

# The Annie E. Casey Foundation, Inc.

Financial Statements as of and for the Years  
Ended December 31, 2010 and 2009, and  
Independent Auditors' Report

# THE ANNIE E. CASEY FOUNDATION, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
The Annie E. Casey Foundation, Inc.  
Baltimore, Maryland

We have audited the accompanying statements of financial position of The Annie E. Casey Foundation, Inc. (the "Foundation"), as of December 31, 2010 and 2009, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2010 and 2009, and the changes in its 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*

May 18, 2011

# THE ANNIE E. CASEY FOUNDATION, INC.

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

	2010	2009
<b>ASSETS</b>		
CASH	\$ 499,621	\$ 326,053
INVESTMENTS	<u>2,695,850,985</u>	<u>2,452,292,132</u>
PROGRAM RELATED INVESTMENTS, Net	<u>24,072,083</u>	<u>32,740,872</u>
OTHER ASSETS:		
Collateral under securities lending program	37,863,658	36,167,682
Security sales receivable	26,212,115	35,657,045
Interest and dividends receivable	1,319,519	1,564,132
Property and equipment, net	22,311,317	22,981,436
Beneficial interest in charitable remainder trusts	26,610,086	48,683,810
Prepaid federal excise tax	-	1,651,000
Other assets	<u>27,014,545</u>	<u>4,784,985</u>
Total other assets	<u>141,331,240</u>	<u>151,490,090</u>
TOTAL	<u>\$2,861,753,929</u>	<u>\$2,636,849,147</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and other liabilities	\$ 11,830,440	\$ 22,984,608
Debt	160,000,000	160,000,000
Payable under securities lending program	37,863,658	36,167,682
Security purchases payable	2,307,507	2,673,624
Deferred federal excise tax	15,719,423	10,552,452
Postretirement benefit obligation	<u>27,623,000</u>	<u>23,159,000</u>
Total liabilities	<u>255,344,028</u>	<u>255,537,366</u>
NET ASSETS:		
Unrestricted	2,579,799,815	2,332,627,971
Temporarily restricted	<u>26,610,086</u>	<u>48,683,810</u>
Total net assets	<u>2,606,409,901</u>	<u>2,381,311,781</u>
TOTAL	<u>\$2,861,753,929</u>	<u>\$2,636,849,147</u>

See notes to financial statements.

# THE ANNIE E. CASEY FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT:		
Donations and grants	\$ 22,848	\$ 33,160
State and other funding for Casey Family Services	10,096,861	8,731,058
Donations released from restrictions	26,929,104	-
Interest and dividends	36,265,157	38,765,820
Realized gains (losses) on sales of investments	68,050,924	(213,026,687)
Unrealized appreciation on investments, net of tax	294,426,846	641,895,075
Other investment income (loss)	23,589,775	(49,297,944)
Total revenue and support	<u>459,381,515</u>	<u>427,100,482</u>
EXPENSES FOR GRANTS AND OPERATIONS:		
Grants and direct services expenses:		
Casey Family Services	44,982,361	49,912,199
Center for Effective Services and Systems	29,766,790	37,702,197
Center for Family Economic Success	16,338,796	20,001,604
Casey Civic Sites	8,308,258	8,360,014
Organizational Learning and Influence	31,569,360	32,254,338
Transitioning and Developing Initiatives	19,219,700	24,737,583
Cross Cutting Investments	5,071,594	5,334,043
Strategic Grants and Disaster Relief	448,422	1,613,498
Total grants	<u>155,705,281</u>	<u>179,915,476</u>
Administrative and grants management expenses:		
General	32,866,692	27,901,305
Postretirement benefit cost	3,526,000	2,464,840
Interest	7,476,397	6,639,728
Investment expenses	8,343,401	8,557,257
Federal excise and other taxes	2,702,114	440,780
Total expenses for grants and operations	<u>210,619,885</u>	<u>225,919,386</u>
CHANGES IN UNRESTRICTED NET ASSETS BEFORE NON-OPERATING ACTIVITIES	248,761,630	201,181,096
Postretirement changes other than net periodic benefit cost	<u>(1,589,786)</u>	<u>(5,565,093)</u>
CHANGES IN UNRESTRICTED NET ASSETS	<u>247,171,844</u>	<u>195,616,003</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions - remainder trusts	-	25,924,828
Change in value of charitable remainder trusts	4,855,380	2,292,026
Net assets released from restrictions	<u>(26,929,104)</u>	<u>-</u>
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(22,073,724)</u>	<u>28,216,854</u>
CHANGES IN NET ASSETS	225,098,120	223,832,857
NET ASSETS—Beginning of year	<u>2,381,311,781</u>	<u>2,157,478,924</u>
NET ASSETS—End of year	<u>\$ 2,606,409,901</u>	<u>\$ 2,381,311,781</u>

See notes to financial statements.

# THE ANNIE E. CASEY FOUNDATION, INC.

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 225,098,120	\$ 223,832,857
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	2,487,440	3,183,546
Loss on disposal of property and equipment	6,928	89,266
Net realized and unrealized gain on investments	(375,504,358)	(453,136,654)
Provision for losses on program related investments	7,859,617	13,715,814
Decrease (increase) in interest and dividends receivable	244,613	(589,341)
Decrease (increase) in charitable remainder trusts	22,073,724	(28,216,854)
Decrease in prepaid federal excise tax	1,651,000	1,152,129
(Increase) decrease in other assets	(14,318)	39,284
Increase (decrease) in payables and other liabilities, excluding swap	2,888,932	(1,172,057)
Increase in deferred federal excise tax	5,166,971	10,552,452
Increase in postretirement benefit obligation	4,464,000	7,630,169
	<u>(103,577,331)</u>	<u>(222,919,389)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	744,168,123	1,036,783,612
Purchases of investments	(638,868,402)	(845,146,550)
Loans disbursed for program related investments	(1,250,000)	(30,063,000)
Repayments of program related investments	1,525,427	814,420
Capital expenditures	<u>(1,824,249)</u>	<u>(2,128,608)</u>
	<u>103,750,899</u>	<u>160,259,874</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing under credit facility	<u>-</u>	<u>62,624,439</u>
NET INCREASE (DECREASE) IN CASH	173,568	(35,076)
CASH—Beginning of year	<u>326,053</u>	<u>361,129</u>
CASH—End of year	<u>\$ 499,621</u>	<u>\$ 326,053</u>

See notes to financial statements.

# THE ANNIE E. CASEY FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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### 1. ORGANIZATION OF THE FOUNDATION

The Annie E. Casey Foundation, Inc. (the "Foundation") is a not-for-profit organization founded in 1948 dedicated to serving disadvantaged children in the United States. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In addition to grant making, the Foundation provides direct services through Casey Family Services. Casey Family Services offers permanency-focused programs and services for vulnerable children and families.

The Casey family charitable remainder trusts have provided a substantial portion of the donations to the Foundation in prior years.

The Foundation's funds are invested through various investment managers and BNY Mellon is the custodian.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** — The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Investments** — Investments are stated at fair value where a readily determinable fair value exists. Fair value is determined using the closing prices for investments traded on any global stock exchange. Investments in limited partnerships and similar interests, with no readily determinable fair value, are stated at estimated fair value based on financial statements and other information received from the partnerships. However, the recorded value could differ from the value that would have been used had a readily available market existed for such investments.

Realized gains and losses on sales of investments in United Parcel Service, Inc. (UPS) common stock, if any, are calculated based on the specific identification method. The realized gains and losses for other investments are calculated based on the first-in, first-out method.

**Program Related Investments** — The Foundation makes program related investments (PRIs) that advance philanthropic purposes. These investments consist of various partnerships, loans, and loan guarantees. The limited partnerships are stated at estimated fair value, which may be based on historical cost, financing events, or material changes in the business. At December 31, 2010 and 2009, the partnerships were valued at \$2,795,420 and \$3,329,166 with unfunded commitments totaling \$2,489,253 and \$2,587,928, respectively. The total amount of loans outstanding was \$43,858,880 and \$44,134,306 as of December 31, 2010 and 2009, respectively. Interest rates range from 1% to 9% and principal is scheduled to be paid in full to the Foundation at the maturity dates ranging from August 2011 through September 2039. The loan guarantees are collateralized by 943,057 shares of UPS common stock held by the Foundation. The fair value of the guarantees is considered immaterial to the Foundation's financial position and changes in net assets and, as a result, no amounts have been recorded in the financial statements. Management has reviewed all program related investments and for the years ended December 31, 2010 and 2009, the Foundation recorded a reserve for potentially uncollectible loans in the amount of \$22,582,217 and \$14,722,600, respectively.

**Charitable Remainder Trusts** — The Foundation is the beneficiary of charitable remainder trusts that are administered by third parties and are temporarily restricted until the termination of the trust. At December 31, 2010 and 2009, the Foundation recognized these trusts at their net present value based upon actuarially determined calculations using discount rates ranging from 1% to 6%. The discount rates used were the rates in effect at the time the trusts were initially recorded.

Under the terms of these trusts, payments of income are made from the trusts to the donees or other specified parties over the terms of the trusts. Upon termination of the trusts, the remaining net assets will be transferred to the Foundation for its unrestricted use. For the year ended December 31, 2010, \$26,929,104 was transferred for unrestricted use. There was no activity during 2009.

**Property and Equipment** — Property and equipment, which consists primarily of buildings and building improvements, is recorded at cost. Depreciation of property is calculated using straight-line methods over the estimated useful lives of the assets, which range from 3 to 25 years.

**Derivatives** — At December 31, 2010 and 2009, the Foundation held interest rate swap agreements that were entered into to manage interest rate exposure on various debt. As a not-for-profit organization, the Foundation is not allowed to use cash flow hedge accounting. In accordance with authoritative guidance, the interest rate swap agreements are recorded in the statements of financial position at fair value with the related gains and losses reflected in the statements of activities.

The Foundation could be exposed to losses in the future in the event of nonperformance by the counterparties in the interest rate swap agreements. However, the Foundation minimizes such risk exposure by limiting the counterparties to major financial institutions with high credit quality. The Foundation does not expect to record any losses as a result of counterparty default.

**State and Other Funding** — For the years ended December 31, 2010 and 2009, the Foundation received \$10,096,861 and \$8,731,058, respectively, in state and other funding. These funds are related to direct services provided by Casey Family Services.

**Recent Accounting Pronouncements** — In January 2010, the Financial Accounting Standards Board (FASB) issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy, were adopted by the Foundation for the year ended December 31, 2010. Note 4 – Fair Value Measurements, reflects the amended disclosure requirements. The new guidance also requires that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation and is effective for fiscal years beginning after December 15, 2010. The Foundation early adopted this guidance. Since this new guidance only amends the disclosure requirements, it did not impact the statement of financial position, statement of activities, or statement of cash flows.

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

**Reclassifications** — Certain prior-year amounts have been reclassified to conform to the 2010 presentation. In the statement of activities for the year ended December 31, 2009, the grant expense categories have been adjusted to conform to the current year presentation. Additionally, the state funding for Casey Family Services which was previously included in the Casey Family Services expense line item has been included under revenue and support. These reclassifications had no effect on the change in net assets in 2009 or total assets at December 31, 2009.

### 3. INVESTMENTS

	December 31, 2010		December 31, 2009	
	Fair Value	Cost	Fair Value	Cost
Equities	\$ 842,659,449	\$ 715,746,668	\$ 751,654,780	\$ 689,606,425
Hedge Funds	603,522,959	513,915,999	589,699,525	559,633,208
UPS common stock	466,452,935	58,937,096	368,702,189	58,937,096
Private Equity	375,372,700	320,288,726	283,341,451	283,250,306
Fixed Income	198,314,425	196,040,380	250,516,556	232,772,976
Short-Term Investments	68,727,177	69,993,237	75,050,205	76,262,478
Real Estate	79,608,657	100,324,989	72,461,270	95,648,859
Commodities	59,912,183	49,914,783	57,541,466	58,703,184
Mortgage Notes	1,280,500	1,280,500	3,324,690	3,324,690
	<u>\$2,695,850,985</u>	<u>\$2,026,442,378</u>	<u>\$2,452,292,132</u>	<u>\$2,058,139,222</u>

As of December 31, 2010 and 2009, the investments shown above had additional unfunded capital commitments to various partnerships of \$207,625,413 and \$249,790,584, respectively.

The Foundation's custodian maintains a securities lending program on behalf of the Foundation, and maintains collateral at all times in excess of the value of securities on loan. Investment of this collateral is in accordance with specified guidelines. The funds are part of a collateral pool that invests in high quality debt securities with a managed short-term duration. The Foundation maintains effective control of the loaned securities during the term of the arrangement wherein they may be recalled at any time. The value of securities on loan at December 31, 2010 and 2009, was \$36,909,186 and \$35,049,353, respectively. In exchange, collateral was provided to the custodian of \$37,863,658 and \$36,167,682 as of December 31, 2010 and 2009, respectively. In accordance with authoritative guidance, the collateral is shown as both an asset and a liability on the statements of financial position.

**Concentration of Risk** — The Foundation is a holder of Class A and B UPS stock. The price per share of the Class A stock is equivalent to Class B stock. As of December 31, 2010, the market value of UPS Class B common stock was \$72.58 per share. UPS stock represented approximately 17% and 15% of the market value of the Foundation's investment portfolio at December 31, 2010 and 2009, respectively.

### 4. FAIR VALUE MEASUREMENTS

The Foundation accounts for assets and liabilities measured at fair value using Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*. Under ASC Topic 820, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Investments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In the absence of actively quoted prices and observable inputs, the Foundation estimates prices based on available historical data and near term future pricing information that reflects its market assumptions. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

*Level 1* – Quoted market prices in active markets for identical assets and liabilities.

*Level 2* – Observable market based inputs or unobservable inputs that are corroborated by market data.

*Level 3* – Unobservable inputs that are not corroborated by market data.

Level 1 investments include equities, UPS common stock, and fixed income securities. The value is based on quoted market prices in active markets. Level 1 also includes short-term investments comprised of cash.

Level 2 investments include short-term investments such as certificates of deposits, fixed income securities, and repurchase agreements. The fair value is estimated using third-party quotations. Level 2 investments also include certain funds where the value of the underlying equity securities is based on quoted market prices in active markets and interest rate swaps that are valued using information received from the counterparties.

In addition, the Foundation applied the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (“ASU 2009-12”) for certain investments that do not have readily determinable fair values. ASU No. 2009-12 permits the estimation of the fair value of an investment using net asset value per share (or its equivalent). In accordance with the guidance, such investments that are redeemable in the near term are included in Level 2. The Foundation considers “near term” to be 90 days or less from the measurement date. Accordingly, hedge funds that are redeemable within 90 days are included in Level 2.

Level 3 investments include hedge funds (other than those included in Level 2), private equity, real estate, and commodities. Since quoted prices are not readily available, the fair value is estimated based on net asset value utilizing information from the investment managers. Level 3 investments also include mortgage notes which are valued based on book value.

For investments with little or no market data available, the determination of fair value is based on the best information available in the circumstances and incorporates management’s own assumptions, including appropriate risk adjustments. Due to the fact that a quoted market exchange does not exist for the Level 2 and Level 3 investments, the fair value is generally based on management’s estimate of fair value in the most advantageous exit market. Management gives consideration to the reasonableness of the investee company’s methodology for measuring fair value and reviews the investee company’s interim and audited financial statements. Because of the inherent uncertainty of valuation, the estimated fair values of the investments presented could differ significantly from the value that would have been determined had a ready market existed, and it is reasonably possible that the difference could be material. As such, there is no assurance that upon liquidation, the Foundation will realize the fair values presented.

At December 31, 2010, the redemption frequency for the Level 3 hedge funds is: annually (61%), quarterly (20%), and other (10%). With redemption notice periods ranging from 30 to 90 days, the Foundation has the ability to redeem 73% of these funds through the end of 2011, 15% through the end of 2012, and 3% through the end of 2013. An additional 9% are held in illiquid funds.

At December 31, 2009, the redemption frequency for the Level 3 hedge funds is: annually (51%), quarterly (34%), and other (9%). With redemption notice periods ranging from 30 to 92 days, the Foundation has the ability to redeem 59% of these funds through the end of 2010, 30% through the end of 2011, and 5% through the end of 2012. An additional 6% are held in illiquid funds.

The private equity and real estate funds are not subject to redemption, however certain funds may be sold or transferred with general partner approval. Due to the nature of these investments, the fund values are reduced through distributions that are received from liquidation of the underlying assets. For the years ended December 31, 2010 and 2009, it is estimated that the underlying assets of these funds will be liquidated over a period of approximately 13 years. The commodities can be redeemed daily.

The following tables present (1) the Foundation's assets and liabilities that are measured at fair value for each level and (2) a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value at December 31, 2010.

<b>Fair Value Measurement at December 31, 2010</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>ASSETS:</b>				
Public Equities:				
U.S. Equities:				
Large Cap	\$ 636,581,113	\$ 495,953,119	\$ 140,627,994	\$ -
Fixed Income	198,314,425	198,314,425	-	-
Natural Resources	91,247,084	31,334,901	-	59,912,183
Small Cap	65,046,650	65,046,650	-	-
Mid Cap	33,275,830	33,275,830	-	-
Real Estate	26,432,607	26,432,607	-	-
Foreign Equities:				
Emerging Markets	234,347,580	85,612,827	148,734,753	-
Developed Countries	192,956,122	89,670,579	103,285,543	-
Global Equities:				
Natural Resources	34,674,162	34,674,162	-	-
Developed Countries	27,996,403	-	27,996,403	-
Real Estate	26,467,016	26,467,016	-	-
	<u>1,567,338,992</u>	<u>1,086,782,116</u>	<u>420,644,693</u>	<u>59,912,183</u>
Private Equities:				
Buyout	131,842,565	-	-	131,842,565
Natural Resources	108,541,418	-	-	108,541,418
Real Estate	79,608,657	-	-	79,608,657
Venture	72,395,078	-	-	72,395,078
Opportunistic	46,005,049	-	-	46,005,049
Secondary	16,588,590	-	-	16,588,590
	<u>454,981,357</u>	<u>-</u>	<u>-</u>	<u>454,981,357</u>
Hedge Funds:				
U.S. Long/Short	164,828,492	-	147,084,568	17,743,924
Distressed Credit	124,695,785	-	44,945,848	79,749,937
Global Long/Short	112,895,166	-	106,477,646	6,417,520
Opportunistic	92,280,292	-	19,225,498	73,054,794
Diversified Arbitrage	73,761,851	-	36,756,919	37,004,932
Credit	21,426,090	-	-	21,426,090
Tactical Trading	13,635,283	-	6,710,149	6,925,134
	<u>603,522,959</u>	<u>-</u>	<u>361,200,628</u>	<u>242,322,331</u>
Short-Term Investments	<u>68,727,177</u>	<u>9,513,308</u>	<u>59,213,869</u>	<u>-</u>
Mortgage Notes	<u>1,280,500</u>	<u>-</u>	<u>-</u>	<u>1,280,500</u>
Total Investments	<u>2,695,850,985</u>	<u>1,096,295,424</u>	<u>841,059,190</u>	<u>758,496,371</u>
Program Related Investments				
Private Equity Venture Cap	<u>2,795,420</u>	<u>-</u>	<u>-</u>	<u>2,795,420</u>
Interest Rate Swaps:	<u>22,215,242</u>	<u>-</u>	<u>22,215,242</u>	<u>-</u>
<b>TOTAL</b>	<u>\$ 2,720,861,647</u>	<u>\$ 1,096,295,424</u>	<u>\$ 863,274,432</u>	<u>\$ 761,291,791</u>

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for 2010**

	<b>Balance</b>				<b>Realized</b>	<b>Unrealized</b>	<b>Transfers</b>	<b>Transfers</b>	<b>Balance</b>
	<b>January 1</b>	<b>Purchases</b>	<b>Distributions</b>	<b>Sales</b>	<b>Gains (Losses)</b>	<b>Gains (Losses)</b>	<b>Into Level 3</b>	<b>Out of Level 3</b>	<b>December 31</b>
Public Equities:									
U.S. Equities									
Natural Resources	\$ 57,541,466	\$ 593,608	\$ (128,837)	\$(10,464,771)	\$ 1,503,781	\$ 10,866,936	\$ -	\$ -	\$ 59,912,183
Private Equities:									
Buyout	98,695,914	25,610,173	(24,316,883)	-	-	31,853,361	-	-	131,842,565
Natural Resources	77,803,505	14,763,995	(7,017,482)	-	-	22,991,400	-	-	108,541,418
Real Estate	72,461,270	14,642,655	(6,131,378)	-	-	(1,363,890)	-	-	79,608,657
Venture	48,850,698	19,331,175	(3,567,613)	-	-	7,780,818	-	-	72,395,078
Opportunistic	40,297,425	3,488,426	(4,585,353)	-	-	6,804,551	-	-	46,005,049
Secondary	17,693,909	1,358,182	(3,752,986)	-	-	1,289,485	-	-	16,588,590
	<u>355,802,721</u>	<u>79,194,606</u>	<u>(49,371,695)</u>	<u>-</u>	<u>-</u>	<u>69,355,725</u>	<u>-</u>	<u>-</u>	<u>454,981,357</u>
Hedge Funds:									
U.S. Long/Short	52,981,081	-	-	(7,110,733)	621,663	1,994,168	-	(30,742,255)	17,743,924
Distressed Credit	66,010,722	-	-	(1,206,033)	22,478	11,477,631	12,386,371	(8,941,232)	79,749,937
Global Long/Short	40,209,324	8,500,000	-	-	-	4,258,659	858,230	(47,408,693)	6,417,520
Opportunistic	81,085,001	-	(84,312)	(10,747,278)	105,770	3,391,546	-	(695,933)	73,054,794
Diversified Arbitrage	39,345,013	3,569,204	-	(2,661,954)	(278,295)	3,380,624	-	(6,349,660)	37,004,932
Credit	20,016,357	-	-	-	-	1,409,733	-	-	21,426,090
Tactical Trading	6,616,685	-	-	-	-	308,449	-	-	6,925,134
	<u>306,264,183</u>	<u>12,069,204</u>	<u>(84,312)</u>	<u>(21,725,998)</u>	<u>471,616</u>	<u>26,220,810</u>	<u>13,244,601</u>	<u>(94,137,773)</u>	<u>242,322,331</u>
Mortgage Notes	<u>3,324,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,044,190)</u>	<u>-</u>	<u>-</u>	<u>1,280,500</u>
Program Related Investments:									
Private Equity:									
Venture	<u>3,329,166</u>	<u>98,675</u>	<u>(41,816)</u>	<u>-</u>	<u>-</u>	<u>(590,605)</u>	<u>-</u>	<u>-</u>	<u>2,795,420</u>
Ending Balance	<u>726,262,226</u>	<u>91,956,093</u>	<u>(49,626,660)</u>	<u>(32,190,769)</u>	<u>1,975,397</u>	<u>103,808,676</u>	<u>13,244,601</u>	<u>(94,137,773)</u>	<u>761,291,791</u>

The net change in unrealized gains/(losses) included in earnings related to investments still held at December 31, 2010, was \$104,264,183.

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2010.

As of December 31, 2010, transfers of \$94,137,773 from Level 3 to Level 2 represent investments that are redeemable in 90 days or less of the measurement date. Transfers from Level 2 to Level 3 of \$13,244,601 represent investments where the investee designated a portion of the portfolio as illiquid or revised the redemption terms. The Foundation records transfers in and out of each respective level at the end of the reporting period.

At December 31, 2009, the following table presents the Foundation's assets and liabilities that are measured at fair value for each level:

<b>Fair Value Measurement at December 31, 2009</b>				
	<u><b>Total</b></u>	<u><b>Level 1</b></u>	<u><b>Level 2</b></u>	<u><b>Level 3</b></u>
<b>ASSETS:</b>				
Investments				
Equities	\$ 751,654,780	\$ 353,025,249	\$ 398,629,531	\$ -
Hedge Funds	589,699,525	-	283,435,342	306,264,183
UPS common stock	368,702,189	368,702,189	-	-
Private Equity	283,341,451	-	-	283,341,451
Fixed Income	250,516,556	250,516,556	-	-
Short-Term Investments	75,050,205	8,898,982	66,151,223	-
Real Estate	72,461,270	-	-	72,461,270
Commodities	57,541,466	-	-	57,541,466
Mortgage Notes	3,324,690	-	-	3,324,690
Total Investments	2,452,292,132	981,142,976	748,216,096	722,933,060
PRI—partnerships	3,329,166	-	-	3,329,166
<b>TOTAL ASSETS</b>	<u><u><b>\$2,455,621,298</b></u></u>	<u><u><b>\$ 981,142,976</b></u></u>	<u><u><b>\$ 748,216,096</b></u></u>	<u><u><b>\$ 726,262,226</b></u></u>
<b>LIABILITIES:</b>				
Interest Rate Swaps	<u><u><b>\$ 14,043,100</b></u></u>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ 14,043,100</b></u></u>	<u><u><b>\$ -</b></u></u>

At December 31, 2009, hedge funds represent approximately 42% of Level 3 and include a mix of investments in U.S. long/short equities, global long/short equities, opportunistic, stressed/distressed credit, diversified arbitrage, tactical, and credit. Hedge funds were purchased to reduce the volatility of the portfolio through hedging activities. At December 31, 2009, private equity represents approximately 39% of Level 3 and includes investments in buyout partnerships, natural resources, real estate, venture capital, opportunistic, and secondary partnerships.

For hedge funds and private equity categorized in Level 3, the concentration of investments is as follows:

<b>HEDGE FUNDS:</b>		<b>PRIVATE EQUITY:</b>	
Opportunistic	26%	Buyout partnerships	36%
Stressed/distressed credit	22%	Natural resources	27%
U.S. long/short equities	17%	Venture capital	17%
Global long/short equities	13%	Opportunistic	14%
Diversified arbitrage	13%	Secondary	6%
Other	9%		

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the year ended December 31, 2009:

Beginning balance	\$1,322,011,060
Purchases / (sales) / (distributions), net	(197,501,579)
Net realized losses	(106,235,071)
Change in unrealized gains / (losses)	390,052,689
Net transfers in and/or out of Level 3	<u>(682,064,873)</u>
Ending balance	<u>\$ 726,262,226</u>
Net change in unrealized gains / (losses) included in earnings related to investments still held at year end	<u>\$ 242,647,673</u>

The tables above do not reflect the data associated with the securities lending program as there is no net impact on fair value. As of December 31, 2010 and 2009, the collateral and corresponding payable under the securities lending program were \$37,863,658 and \$36,167,682, respectively. The collateral and securities on loan under this program are classified as Level 1 assets under ASC Topic 820.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<b>2010</b>	<b>2009</b>
Land	\$ 1,409,841	\$ 1,409,841
Buildings and improvements	32,252,660	32,134,781
Leasehold improvements	4,572,956	4,136,355
Furniture and fixtures	1,544,591	1,833,748
Computer and office equipment	7,330,886	7,602,407
Capital projects in process	<u>1,041,135</u>	<u>339,385</u>
	48,152,069	47,456,517
Less accumulated depreciation and amortization	<u>(25,840,752)</u>	<u>(24,475,081)</u>
Total property and equipment, net	<u>\$ 22,311,317</u>	<u>\$ 22,981,436</u>

During the years ended December 31, 2010 and 2009, the Foundation wrote off \$1,128,696 and \$1,801,766, respectively, in property and equipment, of which \$1,121,769 and \$1,712,500 was fully depreciated.

## **6. DEBT**

On December 20, 2010, the Foundation refinanced its Bank of America line of credit with BNY Mellon in a non-cash transaction. The new note payable with a principal balance of \$160,000,000 at December 31, 2010, matures with a balloon payment due on December 21, 2015, and is collateralized by a pool of investments that includes 1,000,000 shares of UPS stock, cash, and bond funds. Interest on the note payable is based on the one-month floating LIBOR plus 55 basis points (0.81% at December 31, 2010).

The Foundation's previous line of credit with Bank of America was scheduled to mature in January 2011. Outstanding principal was \$160,000,000 at December 31, 2009, and was collateralized by 4,000,000 shares of UPS stock. Interest on the line of credit was payable based on the one-month floating LIBOR (0.23% at December 31, 2009).

The Foundation manages its interest rate exposure with interest rate swap agreements. On July 1, 2010, the Foundation entered into an interest rate swap agreement with BNY Mellon exchanging the one-month LIBOR for the fixed rate of 4.40% and a notional amount of \$160,000,000. The Foundation previously had two interest rate swap agreements with Bank of America exchanging the one-month floating LIBOR for fixed rates of 4.38% and 4.52% that were terminated on July 1, 2010. Interest expense was \$7,476,397 and \$6,639,728 for the years ended December 31, 2010 and 2009, respectively.

The fair value of the interest rate swap was \$22,215,242 and was included in other assets at December 31, 2010. This asset includes the \$1,539,856 of transaction costs paid at the inception of the swap in order to receive a lower fixed rate. At December 31, 2009, the fair value of the interest rate swaps was \$14,043,100 and was included in accounts payable and other liabilities. The Foundation recorded an unrealized gain of \$34,718,486 for the year ended December 31, 2010, and an unrealized gain of \$18,576,307 for the year ended December 31, 2009. These are included in the statement of activities as increases or decreases in unrestricted net assets for the respective year-ends.

## **7. FEDERAL EXCISE TAX**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, the Foundation is classified as a private foundation and is subject to a federal excise tax of 1% or 2% on investment income less investment expenses, and on net realized taxable gains on capital transactions. For the years ended December 31, 2010 and 2009, the Foundation's federal excise tax rate was 2% and 1%, respectively. The total amount of cash paid for excise taxes was \$600,000 for the year ended December 31, 2010. There were no excise tax payments made during 2009, however, a refund of \$717,578 was received for excess payments made in prior years. In addition, during 2010 and 2009, the Foundation paid taxes on unrelated business income incurred through certain partnership investments. These taxes were not material to the financial statements as a whole.

Deferred federal excise tax arises from timing differences between financial statement and tax reporting related to investment income and the difference between the cost basis and market value of investments.

## **8. DEFINED CONTRIBUTION AND OTHER POSTRETIREMENT PLANS**

The Foundation maintains defined contribution plans for its employees. The Foundation recorded \$4,086,317 and \$4,579,589 in expense for the years ended December 31, 2010 and 2009, respectively.

In addition, the Foundation provides postretirement medical and dental benefits to all eligible employees. The benefit obligation for 2010 and 2009 is summarized as follows:

	<b>2010</b>	<b>2009</b>
Benefit obligation at December 31	\$ 27,623,000	\$ 23,159,000
Fair value of plan assets at December 31	<u>-</u>	<u>-</u>
Funded status and accrued benefit cost recognized in the statements of financial position	<u>\$ (27,623,000)</u>	<u>\$ (23,159,000)</u>

The following amounts not yet reflected in net periodic benefit cost are included in net assets as of December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Net prior service cost	\$ (5,096,732)	\$ (5,488,732)
Accumulated (loss) gain	<u>(7,875,973)</u>	<u>(5,894,187)</u>
Change in net assets	<u>\$ (12,972,705)</u>	<u>\$ (11,382,919)</u>

Information about assumptions as of December 31, 2010 and 2009, is as follows:

	<b>2010</b>	<b>2009</b>
Weighted-average assumptions		
Discount rate (benefit obligation)	5.5 %	6.0 %
Discount rate (net periodic costs)	6.0 %	5.5 %
Expected return on plan assets	N/A	N/A
Health care cost trend rate assumptions		
Initial trend rate	7.7 %	8.0 %
Ultimate trend rate	5.0 %	5.0 %
Year ultimate trend rate is reached	2020	2020

Benefit information for the years ended December 31, 2010 and 2009, is summarized as follows:

	<b>2010</b>	<b>2009</b>
Benefit cost	<u>\$ 3,526,000</u>	<u>\$ 2,464,840</u>
Employer contributions	\$ 651,786	\$ 399,764
Plan participants' contributions	<u>37,975</u>	<u>16,076</u>
Total benefits paid	<u>\$ 689,761</u>	<u>\$ 415,840</u>

The Foundation expects to make the following benefit disbursements:

<b>Years Ending December 31</b>	
2011	\$ 703,000
2012	816,000
2013	950,000
2014	1,084,000
2015	1,215,000
2016 - 2020	8,028,000

## **9. LEASES**

The Foundation leases office facilities at various locations. The leases generally provide that the Foundation also pay taxes, insurance, and maintenance expenses related to these locations.

As of December 31, 2010, future minimum annual lease payments required are as follows:

<b>Years Ending December 31</b>	
2011	\$ 2,043,244
2012	2,167,407
2013	1,853,859
2014	1,384,812
2015	959,027
Thereafter	<u>4,871,750</u>
	<u>\$ 13,280,099</u>

Rent expense for 2010 and 2009 was approximately \$2,188,500 and \$2,014,900, respectively.

## **10. GRANT ALLOCATIONS**

As of December 31, 2010, the Foundation has approved grant funds for payments to various organizations and projects of up to approximately \$132.0 million, contingent upon the organizations' performance of obligations specified in the grant agreements. Accordingly, grant expense is recorded when the obligations are met and the resulting payments made. Such payments are expected to be made during the period January 1, 2011 through December 31, 2011. In addition, the Foundation made a multi-year \$20 million grant commitment in 2007. During 2008, it was amended to \$22.6 million payable over seven years. Payment is subject to fulfillment of various program requirements. Through December 31, 2010, \$5.0 million has been paid against the commitment amount.

## **11. SUBSEQUENT EVENTS**

The Foundation has evaluated the impact of significant subsequent events. There have been no subsequent events through May 18, 2011, the date that the Foundation's financial statements were available to be issued, that require recognition or disclosure.

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