The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the
Years Ended December 31, 2009 and 2008,
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, 2009 and 2008, 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, 2009 and 2008, 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 17, 2010

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CASH	$ 436,456	$ 210,605
INVESTMENTS — At fair market value	3,098,191,898	2,805,016,539
PROGRAM-RELATED INVESTMENTS — Net	16,272,000	5,923,000
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	34,208,236	26,039,652
ACCRUED INTEREST AND DIVIDENDS	413,283	467,939
PROPERTY AND EQUIPMENT — Net	12,918,389	13,312,166
DEFERRED FEDERAL EXCISE TAXES	-	7,298,020
OTHER	2,569,028	7,056,671
TOTAL	$3,165,009,290	$2,865,324,592
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Grants payable	$ 187,191,223	$ 222,105,158
Accounts payable and other liabilities	10,438,732	9,592,127
Borrowings under revolving lines of credit	91,500,000	-
Payable under securities lending agreement	34,208,236	26,039,652
Deferred federal excise taxes	2,254,785	-
Total liabilities	325,592,976	257,736,937
UNRESTRICTED NET ASSETS	2,839,416,314	2,607,587,655
TOTAL	$3,165,009,290	$2,865,324,592

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, 2009 AND 2008

	2009	2008
INVESTMENT INCOME:		
Interest, dividends, and other income	$ 8,023,985	$ 13,431,374
Net realized and unrealized gain (loss) on investments	422,124,881	(812,357,650)
Investment management fees	(5,653,560)	(5,208,689)
Federal excise tax (expense) benefit and other	(8,920,495)	17,311,291
Net investment income (loss)	415,574,811	(786,823,674)
GRANTS APPROVED — Net of discount	165,702,634	219,853,916
ADMINISTRATIVE EXPENSES	16,999,887	15,118,715
Total expenses	182,702,521	234,972,631
OTHER POSTEMPLOYMENT ADJUSTMENTS	(1,043,631)	2,212,006
NET CHANGE IN UNRESTRICTED NET ASSETS	231,828,659	(1,019,584,299)
UNRESTRICTED NET ASSETS:		
Beginning of year	2,607,587,655	3,627,171,954
End of year	$2,839,416,314	$2,607,587,655

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in unrestricted net assets	$ 231,828,659	$ (1,019,584,299)
Adjustments to reconcile net change in unrestricted net assets to net cash used in operating activities:		
Depreciation	775,386	751,556
Loss on disposal of property and equipment	1,343	-
Program-related investments provision	571,000	417,000
Change in value of grants payable	5,586,912	5,974,187
Net realized and unrealized (gain) loss on investments	(422,124,881)	812,357,650
Decrease in accrued interest and dividends	54,656	212,982
Decrease (increase) in other assets	4,487,643	(5,108,719)
(Decrease) increase in approved grants pending payment	(40,500,847)	54,394,542
Increase (decrease) in accounts payable and other liabilities	846,605	(1,804,480)
Increase (decrease) in deferred federal excise taxes	9,552,805	(21,134,759)
Net cash used in operating activities	(208,920,719)	(173,524,340)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	1,908,662,090	1,906,728,915
Purchase of investments	(1,779,712,568)	(1,699,656,757)
Loans disbursed for program-related investments	(10,920,000)	(6,340,000)
Purchase of property and equipment	(382,952)	(406,375)
Net cash provided by investing activities	117,646,570	200,325,783
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	91,500,000	38,572,264
Repayment of lines of credit	-	(65,572,264)
Net cash provided by (used in) financing activities	91,500,000	(27,000,000)
NET INCREASE (DECREASE) IN CASH	225,851	(198,557)
CASH:		
Beginning of year	210,605	409,162
End of year	$ 436,456	$ 210,605

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 towards 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 $775,386 and $751,556 at December 31, 2009 and 2008, respectively.

Property and equipment at December 31, 2009 and 2008, consist of the following:

	2009	2008
Land	$ 500,000	$ 500,000
Building and improvements	13,565,244	13,410,249
Furniture and fixtures	1,129,522	1,067,672
Computer and office equipment	1,036,220	904,927
	16,230,986	15,882,848
Less accumulated depreciation and amortization	(3,312,597)	(2,570,682)
Total property and equipment — net	$ 12,918,389	$ 13,312,166

Grant Expenditures — Historically, the Foundation has used one tool, facilities capital awarded as a challenge grant, to advance its work. During 2008, the Foundation began the process of expanding its funding methods to include multi-year grants, which, if unconditional, are recognized as grant expense when the grant is approved by the Board of Trustees. Conditional promises to give are recognized as grant expense in the period in which the recipient substantially meets the terms of the condition. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote. It has been the Foundation's experience that substantially all facilities capital grants meet their fund-raising challenge requirement; accordingly, these grants are considered unconditional and recorded as expense in the year approved. The Foundation had $27,600,000 and $2,400,000 in conditional grants at December 31, 2009 and 2008, 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 July 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC or the "Codification") 105, *Generally Accepted Accounting Principles* (formerly FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*), which established the Codification as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities in preparation of financial statements in conformity with GAAP. All existing standards that were used to create the Codification became superseded. All guidance contained in the Codification carries an equal level of authority. The Codification became effective for the Foundation for the year ended December 31, 2009. As a result of its adoption, references made to GAAP throughout the financials have been updated for the Codification.

In March 2008, the FASB issued ASC 815-10 *Disclosures about Derivative Instruments and Hedging Activities* (formerly FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*), which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. The statement became effective for the Foundation for the year ended December 31, 2009, which resulted in additional required disclosure.

In April 2009, the FASB issued ASC 820-10-65-4 *Fair Value Measurements and Disclosures* (formerly FASB Staff Position 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*), which defines factors that should be used to determine whether there has been a significant decrease in the volume and level of activity when compared with normal market activity, establishes guidance to determine if a transaction is orderly, increases input and fair value valuation technique disclosures, and requires reporting entities to define major categories for equity and debt securities as major security types as defined in ASC 320 *Investments* (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). The statement became effective for the Foundation for the year ended December 31, 2009, which resulted in additional required disclosure.

In May 2009, the FASB issued ASC 855 *Subsequent Events* (formerly FASB Statement No. 165, *Subsequent Events*), which establishes general standards of accounting for and disclosure of events that occur after an entity's year-end but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Foundation adopted the statement for the year ended December 31, 2009, which resulted in the additional required disclosure regarding subsequent events in Note 9.

In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12 *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the guidance on fair value measurements and offers a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value (NAV) per share when the fair value is not readily determinable. ASU No. 2009-12 also clarifies that if the Foundation is able to redeem its investment within a near-term period at net asset value per share (or its equivalent), such an investment may be classified as a Level 2 measurement, however, if the Foundation does not have the ability to redeem its investment within a near-term period at net asset value per share (or its equivalent), the investment shall be classified as a Level 3 fair value measurement. The Foundation defines near term to be within 90 days of the measurement date. The Foundation adopted the standard for the year ended December 31, 2009, which resulted in transfers between measurement levels and additional required disclosure.

In January 2010, the FASB issued 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. At this time, the Foundation is evaluating the implications of ASU No. 2010-06 and its effect on the financial statements.

Lines of Credit — The Foundation has unsecured lines of credit totaling $175,000,000 (credit line A and B) and $50,000,000 at December 31, 2009 and 2008, respectively. At December 31, 2009, the Foundation's effective rate on credit line A and B was 1.03% and 0.73%, respectively. Credit line A contains a commitment fee of 0.35% on the unused available credit balance and credit line B contains a facility fee of 0.50%. At December 31, 2008, the Foundation's effective rate was 2.75%. At December 31, 2009 and 2008, the outstanding borrowings were $91,500,000 and $0, respectively. The aggregate outstanding principle, interest, and related fees are due in full on the commitment termination dates September 30, 2010 and June 5, 2010 (extended to September 3, 2010), for credit lines A and B, respectively. Subsequent to year-end, the outstanding borrowings at December 31, 2009 were paid in full.

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 $140,438,000 and $398,000 at December 31, 2009 and 2008, respectively. The Foundation had unsettled trade sales of $97,115,000 and $172,611,000 at December 31, 2009 and 2008, 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 (loss) gain on investments on the statement 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, 2009 and 2008, are as follows:

	2009				2008
	Asset Derivatives		Liability Derivatives		
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Fair Value
Commodity contracts	Investments	$ 1,324,000	Investments	$ (1,522,000)	$ 263,000
Equity contracts	Investments	2,984,000	Investments	(5,778,000)	17,195,000
Credit contracts	Investments	-	Investments	-	5,609,000
Interest rate contracts	Investments	22,456,000	Investments	-	-
Foreign exchange contracts	Investments	731,000	Investments	(896,000)	(533,000)
Total derivative instruments		$ 27,495,000		$ (8,196,000)	$ 22,534,000

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

	2009	
	Location of Gain (Loss)	**Gain (Loss) Recognized on Derivatives**
Commodity contracts	Net realized and unrealized gain on investments	$ 1,315,000
Equity contracts	Net realized and unrealized loss on investments	(156,713,000)
Credit contracts	Net realized and unrealized loss on investments	(429,000)
Interest rate contracts	Net realized and unrealized gain on investments	17,164,000
Foreign exchange contracts	Net realized and unrealized loss on investments	(13,007,000)
Total derivative instruments		$ (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 and 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 set off exists, and (c) when the right to set off 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, 2009, is $27,495,000. The exposure to counterparty credit risk 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, 2009 and 2008.

The fair value of the Foundation's investments at December 31, 2009 and 2008, consist of the following:

	2009	2008
Temporary investments	$ 181,965,104	$ 249,002,469
Fixed income securities	64,083,005	99,234,712
U.S. equity securities	381,049,863	314,450,574
Foreign equity securities	655,024,490	548,047,426
Hedge funds and derivatives	699,488,609	665,065,490
Natural resources	256,036,041	204,732,853
Private equity	639,531,700	525,544,752
Real estate	221,013,086	198,938,263
Total investments	$3,098,191,898	$2,805,016,539

Net realized (loss) gain and change in net unrealized market gain (loss) 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, 2009 and 2008, consists of the following:

	2009	2008
Net realized (loss) gain	$ (58,110,246)	$ 306,254,836
Net unrealized gain (loss)	480,235,127	(1,118,612,486)
Net realized and unrealized gain (loss) on investments	$422,124,881	$ (812,357,650)

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, 2009 and 2008, the Foundation had loaned securities with a total market value of $33,152,000 and $24,621,000, respectively, and received related cash collateral of $34,208,000 and $26,040,000, respectively.

The changes in security lending collateral of $8,168,000 and $47,029,379 as of December 31, 2009 and 2008, respectively, are considered noncash transactions.

At December 31, 2009 and 2008, the Foundation had commitments to contribute approximately $827,878,000 and $845,244,000, 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 in to 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, as of 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	$ -

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, as of December 31, 2008, is as follows:

	2008	Level 1	Level 2	Level 3
Temporary investments	$ 249,002,469	$ 195,762,494	$ 53,239,975	$ -
Fixed income securities	99,234,712	3,369,729	346,048	95,518,935
U.S. equity securities	314,450,574	74,680,590	64,992,345	174,777,639
Foreign equity securities	548,047,426	57,361,464	-	490,685,962
Hedge funds and derivatives	665,065,490	-	10,385,341	654,680,149
Natural resources	204,732,853	-	118,139,969	86,592,884
Private equity	525,544,752	-	-	525,544,752
Real estate	198,938,263	11,447,519	14,370,287	173,120,457
Total investments	$ 2,805,016,539	$ 342,621,796	$ 261,473,965	$ 2,200,920,778
Securities lending	$ 26,039,652	$ 26,039,652	$ -	$ -
Grants payable	$ 222,105,158	$ -	$ 222,105,158	$ -

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 (NYMEX) 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 publically 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 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 principals of an investment company or have the attributes of an investment company. The Foundation's investment 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 38% of Level 2 and 61% 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 $32,708,000 at December 31, 2009.

In accordance with ASU No. 2009-12, 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 3 investments that calculate NAV per share (or its equivalent), approximately 100% and 16%, respectively, are considered near term.

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, 2009 and 2008, is as follows:

	2009	2008
Balance — beginning of year	$2,200,920,778	$3,012,336,251
Total realized and unrealized gains (losses) included in change in net assets	512,901,940	(854,452,958)
Net additions, purchases, sales, and maturities	(169,938,984)	43,037,485
Transfers in and/or out of Level III	(154,318,063)	-
Balance — end of year	$2,389,565,671	$2,200,920,778

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 due to the implementation of near term guidance in accordance with ASU No. 2009-12.

Gains and losses (realized and unrealized) as reported above are included in net investment income on the statement 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 Treasury rate at December 31, 2009 and 2008, respectively.

5. PROGRAM-RELATED INVESTMENTS

PRIs in the statement of financial position represent various below market rate loans with outstanding principal totaling $17,260,000 and $6,340,000 as of December 31, 2009 and 2008, respectively. Interest rates range from 0% to 3%. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. There were no returns of principal for the years ended December 31, 2009 and 2008. Management has reviewed the collectability of all PRIs and has recorded an allowance of $988,000 and $417,000 as of December 31, 2009 and 2008, respectively. The Foundation has PRI commitments of $1,500,000 and $2,910,000 as of December 31, 2009 and 2008, respectively.

The loans are scheduled for collection as of December 31, 2009, as follows:

Years Ending December 31	
2010	$ 1,100,000
2011	1,850,000
2012	2,925,000
2013	5,062,500
2014	1,812,500
2015–2018	4,510,000
	17,260,000
Less allowance	(988,000)
	$ 16,272,000

6. GRANTS PAYABLE

Grants payable at December 31, 2009 and 2008, represent the present value of grants using a 0.21% and 2.0%, respectively, discount rate. The Foundation made grant payments of approximately $210,262,000 and $164,489,000 in 2009 and 2008, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years as of December 31, 2009, are as follows:

Years Ending December 31	
2010	$ 150,322,455
2011	34,354,918
2012	1,220,167
2013	659,167
2014	559,167
2015	559,164
	187,675,038
Discount	(483,815)
Net	$ 187,191,223

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 1% for 2009 and 2008. 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 2009 were approximately $0 and $9,605,000, respectively. The current and deferred portions of the excise tax provision for 2008 were approximately $3,192,000 and $(21,135,000), respectively. Cash payments for federal excise taxes were $0 and $5,000,000 for the years ended December 31, 2009 and 2008, respectively. The unrelated business income tax expense for 2009 and 2008 was $0. Prepaid unrelated business income tax was $1,013,672 and $3,400,281 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, are as follows:

	Postemployment Employee Benefits	
	2009	2008
Fair value of plan assets	$ -	$ -
Benefit obligation	(7,077,064)	(5,524,004)
Funded status of the plan	$(7,077,064)	$(5,524,004)
Accrued benefit liability recognized in the statement of financial position — January 1	$(5,524,004)	$(7,073,943)
Service cost	$ 449,968	$ 493,910
Interest cost	339,757	372,651
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	-	70,331
Benefit cost recognized in the statement of income, expenditures, and changes in unrestricted net assets	$ 662,199	$ 809,366
Actuarial loss (gain) recognized in the statement of income, expenditures, and changes in unrestricted net assets	$ 1,043,631	$(2,212,006)
Employer contributions	$ 152,770	$ 147,299
Benefits paid	$ (152,770)	$ (147,299)
Benefit obligation	$(7,077,064)	$(5,524,004)

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, 2009 and 2008.

	Postemployment Employee Benefits 2009	Postemployment Employee Benefits 2008
Assumptions and dates used for disclosure		
Discount rate	6.00 %	6.25 %
Compensation increase rate	4.50	4.50
Measurement date	12/31/09	12/31/08
Assumptions used to determine expense		
Discount rate	6.25 %	6.50 %
Compensation increase rate	4.50	4.50
Health care cost trend rate assumptions:		
Initial trend rate	9.00 %	10.00 %
Ultimate trend rate	5.00	5.00
Year ultimate trend is reached	2013	2013

A one-percentage change in assumed health care cost trends rates as of December 31, 2009, would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on postretirement benefit obligation	$ 1,210,997	$ (972,003)

Expected amortization during 2010 for amortization of net prior service credit and amortization of net loss are $(127,526) and $52,069, respectively.

Future Expected Benefit Payments	
2010	$ 178,892
2011	203,883
2012	215,128
2013	262,669
2014	274,040
2015–2019	2,353,234

9. SUBSEQUENT EVENTS

There have been no subsequent events through June 17, 2010, the date these financial statements were issued, requiring adjustment to, or disclosure in, the financial statements.

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