The Kresge Foundation

(A Michigan Trustee Corporation)

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011, and
Independent Auditors' Report

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243-1300
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Kresge Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 13, 2013

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CASH	$ 842,567	$ 557,997
INVESTMENTS — At fair market value	3,265,475,543	2,994,859,559
PROGRAM-RELATED INVESTMENTS — Net of allowance of $1,828,369 and $1,216,769, respectively	20,315,341	13,874,191
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	10,545,741	14,666,952
ACCRUED INTEREST AND DIVIDENDS	546,893	474,855
PROPERTY AND EQUIPMENT — Net of accumulated depreciation of $5,636,885 and $4,805,308, respectively	12,180,970	12,456,823
OTHER	2,263,953	3,562,672
TOTAL	$3,312,171,008	$3,040,453,049
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Grants payable — Net of discount of $116,856 and $143,747, respectively	$ 69,185,596	$ 93,467,328
Accounts payable and other liabilities	12,316,347	12,952,566
Borrowings under revolving lines of credit	66,501,923	-
Payable under securities lending agreement	10,545,741	14,666,952
Deferred federal excise taxes	8,875,817	5,225,875
Total liabilities	167,425,424	126,312,721
UNRESTRICTED NET ASSETS	3,144,745,584	2,914,140,328
TOTAL	$3,312,171,008	$3,040,453,049

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INVESTMENT INCOME AND LOSS:		
Interest, dividends, and other income	$ 4,686,699	$ 4,490,222
Net realized and unrealized gains on investments	382,338,161	9,772,686
Investment management fees	(2,023,145)	(1,919,511)
Federal excise tax expense and other	(7,082,483)	766,309
Net investment income	377,919,232	13,109,706
EXPENSES:		
Grants approved — net of change in discount of $(26,891) and $(31,533), respectively	127,357,524	151,910,949
Administrative expenses	22,539,769	20,343,873
Total expenses	149,897,293	172,254,822
OTHER POSTEMPLOYMENT ADJUSTMENTS	2,583,317	(1,516,525)
CHANGE IN UNRESTRICTED NET ASSETS	230,605,256	(160,661,641)
UNRESTRICTED NET ASSETS:		
Beginning of year	2,914,140,328	3,074,801,969
End of year	$3,144,745,584	$2,914,140,328

See notes to financial statements.

THE KRESGE FOUNDATION
(A Michigan Trustee Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ 230,605,256	$ (160,661,641)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	980,695	847,191
Loss on disposals of property and equipment	7,924	-
Increase (decrease) in program-related investments provision	611,600	(116,731)
Change in value of grants payable	26,891	31,533
Net realized and unrealized gains on investments	(382,338,161)	(9,772,686)
(Increase) decrease in accrued interest and dividends	(72,038)	34,636
Decrease (increase) in other assets	1,298,719	(1,862,353)
Decrease in approved grants pending payment	(24,308,623)	(14,050,910)
(Decrease) increase in accounts payable and other liabilities	(636,219)	876,784
Increase (decrease) in deferred federal excise taxes	3,649,942	(2,988,386)
Net cash used in operating activities	(170,174,014)	(187,662,563)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,160,406,324	1,190,820,652
Purchases of investments	(1,048,684,147)	(929,850,153)
Returns of principal for program-related investments	2,947,250	2,134,040
Disbursements for program-related investments	(10,000,000)	(585,000)
Purchases of property and equipment	(712,766)	(561,571)
Net cash provided by investing activities	103,956,661	261,957,968
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	83,494,408	33,233,104
Repayments of lines of credit	(16,992,485)	(107,623,339)
Net cash provided by (used in) financing activities	66,501,923	(74,390,235)
NET INCREASE (DECREASE) IN CASH	284,570	(94,830)
CASH:		
Beginning of year	557,997	652,827
End of year	$ 842,567	$ 557,997

See notes to financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

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. 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 $980,695 and $847,191 as of December 31, 2012 and 2011, respectively. The Foundation annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

Property and equipment as of December 31, 2012 and 2011, consists of the following:

	2012	2011
Land	$ 500,000	$ 500,000
Building and improvements	14,234,746	13,948,963
Furniture and fixtures	1,298,686	1,221,343
Computer and office equipment	1,784,423	1,591,825
	17,817,855	17,262,131
Less accumulated depreciation and amortization	(5,636,885)	(4,805,308)
Total property and equipment — net	$ 12,180,970	$ 12,456,823

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 approximately $28,500,000 and $26,200,000 in conditional grants as of December 31, 2012 and 2011, 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. The Foundation evaluates uncertain tax positions for more-likely-than-not sustainability. The Foundation has concluded that as of December 31, 2012 and 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Adoption of Accounting Pronouncements — In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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*, 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. In February 2013, the FASB issued ASU No. 2013-03, *Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities,* which clarifies that nonpublic entities that have total assets of $100 million or more or that have one or more derivative instruments would not qualify for exemption of a particular fair value disclosure. It also clarifies that a nonpublic entity is not required to provide the level of the fair value hierarchy (Level 1, 2, or 3) for items disclosed at fair value but not measured at fair value in the statement of financial position. Disclosures are effective for annual periods beginning after December 15, 2011. The statements became effective for the Foundation for the year ended December 31, 2012, and resulted in additional required disclosures in Note 4.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which creates new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new guidance requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This guidance was issued to facilitate comparison between financial statements prepared on GAAP and IFRS reporting. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities,* which limits the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (a) derivatives; (b) repurchase agreements and reverse repurchase agreements; and (c) securities borrowing and securities lending transactions. The new disclosures are effective for annual periods beginning on or after January 1, 2013, with retrospective application required for all comparative periods presented. The Foundation believes that ASU No. 2011-11 and ASU No. 2013-01 will further expand financial statement disclosures upon adoption.

Lines of Credit — The Foundation has unsecured lines of credit totaling $175,000,000 (credit lines A and B) as of December 31, 2012 and 2011. The lines of credit have been recorded at carrying value, which approximates fair value. As of December 31, 2012, the Foundation's effective rate on credit line A for the three-month LIBOR was 0.76% and on credit line B for the one-month and nine-month LIBOR was 0.66% and 1.14%, respectively. Credit lines A and B contain a commitment fee of 0.1% on the unused available credit balance; credit line B increases this fee to 0.15% if line usage is lower than 30%. As of 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. As of December 31, 2012 and 2011, the outstanding borrowings were $66,501,923 and $0, respectively. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination dates August 31, 2013, and August 28, 2013, for credit lines A and B, respectively. Interest and related fees payable at year-end are included in accounts payable and other liabilities. The Foundation is in compliance with covenants on the lines of credit as of December 31, 2012 and 2011.

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 approximately $3,100,000 and $4,059,000 as of December 31, 2012 and 2011, respectively. The Foundation had unsettled trade sales of approximately $53,318,000 and $16,739,000 as of December 31, 2012 and 2011, 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*. 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 activities.

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 as of December 31, 2012 and 2011, are as follows:

	2012				2011			
	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	$ (220,923)	Investments	$ -	Investments	$ (311,648)
Equity contracts	Investments	10,552,304	Investments	(8,903,836)	Investments	1,341,283	Investments	(5,937,637)
Credit contracts	Investments	31,335	Investments	-	Investments	-	Investments	-
Interest rate contracts	Investments	1,584,807	Investments	(14,691,767)	Investments	326,686	Investments	(12,281,905)
Foreign exchange contracts	Investments	765,266	Investments	-	Investments	-	Investments	(199,885)
Other contracts	Investments	-	Investments	-	Investments	-	Investments	(1,186,816)
Total derivative instruments		$12,933,712		$(23,816,526)		$1,667,969		$(19,917,891)

The effect of derivative instruments on the statement of activities as of December 31, 2012 and 2011, is as follows:

	Location of Gains (Losses)	Gain (Loss) Recognized on Derivatives 2012	2011
Commodity contracts	Net realized and unrealized gains on investments	$ (124,610)	$ (2,158,892)
Equity contracts	Net realized and unrealized gains on investments	17,587,706	(425,112)
Credit contracts	Net realized and unrealized gains on investments	1,219,812	-
Interest rate contracts	Net realized and unrealized gains on investments	(386,953)	(18,153,806)
Foreign exchange contracts	Net realized and unrealized gains on investments	839,109	(3,240,937)
Other contracts	Net realized and unrealized gains on investments	(109,051)	(1,613,980)
Total derivative instruments		$ 19,026,013	$ (25,592,727)

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, 2012 and 2011, is approximately $12,934,000 and $1,668,000, respectively. The exposure to counterparty credit risk on December 31, 2012, is reduced by $0 of collateral held and approximately $8,497,000 of liabilities included in netting arrangements with those counterparties. The exposure to counterparty credit risk on December 31, 2011, is reduced by $0 of collateral held and approximately $1,668,000 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 $12,300,000 and $11,650,000 to counterparties as of December 31, 2012 and 2011, respectively.

The fair value of the Foundation's investments as of December 31, 2012 and 2011, consists of the following:

	2012	2011
Temporary investments	$ 111,593,877	$ 85,000,529
Fixed-income securities	186,253,719	83,309,545
U.S. equity securities	372,556,962	339,895,822
Foreign equity securities	652,370,310	639,042,153
Hedge funds and derivatives	455,427,664	474,676,748
Natural resources	327,898,113	314,500,216
Private equity	834,726,761	754,174,651
Real estate	324,648,137	304,259,895
Total investments	$3,265,475,543	$2,994,859,559

Net realized gains and change in net unrealized market gains (losses) 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, 2012 and 2011, consists of the following:

	2012	2011
Net realized gains	$199,075,772	$ 159,191,980
Net unrealized gains (losses)	183,262,389	(149,419,294)
Net realized and unrealized gains on investments	$382,338,161	$ 9,772,686

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. As of December 31, 2012 and 2011, the Foundation had loaned securities with a total market value of approximately $10,298,000 and $15,044,000, respectively, and received related cash collateral of approximately $10,546,000 and $14,667,000, respectively.

The changes in security lending collateral of approximately $4,121,000 and $1,587,000 as of December 31, 2012 and 2011, respectively, are considered noncash transactions.

As of December 31, 2012 and 2011, the Foundation had commitments to contribute approximately $778,000,000 and $828,900,000, respectively, in additional capital under the terms of various agreements covering alternative partnership investments over the next 7–10 years.

4. FAIR VALUE

The Foundation is subject to the provisions of FASB issued ASC 820, *Fair Value Measurements and Disclosures*, 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 as of December 31, 2012, are as follows:

	2012	Level 1	Level 2	Level 3
Temporary investments	$ 111,593,877	$ 79,129,399	$ 32,464,478	$ -
Fixed-income securities	186,253,719	69,489,618	24,010,229	92,753,872
U.S. equity securities	372,556,962	65,005,705	31,768,205	275,783,052
Foreign equity securities	652,370,310	71,636,260	105,389,750	475,344,300
Hedge funds	466,310,478	-	-	466,310,478
Derivative contracts:				
Commodity	(220,923)	-	(220,923)	-
Equity	1,648,468	-	1,648,468	-
Credit	31,335	-	31,335	-
Interest rate	(13,106,960)	-	(13,106,960)	-
Foreign exchange	765,266	503,011	262,255	-
Natural resources	327,898,113	-	-	327,898,113
Private equity	834,726,761	-	-	834,726,761
Real estate	324,648,137	-	-	324,648,137
Total investments	$ 3,265,475,543	$ 285,763,993	$ 182,246,837	$ 2,797,464,713
Securities lending	$ 10,545,741	$ 10,545,741	$ -	$ -
Grants payable	$ 69,185,596	$ -	$ 69,185,596	$ -
Guarantee contingency	$ 109,818	$ -	$ 109,818	$ -

The financial assets and liabilities recorded at fair value on a recurring basis within the fair value hierarchy as of 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	$ -
Guarantee contingency	$ 89,813	$ -	$ 89,813	$ -

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 agency and Federal Home Loan Bank securities, fixed-income and 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. The valuation process for Level 3 investments involves the use of fair value as reported by third-party administrators, fund investment managers, and general partners and is completed on at least a quarterly basis. All valuations are reviewed by management. 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 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 46% 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 $35,900,000 and $36,600,000 as of December 31, 2012 and 2011, 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 7%, respectively, are considered near term as of December 31, 2012. Of Level 2 and Level 3 investments that calculate NAV per share (or its equivalent), approximately 100% and 10%, respectively, are considered near term as of December 31, 2011.

A reconciliation of the beginning and ending balance of the Level 3 investment activity that is measured at fair value using unobservable inputs as of December 31, 2012 and 2011, is as follows:

	2012	2011
Balance — beginning of year	$2,625,740,551	$2,490,228,354
Total realized and unrealized gains included in change in net assets	298,763,425	59,001,922
Additions and purchases	588,902,439	463,258,162
Sales and maturities	(715,941,702)	(523,522,710)
Transfers into Level 3	-	159,552,476
Transfers out of Level 3	-	(22,777,653)
Balance — end of year	$2,797,464,713	$2,625,740,551

The Foundation's policy related to fair value measurement hierarchy classification, including any level transfers, occurs as of the end of the reporting period. In 2011, 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. In 2011, 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. There were no significant transfers between Level 1 and Level 2 for the years ended December 31, 2012 and 2011.

Gains (realized and unrealized) as reported above are included in net investment income on the statements of activities.

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 as of December 31, 2012 and 2011.

5. PROGRAM-RELATED INVESTMENTS

PRIs in the statements of financial position represent various below-market-rate loans and linked deposits with outstanding principal totaling $22,143,710 and $15,090,960 as of December 31, 2012 and 2011, respectively. Interest rates range from 0% to 4.25%. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. There was $2,947,250 and $2,134,040 received as return of principal for the years ended December 31, 2012 and 2011, respectively. The Foundation has PRI commitments of approximately $20,500,000 as of December 31, 2012 and 2011.

The loans and linked deposits are scheduled for collection as of December 31, 2012, as follows:

Years Ending December 31	
2013	$ 5,318,774
2014	2,420,727
2015	2,932,955
2016	467,902
2017	2,220,258
2018–2022	8,783,094
	22,143,710
Less allowance	(1,828,369)
Net	$ 20,315,341

Management has reviewed the collectability of all PRIs and has recorded an allowance of $1,828,369 and $1,216,769 as of December 31, 2012 and 2011, 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 two guarantee agreements totaling $6,000,000, of which loss exposure related to the guarantees is $2,842,014 as of December 31, 2012. Per the terms of the $1,000,000 guarantee agreement, any amount disbursed on that guarantee will convert to a loan receivable. The Foundation has recorded a contingent liability at the larger of the net present value of the guarantees or the minimum amount of probable loss. The Foundation recorded a contingency of $109,818 and $89,813 as of December 31, 2012 and 2011, respectively.

6. GRANTS PAYABLE

Grants payable as of December 31, 2012 and 2011, represent the present value of grants using a 0.11% and 0.10%, respectively, discount rate. The Foundation made grant payments of approximately $160,377,000 and $165,272,000 in 2012 and 2011, respectively.

The Foundation's future grant commitments, which are scheduled for payment in future years as of December 31, 2012, are as follows:

Years Ending December 31	
2013	$48,198,379
2014	16,516,663
2015	1,983,760
2016	23,650
2017 and beyond	2,580,000
	69,302,452
Discount	(116,856)
Net	$69,185,596

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% and 2% for 2012 and 2011, respectively. 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 2012 were approximately $2,062,000 and $3,650,000, respectively. The current and deferred portions of the excise tax provision for 2011 were approximately $3,106,000 and $(2,988,000), respectively. Cash payments for federal excise taxes were $1,700,000 and $4,000,000 for the years ended December 31, 2012 and 2011, respectively. Federal excise taxes payable were $0 for the years ended December 31, 2012 and 2011. The unrelated business income tax expense for both 2012 and 2011 was $0. Prepaid unrelated business income tax was approximately $1,397,000 and $1,626,000 for the years ended December 31, 2012 and 2011, respectively.

8. OTHER POSTEMPLOYMENT BENEFITS

The Foundation is subject to the provisions of FASB-issued ASC 715, *Compensation — Retirement Benefits*, 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 activities as of and for the years ended December 31, 2012 and 2011, are as follows:

	Postemployment Employee Benefits	
	2012	2011
Fair value of plan assets	$ -	$ -
Benefit obligation	(9,490,463)	(11,017,725)
Funded status of the plan	$ (9,490,463)	$ (11,017,725)
Accrued benefit liability recognized in the statement of financial position — January 1	$ (11,017,725)	$ (8,472,261)
Service cost	$ 798,389	$ 831,801
Interest cost	463,153	455,458
Prior-service cost amortization	(127,526)	(127,526)
Net amortization loss	145,797	52,286
Benefit cost recognized in the statements of activities	$ 1,279,813	$ 1,212,019
Actuarial loss recognized in the statements of activities	$ (2,583,317)	$ 1,516,525
Employer contributions	$ 223,758	$ 183,080
Benefits paid	$ (223,758)	$ (183,080)
Benefit obligation	$ (9,490,463)	$ (11,017,725)

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, 2012 and 2011.

	Postemployment Employee Benefits	
	2012	2011
Assumptions and Dates Used for Disclosure		
Discount rate	3.90 %	4.40 %
Compensation increase rate	4.50	4.50
Measurement date	12/31/12	12/31/11
Assumptions Used to Determine Expense		
Discount rate	4.40 %	5.50 %
Compensation increase rate	4.50	4.50
Health care cost trend rate assumptions:		
Initial trend rate	8.00	8.50
Ultimate trend rate	5.00	5.00
Year ultimate trend is reached	2018	2018

A one-percentage-point change in assumed health care cost trends rates as of December 31, 2012, would have the following effects:

	One-Percentage Point	
	Increase	**Decrease**
Effect on postemployment benefit obligations	$ 1,613,003	$ (1,234,537)

Expected amortization during 2013 for amortization of net prior service credit and amortization of net loss are $127,526 and $0, respectively.

Future Expected Benefit Payments	
2013	$ 272,755
2014	300,662
2015	329,148
2016	368,333
2017	404,312
2018–2022	2,456,902

9. SUBSEQUENT EVENTS

There have been no subsequent events through June 13, 2013, the date these financial statements were issued, requiring adjustment to, or disclosure in, the financial statements.

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