

THE WINTHROP ROCKEFELLER FOUNDATION

**Financial Statements
December 31, 2008 and 2007
(With Independent Auditor's Report Thereon)**

**RASCO WINTER
ABSTON MOORE
& ASSOCIATES LLP**

A Limited Liability Partnership of Professional Corporations

Independent Auditor's Report

The Board of Directors
The Winthrop Rockefeller Foundation

We have audited the accompanying statements of financial position of The Winthrop Rockefeller Foundation (the "Foundation") as of December 31, 2008 and 2007, the related statements of activities and changes in net assets and cash flows for the years ended December 31, 2008 and 2007. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008 and 2007, 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.

Rasco Winter Abston Moore & Associates, LLP

May 21, 2009

THE WINTHROP ROCKEFELLER FOUNDATION

**Statements of Financial Position
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 5,561,602	4,373,041
Refundable excise taxes	205,690	-
Marketable securities	97,589,756	145,044,877
Program related investments	5,485,129	5,674,931
Accrued interest receivable	270,642	266,046
Land, building and equipment, net	111,725	100,106
Other assets	178,197	13,214
	<u>\$ 109,402,741</u>	<u>155,472,215</u>
<u>Liabilities and Net Assets</u>		
Grants payable	\$ 11,903,768	17,177,725
Accounts payable	60,281	28,156
Other liabilities	144,014	422,476
Unrestricted net assets	97,294,678	137,843,858
	<u>\$ 109,402,741</u>	<u>155,472,215</u>

See accompanying notes to financial statements.

THE WINTHROP ROCKEFELLER FOUNDATION

**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Revenues and gains (losses):		
Contributions	\$ 333,750	267,000
Investment return including gains (losses)	(35,863,460)	15,345,865
Realized loss on program related investments	(63,680)	-
Gain on disposal of fixed assets	137,033	-
Other	137	12,081
Total revenues and gains (losses)	<u>(35,456,220)</u>	<u>15,624,946</u>
Expenses:		
Program services:		
Grants	1,976,471	10,908,640
Program administration	1,163,458	531,404
Total program services	<u>3,139,929</u>	<u>11,440,044</u>
Supporting activities:		
Investment management expense	704,859	793,815
Federal excise tax	81,334	254,021
General administration	1,166,838	1,099,482
Total supporting activities	<u>1,953,031</u>	<u>2,147,318</u>
Total expenses	<u>5,092,960</u>	<u>13,587,362</u>
Change in unrestricted net assets	(40,549,180)	2,037,584
Unrestricted net assets, beginning of year	<u>137,843,858</u>	<u>135,806,274</u>
Unrestricted net assets, end of year	<u>\$ 97,294,678</u>	<u>137,843,858</u>

See accompanying notes to financial statements.

THE WINTHROP ROCKEFELLER FOUNDATION

**Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in unrestricted net assets	\$ (40,549,180)	2,037,584
Adjustments to reconcile change in unrestricted net assets to net cash used by operating activities:		
Depreciation	31,555	29,318
Net realized and unrealized loss (gain) on marketable securities	39,364,019	(11,826,254)
Net realized loss on program related investments	63,680	-
Gain on sale of fixed assets	(137,033)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(4,596)	(39,014)
Prepaid taxes	(205,690)	-
Other assets	(164,983)	10,838
Grants payable	(5,273,957)	5,050,131
Accounts payable	32,125	(8,559)
Other liabilities	(278,462)	(252,016)
Net cash used by operating activities	<u>(7,122,522)</u>	<u>(4,997,972)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(95,378)	-
Proceeds from sale of fixed assets	189,237	-
Purchases of marketable securities	(63,487,752)	(64,466,524)
Proceeds from sale of marketable securities and principal paydowns	71,578,854	70,494,013
Proceeds from program related investments	126,122	131,633
Net cash provided by investing activities	<u>8,311,083</u>	<u>6,159,122</u>
Net change in cash and cash equivalents	1,188,561	1,161,150
Cash and cash equivalents:		
Beginning of year	4,373,041	3,211,891
End of year	<u>\$ 5,561,602</u>	<u>4,373,041</u>

See accompanying notes to financial statements.

THE WINTHROP ROCKEFELLER FOUNDATION

Notes to Financial Statements December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

Organization: The Winthrop Rockefeller Foundation (the “Foundation”), is a private, not-for-profit foundation dedicated to the economic and social well-being of Arkansans. The Foundation is a recipient of an endowment from the Estate of Winthrop Rockefeller.

The Foundation’s vision is Arkansas as a state where economic, racial, and social justice is universally valued and practiced. By using its resources to support and strengthen organizations that build and sustain strong communities, the Foundation carries out its missions of education, economic development, and economic, racial, and social justice.

The following is a summary of the significant accounting policies used in preparation of the accompanying financial statements. Such policies are in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Marketable Securities: Investments in marketable securities are stated at estimated fair values as established by quoted prices. Changes in fair values are included in unrealized gains (losses) and are recorded in the period they occur. Gains or losses on sales of investments are recognized on the transaction trade dates and included in investment return in the statement of activities. The Foundation accounts for declines in the fair value of investment securities to an amount below their cost, which continues for more than twelve consecutive months as a permanent decline and reflects such declines as realized losses.

Program Related Investments: Investments in entities whose purpose is to assist in relieving poverty, creating jobs, or revitalizing the economy are classified as program related investments in the statement of financial position. The Foundation typically provides debt or equity capital to further the entities’ purposes, and such items are carried at cost unless events indicate a permanent decline in value at which time the investment is reduced to recognize such decline.

Land, Building and Equipment: Land, building and equipment are recorded at cost, net of accumulated depreciation. The Foundation capitalizes additions of land, building and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 20 years.

Allocation of Administration Expenses: The administrative staff of the Foundation spends its time working on various charitable programs and supporting activities. The staff's salaries, other compensation-related expenses, and certain other expenses are charged directly to the various functional classifications on the basis of time spent and expenses incurred in support of these functions.

Income Taxes: The Foundation is a non-profit organization which is exempt from income taxes pursuant to Internal Revenue Code Section 501(c)(3). However, the Foundation's net investment income is subject to excise taxes.

Grants: Grants made by the Foundation are recorded when the grants are approved by the Foundation's Board of Directors. All grantees are required to be tax-exempt organizations at the time the funds are advanced. Any grants which have not been funded as of the balance sheet date are recorded in grants payable.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 and such differences could be significant. The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Reclassifications: Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation. These reclassifications had no effect on the change in unrestricted net assets.

(2) **Marketable Securities**

Marketable securities at estimated fair value consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Equity securities	\$ 44,225,716	62,006,941
Domestic mutual funds	7,091,977	20,680,049
International mutual funds	9,043,702	14,895,236
Domestic debt mutual funds	37,228,361	47,462,651
	<u>\$ 97,589,756</u>	<u>145,044,877</u>

Investment return consisted of the following for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 3,500,559	3,519,611
Net realized and unrealized gain on marketable securities	<u>(39,364,019)</u>	<u>11,826,254</u>
	<u>\$ (35,863,460)</u>	<u>15,345,865</u>

During the year ended December 31, 2008, the Foundation reduced the carrying value of certain investments by \$2,731,827 due to a permanent decline in value.

(3) **Program Related Investments**

At December 31, 2008 and 2007, the program related investment balance includes funds invested in entities whose primary activities include promoting entrepreneurship and strengthening local economies in Arkansas. These entities and the related investment amounts are as follows:

- a. Southern Bancorp (formerly Southern Development Bancorporation) – Southern Bancorp is a bank holding company established for the purpose of conducting rural economic development activities in Arkansas.

	<u>2008</u>	<u>2007</u>
Voting common stock	\$ 700,000	700,000
Nonvoting common stock	<u>3,705,000</u>	<u>3,705,000</u>
	<u>\$ 4,405,000</u>	<u>4,405,000</u>

- b. Southern Bancorp Capital Partners (formerly Southern Financial Partners) – Southern Bancorp Capital Partners is a nonprofit entity established for the purpose of economic development in rural, disadvantaged areas of Arkansas.

	<u>2008</u>	<u>2007</u>
Note receivable with interest at 2%, payable in quarterly principal and interest payments of \$33,895, with all unpaid principal and accrued interest due December 1, 2011.	<u>\$ 393,809</u>	<u>519,931</u>

- c. Fund for Arkansas' Future ("Fund") – The Fund is a venture capital group established for the purpose of developing Arkansas entrepreneurship.

	<u>2008</u>	<u>2007</u>
Investment in Fund	\$ <u>212,413</u>	<u>250,000</u>

During the year ended December 31, 2008, the Foundation reduced the carrying value by \$37,587 due to a permanent decline in value.

- d. Diamond State Ventures II (“Diamond”) – Diamond is a venture capital fund established to make equity and subordinated debt investments in early and expansion stage businesses in Arkansas and very selectively in surrounding states.

	<u>2008</u>	<u>2007</u>
Investment in Fund	\$ <u>473,907</u>	<u>500,000</u>

During the year ended December 31, 2008, the Foundation reduced the carrying value by \$26,093 due to a permanent decline in value.

Total program related investments	\$ <u><u>5,485,129</u></u>	<u><u>5,674,931</u></u>
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(4) Land, Building and Equipment

Land, building and equipment consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Land	\$ -	6,000
Building and leasehold improvements	-	208,816
Office equipment and furnishings	111,455	314,322
Computer software and hardware	<u>64,085</u>	<u>54,474</u>
	175,540	583,612
Less accumulated depreciation and amortization	<u>63,815</u>	<u>483,506</u>
	<u><u>\$ 111,725</u></u>	<u><u>100,106</u></u>

Depreciation expense for the years ended December 31, 2008 and 2007 was \$31,555 and \$29,318, respectively.

The former Foundation building, an Italianate house built in 1883, was listed in the National Register of Historic Places and is located in the MacArthur Park Historic District. During 2008, the Foundation sold the building. The antique fine furnishings maintained by the Foundation within the building, the majority of which were donated by the Estate of Winthrop Rockefeller, were sold at an auction or were returned. The value

of the antiques was not reflected in the statements of financial position as of December 31, 2007.

(5) **Grants Payable**

Grants payable are due to be paid for years subsequent to December 31, 2008 as follows:

2009	\$	4,835,724
2010		3,266,098
2011		2,850,080
2012		951,867
2013		-
	\$	<u>11,903,769</u>

(6) **Capital Grants**

Since inception, the Foundation has received \$25,050,000 as of December 31, 2008 and 2007 in capital grants (“grants”) from the Trust Under the Will of Winthrop Rockefeller (the “Trust”), and it is agreed for such grants that neither the grant nor any income from it may be used for purposes other than those described in section 170(c)(2)(B) of the Internal Revenue Code. In the event that any portion of the grant or the income from it is used for purposes other than those described in section 170(c)(2)(B), the Foundation will refund to the Trust any portion of the grant or the income from it which has been used for purposes other than those described in section 170(c)(2)(B). Further, on request from the Trust, in addition to the full amount of the grant which has not already been used for purposes described in section 170(c)(2)(B), the Foundation will pay over to the Trust any additional amount which may be necessary to effect a correction under section 4945 of the Internal Revenue Code, provided the Trust notifies the Foundation of the necessity to effect a correction. In addition, the Trust may withhold further payments to the Foundation. Management does not anticipate being required to return any funds received as the full amount of capital grants received to date has been used for purposes described in section 170(c)(2)(B).

(7) **Related Party Transactions**

Certain members of the Foundation’s Board of Directors serve on the boards of or are employed by various grantees. The Foundation awarded grants of \$520,500 and \$335,800 during the years ended December 31, 2008 and 2007, respectively, to grantees which had relationships with the Foundation’s Board of Directors.

The Foundation received operating support grants from the Trust of \$333,750 and \$267,000 in 2008 and 2007, respectively. Operating support grants were expended for operations in the year received.

(8) **Employee Benefit Plan**

Under the Winthrop Rockefeller Foundation Retirement Plan (the “Plan”), all employees are eligible to participate in the Plan and can contribute up to the maximum percentage of compensation allowed by the Internal Revenue Code with the Foundation matching 100% of the first 6% of compensation contributed by each participant. Additionally, the Foundation contributes 5% of each participant’s compensation to the Plan. Such contributions are invested in variable life tax-sheltered annuities. The amount contributed to the Plan by the Foundation totaled \$80,144 and \$61,576 for the years ended December 31, 2008 and 2007, respectively.

(9) **Distribution Requirement**

The Internal Revenue Code of 1986, as amended, provides for additional taxes, which may be imposed upon a private foundation, such as the Foundation, if it fails to make qualifying distributions equal to its minimum investment return reduced by excise taxes within the year of receipt and the succeeding taxable year. Minimum investment return is equal to 5% of the aggregate fair market value of all of the Foundation’s assets not directly used in carrying out the Foundation’s exempt purpose. The additional taxes are 30% of the undistributed minimum investment return and 100% of such minimum investment return if it is not distributed by the earlier of the date of mailing a notice of deficiency with respect to the 30% tax or the date on which the 30% tax is assessed. The Foundation anticipates making the required distributions in the time frame necessary to avoid additional taxes.

As of December 31, 2008, the Foundation has made qualifying distributions in excess of the required distributable amount, resulting in an excess distribution carryover of \$580,803, with \$61,490 expiring in 2010 and \$519,313 expiring in 2012.

(10) **Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of those instruments.

Marketable Securities: The fair values of marketable securities are estimated based on quoted market prices or market prices of similar investments.

Program Related Investments: The fair value of the Foundation’s program related investments is estimated at cost unless events indicate a significant decline in value.

Grants Payable: The fair value of the Foundation’s grants payable is estimated to approximate the carrying value of these instruments due to their nature.

The estimated fair values of the Foundation's financial instruments as of December 31, 2008 and 2007 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2008</u>				
Assets:				
Cash and cash equivalents	\$ 5,561,602	5,561,602	-	-
Marketable securities	97,589,756	97,589,756	-	-
Program related investments	5,485,129	-	5,485,129	-
Liabilities:				
Grants payable	<u>11,903,768</u>	<u>-</u>	<u>11,903,768</u>	<u>-</u>
Total	<u>\$ 120,540,255</u>	<u>103,151,358</u>	<u>17,388,897</u>	<u>-</u>
<u>December 31, 2007</u>				
Assets:				
Cash and cash equivalents	\$ 4,373,041	4,373,041	-	-
Marketable securities	145,044,877	145,044,877	-	-
Program related investments	5,674,931	-	5,674,931	-
Liabilities:				
Grants payable	<u>17,177,725</u>	<u>-</u>	<u>17,177,725</u>	<u>-</u>
Total	<u>\$ 172,270,574</u>	<u>149,417,918</u>	<u>22,852,656</u>	<u>-</u>

(11) **Lease Agreements**

In September 2008, the Foundation entered into an operating lease agreement for facilities from which to conduct its operations. These facilities are leased under a ten-year operating lease expiring in 2019. There is an option to renew the lease for two additional five year periods at an increased monthly rental. The Foundation moved its operations to the new facilities in February 2009.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2008:

2009	\$ 88,027
2010	97,140
2011	100,066
2012	103,057
2013	106,178
	<u>\$ 494,468</u>