205
2011	415,307	307,948
2012-2016	4,278,799	2,019,353

The expected return on asset assumption was determined based on the plan asset allocations, a review of historic capital market performance, historical plan performance, and a review of expected future asset returns. The allocation at December 31, 2006, was approximately 65% equity securities and 35% fixed income securities. Target allocations for the pension assets are 60% equity 40% fixed. The target allocation represents a long-term perspective to provide sufficient liquidity to meet scheduled payments. The investment guidelines call for preservation of capital, maintenance of liquidity, and earning the highest possible total rate of return while minimizing risk. The Foundation does not anticipate making contributions into its pension or other postretirement plans during 2007.

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