The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the
Years Ended December 31, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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

June 13, 2012

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CASH	$ 557,997	$ 652,827
INVESTMENTS — At fair market value	2,994,859,559	3,246,057,372
PROGRAM-RELATED INVESTMENTS — Net	13,874,191	15,306,500
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	14,666,952	16,253,778
ACCRUED INTEREST AND DIVIDENDS	474,855	509,491
PROPERTY AND EQUIPMENT — Net	12,456,823	12,742,443
OTHER	3,562,672	1,700,319
TOTAL	$3,040,453,049	$3,293,222,730
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Grants payable	$ 93,467,328	$ 107,486,705
Accounts payable and other liabilities	12,952,566	12,075,782
Borrowings under revolving lines of credit	-	74,390,235
Payable under securities lending agreement	14,666,952	16,253,778
Deferred federal excise taxes	5,225,875	8,214,261
Total liabilities	126,312,721	218,420,761
UNRESTRICTED NET ASSETS	2,914,140,328	3,074,801,969
TOTAL	$3,040,453,049	$3,293,222,730

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, 2011 AND 2010

	2011	2010
INVESTMENT INCOME:		
Interest, dividends, and other income	$ 4,490,222	$ 8,271,036
Net realized and unrealized gains on investments	9,772,686	416,024,498
Investment management fees	(1,919,511)	(2,695,988)
Federal excise tax expense and other	766,309	(9,270,033)
Net investment income	13,109,706	412,329,513
EXPENSES:		
Grants approved — net of discount	151,910,949	157,051,599
Administrative expenses	20,343,873	19,389,764
Total expenses	172,254,822	176,441,363
OTHER POSTEMPLOYMENT ADJUSTMENTS	(1,516,525)	(502,495)
CHANGE IN UNRESTRICTED NET ASSETS	(160,661,641)	235,385,655
UNRESTRICTED NET ASSETS:		
Beginning of year	3,074,801,969	2,839,416,314
End of year	$2,914,140,328	$3,074,801,969

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ (160,661,641)	$ 235,385,655
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	847,191	808,274
Loss on disposals of property and equipment	-	72
Program-related investments provision for doubtful accounts	(116,731)	345,500
Change in value of grants payable	31,533	308,535
Net realized and unrealized gains on investments	(9,772,686)	(416,024,498)
Decrease (increase) in accrued interest and dividends	34,636	(96,208)
(Increase) decrease in other assets	(1,862,353)	868,709
Decrease in approved grants pending payment	(14,050,910)	(80,013,053)
Increase in accounts payable and other liabilities	876,784	1,637,050
(Decrease) increase in deferred federal excise taxes	(2,988,386)	5,959,476
Net cash used in operating activities	(187,662,563)	(250,820,488)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,190,820,652	1,409,271,111
Purchases of investments	(929,850,153)	(1,141,112,087)
Returns of principal for program-related investments	2,134,040	1,120,000
Disbursements for program-related investments	(585,000)	(500,000)
Purchases of property and equipment	(561,571)	(632,400)
Net cash provided by investing activities	261,957,968	268,146,624
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	33,233,104	158,101,713
Repayments of lines of credit	(107,623,339)	(175,211,478)
Net cash used in financing activities	(74,390,235)	(17,109,765)
NET (DECREASE) INCREASE IN CASH	(94,830)	216,371
CASH:		
Beginning of year	652,827	436,456
End of year	$ 557,997	$ 652,827

See notes to financial statements.

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 $847,191 and $808,274 at December 31, 2011 and 2010, respectively.

Property and equipment at December 31, 2011 and 2010, consists of the following:

	2011	2010
Land	$ 500,000	$ 500,000
Building and improvements	13,948,963	13,673,385
Furniture and fixtures	1,221,343	1,175,975
Computer and office equipment	1,591,825	1,419,484
	17,262,131	16,768,844
Less accumulated depreciation and amortization	(4,805,308)	(4,026,401)
Total property and equipment — net	$ 12,456,823	$ 12,742,443

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 $26,200,000 and $23,500,000 in conditional grants at December 31, 2011 and 2010, 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 were 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 final portion of the statement became effective for the Foundation for the year ended December 31, 2011, 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. The statement became effective for the Foundation for the year ended December 31, 2011, which resulted in additional required disclosure.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which results in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRS). The guidance clarifies the concept of highest and best use when fair valuing nonfinancial assets. When measuring a group of financial instruments managed within a portfolio, the amendments permit an exception to the requirements in Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157, *Fair Value Measurements*) for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks. Additional disclosure topics included in the update are not required for nonpublic entities. Amendments are to be applied prospectively for annual periods beginning after December 15, 2011. At this time, the Foundation is evaluating the implications of ASU No. 2011-04 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, 2011 and 2010. At December 31, 2011, the Foundation's effective rate on credit lines A and B was 1.03%. Credit lines A and B contain a commitment fee of 0.1% on the unused available credit balance. 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, 2011 and 2010, the outstanding borrowings were $0 and $74,390,235, respectively. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination dates August 31, 2012, and August 29, 2012, 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 $4,059,000 and $3,437,000 at December 31, 2011 and 2010, respectively. The Foundation had unsettled trade sales of $16,739,000 and $89,104,000 at December 31, 2011 and 2010, 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 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 gains 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, 2011 and 2010, are as follows:

	2011				2010			
	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	$ -	Investments	$ (312,000)	Investments	$ 7,999,000	Investments	$ (8,041,000)
Equity contracts	Investments	1,341,000	Investments	(5,937,000)	Investments	4,474,000	Investments	(6,502,000)
Interest rate contracts	Investments	327,000	Investments	(12,282,000)	Investments	15,623,000	Investments	-
Foreign exchange contracts	Investments	-	Investments	(200,000)	Investments	175,000	Investments	-
Other contracts	Investments	-	Investments	(1,187,000)	Investments	-	Investments	(1,214,000)
Total derivative instruments		$1,668,000		$ (19,918,000)		$28,271,000		$ (15,757,000)

The effect of derivative instruments on the statement of income, expenditures, and changes in unrestricted net assets at December 31, 2011 and 2010, is as follows:

		Gain (Loss) Recognized on Derivatives	
	Location of Gains (Losses)	**2011**	**2010**
Commodity contracts	Net realized and unrealized gains (losses) on investments	$ (2,159,000)	$ 352,000
Equity contracts	Net realized and unrealized gains (losses) on investments	(425,000)	(6,698,000)
Interest rate contracts	Net realized and unrealized gains (losses) on investments	(18,154,000)	(5,271,000)
Foreign exchange contracts	Net realized and unrealized gains (losses) on investments	(3,241,000)	(1,338,000)
Other contracts	Net realized and unrealized gains (losses) on investments	(1,614,000)	(1,214,000)
Total derivative instruments		$ (25,593,000)	$ (14,169,000)

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, 2011 and 2010, is $1,668,000 and $28,271,000, respectively. The exposure to counterparty credit risk on December 31, 2011, is reduced by $0 of collateral held and $1,668,000 of liabilities included in netting arrangements with those counterparties. 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 Foundation has never failed to access collateral when required. The Foundation has posted collateral of $11,650,000 and $0 to counterparties at December 31, 2011 and 2010, respectively.

The fair value of the Foundation's investments at December 31, 2011 and 2010, consists of the following:

	2011	2010
Temporary investments	$ 85,000,529	$ 237,139,738
Fixed income securities	83,309,545	102,735,113
U.S. equity securities	339,895,822	405,359,553
Foreign equity securities	639,042,153	644,201,917
Hedge funds and derivatives	474,676,748	600,803,318
Natural resources	314,500,216	271,169,430
Private equity	754,174,651	699,497,614
Real estate	304,259,895	285,150,689
Total investments	$2,994,859,559	$3,246,057,372

Net realized gains and change in net unrealized market (losses) gains are determined by comparing cost to proceeds and fair market value, respectively. Cost is determined on a first-in, first-out basis. The gains or losses on the Foundation's investment portfolio for the years ended December 31, 2011 and 2010, consists of the following:

	2011	2010
Net realized gains	$ 159,191,980	$ 118,050,670
Net unrealized (losses) gains	(149,419,294)	297,973,828
Net realized and unrealized gains on investments	$ 9,772,686	$ 416,024,498

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, 2011 and 2010, the Foundation had loaned securities with a total market value of $15,044,000 and $15,768,000, respectively, and received related cash collateral of $14,667,000 and $16,254,000, respectively.

The changes in security lending collateral of $1,587,000 and $17,954,000 as of December 31, 2011 and 2010, respectively, are considered noncash transactions.

At December 31, 2011 and 2010, the Foundation had commitments to contribute approximately $828,900,000 and $783,411,000, 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, 2011, are as follows:

	2011	Level 1	Level 2	Level 3
Temporary investments	$ 85,000,529	$ 30,663,947	$ 54,336,582	$ -
Fixed income securities	83,309,545	49,865,896	11,650,000	21,793,649
U.S. equity securities	339,895,822	56,582,268	-	283,313,554
Foreign equity securities	639,042,153	-	168,316,874	470,725,279
Hedge funds	492,926,670	-	-	492,926,670
Derivative contracts:				
Commodity	(311,648)	-	(311,648)	-
Equity	(4,596,354)	-	(4,596,354)	-
Interest rate	(11,955,219)	326,686	(12,281,905)	-
Foreign exchange	(199,885)	(368,199)	168,314	-
Other	(1,186,816)	-	(1,186,816)	-
Natural resources	314,500,216	-	-	314,500,216
Private equity	754,174,651	-	-	754,174,651
Real estate	304,259,895	15,953,363	-	288,306,532
Total investments	$ 2,994,859,559	$ 153,023,961	$ 216,095,047	$ 2,625,740,551
Securities lending	$ 14,666,952	$ 14,666,952	$ -	$ -
Grants payable	$ 93,467,328	$ -	$ 93,467,328	$ -

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.

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 is based on market prices from the financial institution that is the counterparty to the derivative.

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 value. 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 its 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 78% of Level 2 and 48% 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 $36,600,000 and $18,000,000 at December 31, 2011 and 2010, 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 10%, respectively, are considered near term at December 31, 2011. 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.

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, 2011 and 2010, is as follows:

	2011	2010
Balance — beginning of year	$2,490,228,354	$2,389,565,671
Total realized and unrealized gains included in change in net assets	59,001,922	393,357,561
Additions and purchases	463,258,162	403,362,110
Sales and maturities	(523,522,710)	(568,944,934)
Transfers into Level 3	159,552,476	1,070,212
Transfers out of Level 3	(22,777,653)	(128,182,266)
Balance — end of year	$2,625,740,551	$2,490,228,354

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, as well as the Foundation's evaluation of the inputs utilized to price certain assets based on unobservable market data.

Gains (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, 2011 and 2010.

5. PROGRAM-RELATED INVESTMENTS

PRIs in the statements of financial position represent various below-market-rate loans and linked deposits with outstanding principal totaling $15,090,960 and $16,640,000 as of December 31, 2011 and 2010, 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 $2,134,040 and $1,120,000 received as return of principal for the years ended December 31, 2011 and 2010, respectively. The Foundation has PRI commitments of $20,500,000 and $2,750,000 as of December 31, 2011 and 2010, respectively.

The loans and linked deposits are scheduled for collection at December 31, 2011, as follows:

Years Ending December 31	
2012	$ 3,343,500
2013	5,131,500
2014	1,932,500
2015	-
2016	215,000
2017–2021	4,468,460
	15,090,960
Less allowance	(1,216,769)
Net	$ 13,874,191

Management has reviewed the collectability of all PRIs and has recorded an allowance of $1,216,769 and $1,333,500 as of December 31, 2011 and 2010, respectively. The Foundation establishes a loan loss allowance in accordance with the risk rating assigned to the PRI. The risk rating is based on a combination of financial and organizational factors and is evaluated annually unless more frequent monitoring is required.

The Foundation has entered into guarantee agreements totaling $1,000,000 of which loss exposure related to the guarantee is $250,000 at December 31, 2011. Per the terms of the agreement, any amount disbursed on the guarantee will convert to a loan receivable. The Foundation has recorded a contingent liability at the larger of the net present value of the guarantee or the minimum amount of probable loss. The Foundation recorded a contingency of $89,813 at December 31, 2011.

6. GRANTS PAYABLE

Grants payable at December 31, 2011 and 2010, represent the present value of grants using a 0.10% and 0.13%, respectively, discount rate. The Foundation made grant payments of approximately $165,272,000 and $235,702,000 in 2011 and 2010, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years at December 31, 2011, are as follows:

Years Ending December 31	
2012	$ 64,004,830
2013	22,306,014
2014	4,176,915
2015	729,666
2016 & beyond	2,393,650
	93,611,075
Discount	(143,747)
Net	$ 93,467,328

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 both 2011 and 2010. 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 2011 were approximately $3,106,000 and $(2,988,000), respectively. The current and deferred portions of the excise tax provision for 2010 were approximately $3,128,000 and $5,960,000, respectively. Cash payments for federal excise taxes were $4,000,000 and $1,200,000 for the years ended December 31, 2011 and 2010, respectively. Federal excise taxes payable were $0 and $1,000,000 for the years ended December 31, 2011 and 2010, respectively. The unrelated business income tax expense for 2011 and 2010 was $0. Prepaid unrelated business income tax was $1,626,318 and $1,013,672 for the years ended December 31, 2011 and 2010, respectively.

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, 2011 and 2010, are as follows:

	Postemployment Employee Benefits	
	2011	2010
Fair value of plan assets	$ -	$ -
Benefit obligation	(11,017,725)	(8,472,261)
Funded status of the plan	$ (11,017,725)	$ (8,472,261)
Accrued benefit liability recognized in the statement of financial position — January 1	$ (8,472,261)	$ (7,077,064)
Service cost	$ 831,801	$ 769,176
Interest cost	455,458	397,154
Prior service cost amortization	(127,526)	(127,526)
Net amortization loss	52,286	22,307
Benefit cost recognized in the statements of income, expenditures, and changes in unrestricted net assets	$ 1,212,019	$ 1,061,111
Actuarial loss recognized in the statements of income, expenditures, and changes in unrestricted net assets	$ 1,516,525	$ 502,495
Employer contributions	$ 183,080	$ 168,409
Benefits paid	$ (183,080)	$ (168,409)
Benefit obligation	$ (11,017,725)	$ (8,472,261)

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, 2011 and 2010.

	Postemployment Employee Benefits	
	2011	2010
Assumptions and Dates Used for Disclosure		
Discount rate	4.40 %	5.50 %
Compensation increase rate	4.50	4.50
Measurement date	12/31/11	12/31/10
Assumptions Used to Determine Expense		
Discount rate	5.50 %	6.00 %
Compensation increase rate	4.50	4.50
Health care cost trend rate assumptions:		
Initial trend rate	8.50	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend is reached	2018	2018

A one-percentage change in assumed health care cost trends rates at December 31, 2011, would have the following effects:

	One-Percentage Point	
	Increase	Decrease
Effect on postemployment benefit obligations	$ 1,720,333	$ (1,377,174)

Expected amortization during 2012 for amortization of net prior service credit and amortization of net loss are $127,526 and $176,099, respectively.

Future Expected Benefit Payments

2012	$ 243,087
2013	272,755
2014	300,662
2015	329,148
2016	368,333
2017–2021	2,312,640

9. SUBSEQUENT EVENTS

There have been no subsequent events through June 13, 2012, the date these financial statements were issued, requiring adjustment to, or disclosure in, the financial statements.

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