The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the
Years Ended December 31, 2010 and 2009, 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 statements of financial position of The Kresge Foundation (the "Foundation") as of December 31, 2010 and 2009, and the related statements of income, expenditures, and changes in unrestricted 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 unrestricted net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Detroit, Michigan
June 16, 2011

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

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

	2010	2009
ASSETS		
CASH	$ 652,827	$ 436,456
INVESTMENTS — At fair market value	3,246,057,372	3,098,191,898
PROGRAM-RELATED INVESTMENTS — Net	15,306,500	16,272,000
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	16,253,778	34,208,236
ACCRUED INTEREST AND DIVIDENDS	509,491	413,283
PROPERTY AND EQUIPMENT — Net	12,742,443	12,918,389
OTHER	1,700,319	2,569,028
TOTAL	$3,293,222,730	$3,165,009,290
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Grants payable	$ 107,486,705	$ 187,191,223
Accounts payable and other liabilities	12,075,782	10,438,732
Borrowings under revolving lines of credit	74,390,235	91,500,000
Payable under securities lending agreement	16,253,778	34,208,236
Deferred federal excise taxes	8,214,261	2,254,785
Total liabilities	218,420,761	325,592,976
UNRESTRICTED NET ASSETS	3,074,801,969	2,839,416,314
TOTAL	$3,293,222,730	$3,165,009,290

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF INCOME, EXPENDITURES, AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
INVESTMENT INCOME:		
Interest, dividends, and other income	$ 8,271,036	$ 8,023,985
Net realized and unrealized gain on investments	416,024,498	422,124,881
Investment management fees	(2,695,988)	(5,653,560)
Federal excise tax expense and other	(9,270,033)	(8,920,495)
Net investment income	412,329,513	415,574,811
EXPENSES:		
Grants approved — net of discount	157,051,599	165,702,634
Administrative expenses	19,389,764	16,999,887
Total expenses	176,441,363	182,702,521
OTHER POSTEMPLOYMENT ADJUSTMENTS	(502,495)	(1,043,631)
NET CHANGE IN UNRESTRICTED NET ASSETS	235,385,655	231,828,659
UNRESTRICTED NET ASSETS:		
Beginning of year	2,839,416,314	2,607,587,655
End of year	$3,074,801,969	$2,839,416,314

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in unrestricted net assets	$ 235,385,655	$ 231,828,659
Adjustments to reconcile net change in unrestricted net assets to net cash used in operating activities:		
Depreciation	808,274	775,386
Loss on disposal of property and equipment	72	1,343
Program-related investments provision	345,500	571,000
Change in value of grants payable	308,535	5,586,912
Net realized and unrealized gain on investments	(416,024,498)	(422,124,881)
(Increase) decrease in accrued interest and dividends	(96,208)	54,656
Decrease in other assets	868,709	4,487,643
Decrease in approved grants pending payment	(80,013,053)	(40,500,847)
Increase in accounts payable and other liabilities	1,637,050	846,605
Increase in deferred federal excise taxes	5,959,476	9,552,805
Net cash used in operating activities	(250,820,488)	(208,920,719)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	1,409,271,111	1,908,662,090
Purchases of investments	(1,141,112,087)	(1,779,712,568)
Returns of principal for program-related investments	1,120,000	-
Loans disbursed for program-related investments	(500,000)	(10,920,000)
Purchases of property and equipment	(632,400)	(382,952)
Net cash provided by investing activities	268,146,624	117,646,570
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	158,101,713	91,500,000
Repayment of lines of credit	(175,211,478)	-
Net cash (used in) provided by financing activities	(17,109,765)	91,500,000
NET INCREASE IN CASH	216,371	225,851
CASH:		
Beginning of year	436,456	210,605
End of year	$ 652,827	$ 436,456

See notes to financial statements.

THE KRESGE FOUNDATION

(A Michigan Trustee Corporation)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION

The Kresge Foundation (the "Foundation") is a tax-exempt private foundation that seeks to influence the quality of life for future generations through its support of nonprofit organizations working in six fields: health, the environment, arts and culture, education, human services, and community development. 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 (GAAP).

Program-Related Investments (PRIs) — In accordance with Section 4944 of the Internal Revenue Code (the "Code"), the Foundation is permitted to make investments that further some aspect of its charitable mission. In 2008 the Foundation began making PRIs. These investments are anticipated to have lower-than-market returns on a risk-adjusted basis. Like grants, these investments count toward the Foundation's payout requirement in the year of distribution. Return of PRI principal affects the annual payout requirement in a similar manner as a grant refund.

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 depreciation was $808,274 and $775,386 at December 31, 2010 and 2009, respectively.

Property and equipment at December 31, 2010 and 2009, consists of the following:

	2010	2009
Land	$ 500,000	$ 500,000
Building and improvements	13,673,385	13,565,244
Furniture and fixtures	1,419,484	1,129,522
Computer and office equipment	1,175,975	1,036,220
	16,768,844	16,230,986
Less accumulated depreciation and amortization	(4,026,401)	(3,312,597)
Total property and equipment — net	$ 12,742,443	$ 12,918,389

Grant Expenditures — Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee substantially meets the terms of the conditions. The Foundation had $23,500,000 and $27,600,000 in conditional grants at December 31, 2010 and 2009, respectively.

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 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.

Adoption of Accounting Pronouncements — In January 2010 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires reporting entities to make new disclosures about the amounts and reasons for significant transfers in and out of Level 1 and Level 2 of the fair value hierarchy and input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The statement also requires information on purchases, sales, issuances, and settlements in the rollforward of activity on a gross basis for Level 3 fair value measures. The new and revised disclosures are effective for reporting periods beginning after December 15, 2009; however, the requirement to provide purchases, sales, issuances, and settlements in the rollforward of activity on a gross basis for Level 3 fair value measures is effective for fiscal years beginning after December 15, 2010. The statement became effective for the Foundation for the year ended December 31, 2010, which resulted in additional required disclosure.

In July 2010 the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires reporting entities to provide disclosures that facilitate the evaluation of an entity's credit risk exposures and adequacy of its allowance for credit losses. The guidance requires a greater level of disaggregated information about the credit quality of financing receivables and allowances for credit losses. In addition, disclosure of credit quality indicators, past due information, and modifications of financing receivables are also required. The new disclosures are effective for reporting periods ending on or after December 15, 2011. At this time, the Foundation is evaluating the implications of ASU No. 2010-20 and its effect on the financial statements.

Lines of Credit — The Foundation has unsecured lines of credit totaling $175,000,000 (Credit Lines A and B) at December 31, 2010 and 2009. At December 31, 2010, the Foundation's effective rate on Credit Lines A and B was 0.8%. Credit Lines A and B contain a commitment fee of 0.25% on the unused available credit balance. At December 31, 2009, the Foundation's effective rate on Credit Lines A and B was 1.03% and 0.73%, respectively. Credit Line A contained a commitment fee of 0.35% on the unused available credit balance and Credit Line B contained a facility fee of 0.5%. At December 31, 2010 and 2009, the outstanding borrowings were $74,390,000 and $91,500,000, respectively. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination dates September 3, 2011, and August 31, 2011, for Credit Lines A and B, respectively.

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, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Investment Risks — Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying financial statements.

3. INVESTMENTS

Temporary Investments — The Foundation considers temporary investments to be unsettled trade purchases and sales and cash and cash equivalents held as part of the long-term investment strategy of the Foundation. Cash equivalents are considered to be investments with a maturity of three months or less. The Foundation had unsettled trade purchases of $3,437,000 and $140,438,000 at December 31, 2010 and 2009, respectively. The Foundation had unsettled trade sales of $89,104,000 and $97,115,000 at December 31, 2010 and 2009, respectively.

Fixed Income, U.S. Equity, and Foreign Equity Securities — Fixed income, U.S. equity, and foreign equity securities include investments in separate and commingled funds.

Hedge Funds, Natural Resources, Private Equity, and Real Estate — Hedge funds' fair values are based on information provided by the administrators of each underlying fund. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method. Gains and losses on investments include equity earnings from limited partnerships. These investments may utilize leverage.

Derivative Financial Instruments — The Foundation accounts for derivative financial instruments in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging* (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*). The Foundation recognizes all derivatives as either assets or liabilities measured at fair value. The Foundation has netted liability positions against the investment balance. For accounting purposes, the derivatives do not have hedge designation and all gains and losses are reported in the net realized and unrealized (loss) gain on investments on the statements of income, expenditures, and changes in unrestricted net assets.

The Foundation enters into derivative arrangements to manage a variety of market risks and to adjust asset class exposure. The fair values of derivative instruments in the statements of financial position at December 31, 2010 and 2009, are as follows:

	2010				2009			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Investments	$ 7,999,000	Investments	$ (8,041,000)	Investments	$ 1,324,000	Investments	$(1,522,000)
Equity contracts	Investments	4,474,000	Investments	(6,502,000)	Investments	2,984,000	Investments	(5,778,000)
Interest rate contracts	Investments	15,623,000	Investments	-	Investments	22,456,000	Investments	-
Foreign exchange contracts	Investments	175,000	Investments		Investments	731,000	Investments	(896,000)
Other contracts	Investments	-	Investments	(1,214,000)	Investments	-	Investments	-
Total derivative instruments		$28,271,000		$ (15,757,000)		$27,495,000		$(8,196,000)

The effect of derivative instruments on the statement of income, expenditures, and changes in unrestricted net assets at December 31, 2010 and 2009, is as follows:

	Location of Gain (Loss)	Gain (Loss) Recognized on Derivatives 2010	Gain (Loss) Recognized on Derivatives 2009
Commodity contracts	Net realized and unrealized gain (loss) on investments	$ 352,000	$ 1,315,000
Equity contracts	Net realized and unrealized gain (loss) on investments	(6,698,000)	(156,713,000)
Credit contracts	Net realized and unrealized gain (loss) on investments	-	(429,000)
Interest rate contracts	Net realized and unrealized gain (loss) on investments	(5,271,000)	17,164,000
Foreign exchange contracts	Net realized and unrealized gain (loss) on investments	(1,338,000)	(13,007,000)
Other contracts	Net realized and unrealized gain (loss) on investments	(1,214,000)	-
Total derivative instruments		$ (14,169,000)	$ (151,670,000)

The Foundation is not credit rated, and therefore, no credit rating contingent provisions are required by counterparties.

Counterparty credit risk is the risk that counterparties to derivative contracts will fail to perform according to the terms of the agreements. Nationally recognized statistical rating organizations, such as Standard & Poor's (S&P) and Moody's, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. The Foundation manages credit risk by reviewing the credit standing of each counterparty and limits exposure to credit risk by requiring that the minimum acceptable credit rating of the counterparty be BBB- and Baa3 for S&P and Moody's, respectively.

To determine the amount of exposure to each counterparty, the Foundation nets the exposure on transactions by individual counterparty against the value of any collateral posted by the counterparty (a) when both parties owe determinable amounts, (b) where a legal right of setoff exists, and (c) when the right to setoff is enforceable by law. The thresholds for collateral postings vary by counterparty.

The aggregate fair value of derivative instruments in asset positions on December 31, 2010 and 2009, is $28,271,000 and $27,495,000, respectively. The exposure to counterparty credit risk on December 31, 2010, is reduced by $12,800,000 of collateral held and $11,918,000 of liabilities included in netting arrangements with those counterparties. The exposure to counterparty credit risk on December 31, 2009, is reduced by $20,900,000 of collateral held and $3,553,000 of liabilities included in netting arrangements with those counterparties. The Foundation has never failed to access collateral when required. The Foundation has not posted collateral to any counterparty at December 31, 2010 and 2009.

The fair value of the Foundation's investments at December 31, 2010 and 2009, consist of the following:

	2010	2009
Temporary investments	$ 237,139,738	$ 181,965,104
Fixed income securities	102,735,113	64,083,005
U.S. equity securities	405,359,553	381,049,863
Foreign equity securities	644,201,917	655,024,490
Hedge funds and derivatives	600,803,318	699,488,609
Natural resources	271,169,430	256,036,041
Private equity	699,497,614	639,531,700
Real estate	285,150,689	221,013,086
Total investments	$3,246,057,372	$3,098,191,898

Net realized gain (loss) and change in net unrealized market gain are determined by comparing cost to proceeds and fair market value, respectively. Cost is determined on a first-in, first-out basis. The gain or loss on the Foundation's investment portfolio for the years ended December 31, 2010 and 2009, consists of the following:

	2010	2009
Net realized gain (loss)	$ 118,050,670	$ (58,110,246)
Net unrealized gain	297,973,828	480,235,127
Net realized and unrealized gain on investments	$ 416,024,498	$ 422,124,881

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, 2010 and 2009, the Foundation had loaned securities with a total market value of $15,768,000 and $33,152,000, respectively, and received related cash collateral of $16,254,000 and $34,208,000, respectively.

The changes in security lending collateral of $17,954,000 and $8,168,000 as of December 31, 2010 and 2009, respectively, are considered noncash transactions.

At December 31, 2010 and 2009, the Foundation had commitments to contribute approximately $783,411,000 and $827,878,000, respectively, in additional capital under the terms of various agreements covering alternative partnership investments over the next seven years.

4. FAIR VALUE

The Foundation is subject to the provisions of FASB issued ASC 820, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157, *Fair Value Measurements*), which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The carrying amounts reported in the statements of financial position for cash, accrued interest and dividends, other accounts payable and other liabilities, borrowings under revolving line of credit, and deferred federal excise taxes approximate fair value because of their short-term nature.

Fair Value Hierarchy — ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Observable market-based inputs, unobservable inputs that are corroborated by market data, or present valuing techniques.

Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Foundation's own assumptions.

In certain instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, 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 asset or liability.

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy at December 31, 2010, are as follows:

	2010	Level 1	Level 2	Level 3
Temporary investments	$ 237,139,738	$ 154,517,545	$ 82,622,193	$ -
Fixed income securities	102,735,113	56,694,047	-	46,041,066
U.S. equity securities	405,359,553	40,808,311	41,975,258	322,575,984
Foreign equity securities	644,201,917	-	237,161,512	407,040,405
Hedge funds	588,289,783	-	-	588,289,783
Derivative contracts:				
Commodity	(41,761)	(41,761)	-	-
Equity	(2,027,884)	-	(2,027,884)	-
Interest rate	15,622,866	-	15,622,866	-
Foreign exchange	174,528	-	174,528	-
Other	(1,214,214)	-	(1,214,214)	-
Natural resources	271,169,430	-	110,132,402	161,037,028
Private equity	699,497,614	-	-	699,497,614
Real estate	285,150,689	19,404,215	-	265,746,474
Total investments	$ 3,246,057,372	$ 271,382,357	$ 484,446,661	$ 2,490,228,354
Securities lending	$ 16,253,778	$ 16,253,778	$ -	$ -
Grants payable	$ 107,486,705	$ -	$ 107,486,705	$ -

Negative asset balances are representative of net liability positions on investments at year-end.

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy at December 31, 2009, is as follows:

	2009	Level 1	Level 2	Level 3
Temporary investments	$ 181,965,104	$ 193,918	$ 181,771,186	$ -
Fixed income securities	64,083,005	19,761,592	138,888	44,182,525
U.S. equity securities	381,049,863	100,685,865	51,668,347	228,695,651
Foreign equity securities	655,024,490	31,638,078	155,660,728	467,725,684
Hedge funds	680,188,801	-	-	680,188,801
Derivative contracts:				
Commodity	(197,491)	(197,491)	-	-
Equity	(2,793,708)	3,657	(2,797,365)	-
Interest rate	22,456,025	-	22,456,025	-
Foreign exchange	(165,018)	(896,322)	731,304	-
Natural resources	256,036,041	-	130,463,815	125,572,226
Private equity	639,531,700	10,616	-	639,521,084
Real estate	221,013,086	17,333,386	-	203,679,700
Total investments	$ 3,098,191,898	$ 168,533,299	$ 540,092,928	$ 2,389,565,671
Securities lending	$ 34,208,236	$ 34,208,236	$ -	$ -
Grants payable	$ 187,191,223	$ -	$ 187,191,223	$ -

Level 1 classifications consist of U.S. Treasuries, commercial paper, and other fixed income securities with observable market prices. Unsettled trade receivable and payable valuations are reflective of cash settlements subsequent to year-end. Fixed income, U.S. equity, and foreign equity securities have readily determinable fair market values based on quoted prices in active markets.

Level 2 classifications consist of commingled funds where detailed holdings were available and a significant portion of the funds' fair value could be determined based on quoted market prices. The fair value of the derivative investments are based on market prices from the financial institution that is the counterparty to the derivative. Oil and natural gas price assumptions used in the fair value estimate are based on forward New York Mercantile Exchange prices.

Level 3 classifications consist of fixed income, U.S. equity, and foreign equity securities that do not have readily determinable market values because detailed holdings were unavailable or the securities are not publicly traded. Fair value estimates for equity securities are based on other market data for the same or comparable instruments and transactions. Commingled hedge funds' fair values are based on information provided by the administrators of each underlying fund; management also takes into consideration consultation with fund investment managers and audited financial information to determine overall reasonableness of the recorded value. Natural resources, private equity, and real estate limited partnerships are accounted for on the equity method and are based on information provided by the general partner; management also takes into consideration the audited financial information and K-1 capital account balances to determine overall reasonableness of the recorded value. Management believes that the equity method represents the best estimate of the partnerships' fair values. Audited information is only available annually, based on the partnerships' 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 Foundation uses net asset value (NAV) per share (or its equivalent) to determine the fair value of all the underlying investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Foundation's investments in funds that calculate NAV per share (or its equivalent) primarily consist of investments in fixed income, U.S. and foreign equity, and hedge funds. These funds represent approximately 58% of Level 2 and 54% of Level 3 investments. The Foundation's investment in these funds are generally redeemable daily to biannually with varying redemption notice periods that are generally 90 days but can range from 3 to 180 days. Unfunded commitments to these funds are approximately $18,000,000 and $32,708,000 at December 31, 2010 and 2009, respectively.

In accordance with ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, the Foundation classifies such investments as Level 2 when there is the ability to redeem the investment in the near term; however, if the Foundation does not have the ability to redeem its investment in the near term, the Foundation classifies such investments as Level 3. The Foundation defines near term to be within 90 days of the measurement date. Of Level 2 and Level 3 investments that calculate NAV per share (or its equivalent), approximately 100% and 14%, respectively, are considered near term at December 31, 2010. Of Level 2 and Level 3 investments that calculate NAV per share (or its equivalent), approximately 100% and 16%, respectively, are considered near term at December 31, 2009.

A reconciliation of the beginning and ending balance of the Level 3 investment activity that is measured at fair value using unobservable inputs at December 31, 2010 and 2009, is as follows:

	2010	**2009**
Balance — beginning of year	$2,389,565,671	$2,200,920,778
Total realized and unrealized gains included in change in net assets	393,357,561	512,901,940
Net additions, purchases, sales, and maturities	(165,582,824)	(169,938,984)
Transfers into Level 3	1,070,212	52,662,049
Transfers out of Level 3	(128,182,266)	(206,980,112)
Balance — end of year	$2,490,228,354	$2,389,565,671

Transfers occurred out of Level 3 to Level 2 due to the use of observable inputs that reflect assumptions market participants would use to price the asset based on market data obtained from sources independent of the reporting entity. Transfers occurred out of Level 2 to Level 3 in accordance with the near-term guidance of ASU No. 2009-12.

Gains and losses (realized and unrealized) as reported above are included in net investment income on the statements of income, expenditures, and changes in unrestricted net assets.

Securities Lending Collateral — The carrying value of securities lending collateral approximates fair value as recorded collateral is composed of cash and cash equivalents that are received.

Grants Payable — The fair value of grants payable is based on the present value of discounted cash flows using the three-month U.S. Treasury rate at December 31, 2010 and 2009.

5. PROGRAM-RELATED INVESTMENTS

PRIs in the statements of financial position represent various below-market-rate loans with outstanding principal totaling $16,640,000 and $17,260,000 as of December 31, 2010 and 2009, respectively. Interest rates range from 0% to 3%. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. There was $1,120,000 and $0 received as return of principal for the years ended December 31, 2010 and 2009, respectively. Management has reviewed the collectibility of all PRIs and has recorded an allowance of $1,333,500 and $988,000 as of December 31, 2010 and 2009, respectively. The Foundation has PRI commitments of $2,750,000 and $1,500,000 as of December 31, 2010 and 2009, respectively.

The loans are scheduled for collection at December 31, 2010, as follows:

Years Ending December 31	
2011	$ 2,090,000
2012	3,165,000
2013	5,062,500
2014	1,812,500
2015	-
2016–2018	4,510,000
	16,640,000
Less allowance	(1,333,500)
	$ 15,306,500

6. GRANTS PAYABLE

Grants payable at December 31, 2010 and 2009, represent the present value of grants using a 0.13% and 0.21%, respectively, discount rate. The Foundation made grant payments of approximately $235,702,000 and $210,262,000 in 2010 and 2009, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years at December 31, 2010, are as follows:

Years Ending December 31	
2011	$ 86,634,363
2012	16,592,287
2013	2,669,022
2014	1,207,148
2015	559,165
	107,661,985
Discount	(175,280)
Net	$ 107,486,705

7. EXCISE TAX REQUIREMENTS

The Foundation is exempt from federal income taxes under Section 501(c)(3) of 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 2% for 2010 and 1% for 2009. 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 2010 were approximately $3,128,000 and $5,960,000, respectively. The current and deferred portions of the excise tax provision for 2009 were approximately $0 and $9,605,000, respectively. Cash payments for federal excise taxes were $1,200,000 and $0 for the years ended December 31, 2010 and 2009, respectively. Federal excise taxes payable were $1,000,000 and $0 for the years ended December 31, 2010 and 2009, respectively. The unrelated business income tax expense for 2010 and 2009 was $0. Prepaid unrelated business income tax was $1,013,672 for the years ended December 31, 2010 and 2009.

8. OTHER POSTEMPLOYMENT BENEFITS

The Foundation is subject to the provisions of FASB issued ASC 715, *Compensation-Retirement Benefits* (formerly FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*), which requires recognition of the overfunded or underfunded status of the other postemployment benefit plan as an asset or liability in the statements of financial position and recognition of changes in the funded status in the year in which the changes occur. The funded status of the plan is measured as the difference between the fair value of plan assets and the benefit obligation.

The Foundation provides certain health care and life insurance benefits for retired employees. The Foundation's employees may become eligible for these postemployment employee benefits.

The other postemployment benefit plan funded status and amounts recognized in the Foundation's statements of financial position and statements of income, expenditures, and changes in unrestricted net assets as of and for the years ended December 31, 2010 and 2009, are as follows:

	Postemployment Employee Benefits	
	2010	**2009**
Fair value of plan assets	$ -	$ -
Benefit obligation	(8,472,261)	(7,077,064)
Funded status of the plan	$ (8,472,261)	$ (7,077,064)
Accrued benefit liability recognized in the statement of financial position — January 1	$ (7,077,064)	$ (5,524,004)
Service cost	$ 769,176	$ 449,968
Interest cost	397,154	339,757
Expected return on plan assets	-	-
Transition obligation amortization	-	-
Prior service cost amortization	(127,526)	(127,526)
Immediate recognition of benefit cost occurring this fiscal year	-	-
Net amortization loss	22,307	-
Benefit cost recognized in the statements of income, expenditures, and changes in unrestricted net assets	$ 1,061,111	$ 662,199
Actuarial loss recognized in the statements of income, expenditures, and changes in unrestricted net assets	$ 502,495	$ 1,043,631
Employer contributions	$ 168,409	$ 152,770
Benefits paid	$ (168,409)	$ (152,770)
Benefit obligation	$ (8,472,261)	$ (7,077,064)

The postemployment employee benefit liability is included in the accounts payable and other liability balance on the statements of financial position for the years ended December 31, 2010 and 2009.

	Postemployment Employee Benefits	
	2010	**2009**
Assumptions and Dates Used for Disclosure		
Discount rate	5.50 %	6.00 %
Compensation increase rate	4.50	4.50
Measurement date	12/31/10	12/31/09
Assumptions Used to Determine Expense		
Discount rate	6.00 %	6.25 %
Compensation increase rate	4.50	4.50
Health care cost trend rate assumptions:		
Initial trend rate	9.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend is reached	2018	2013

A one-percentage change in assumed health care cost trends rates at December 31, 2010, would have the following effects:

	One-Percentage Point	
	Increase	Decrease
Effect on postemployment benefit obligation	$ 1,384,732	$ (1,101,074)

Expected amortization during 2011 for amortization of net prior service credit and amortization of net loss are $127,526 and $55,432, respectively.

Future Expected Benefit Payments	
2011	$ 210,640
2012	223,483
2013	251,369
2014	288,146
2015	322,586
2016–2020	2,435,546

9. SUBSEQUENT EVENTS

There have been no subsequent events through June 16, 2011, the date these financial statements were issued, requiring adjustment to, or disclosure in, the financial statements.

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