Financial Statements

John S. and James L. Knight Foundation
Years Ended December 31, 2010 and 2009
With Report of Independent Auditor's Report

McGladrey

McGladrey & Pullen, LLP
Certified Public Accountants

John S. and James L. Knight Foundation

Financial Statements

Years Ended December 31, 2010 and 2009

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Independent Auditor's Report

The Trustees
John S. and James L. Knight Foundation

We have audited the accompanying statement of financial position of the John S. and James L. Knight Foundation (the "Foundation") as of December 31, 2010, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Foundation for the year ended December 31, 2009, were audited by other auditors whose report, dated May 19, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audit included 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Miami, Florida
May 25, 2011

John S. and James L. Knight Foundation

Statements of Financial Position

	December 31 2010	December 31 2009
Assets		
Investments:		
Investment assets:		
Cash and cash equivalents	$ 76,215,337	$ 54,516,152
Interest, dividends and other investment receivables	24,441,214	14,285,297
Fair value of derivative instrument	3,702,299	10,770,806
U.S. government and agency obligations	119,491,266	125,479,037
Government-sponsored enterprises obligations	10,003,280	23,491,864
International bonds and other obligations	45,179,233	66,196,575
Corporate bonds and other obligations	64,020,225	96,687,423
Equity securities	608,548,884	558,321,310
Hedge fund investments	524,764,092	462,732,533
Alternative equity investments	563,219,450	529,521,165
Real estate investments	98,144,775	87,285,888
Total investments	2,137,730,055	2,029,288,050
Securities pledged to creditors	77,724,486	82,815,082
Program-related investments, net	1,375,000	1,375,000
Other assets	4,299,578	3,799,506
Net pension asset	1,334,882	1,473,562
Beneficial interest in remainder trusts	82,805,824	72,385,414
Total assets	$2,305,269,825	$2,191,136,614
Liabilities and net assets		
Liabilities:		
Payable under securities loan agreement	$ 79,818,619	$ 84,856,450
Redemptions received in advance	-	18,000,000
Grants payable	159,320,358	176,339,562
Other liabilities	7,182,837	3,660,301
Other postretirement benefit plan liability	879,475	772,793
Deferred taxes payable	1,355,668	320,441
Total liabilities	248,556,957	283,949,547
Net assets:		
Temporarily restricted	82,805,824	72,385,414
Unrestricted	1,973,907,044	1,834,801,653
Total net assets	2,056,712,868	1,907,187,067
Total liabilities and net assets	$2,305,269,825	$2,191,136,614

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Activities

	Year Ended December 31 2010	2009
Changes in unrestricted net assets:		
Investment activity:		
Interest	$ 12,251,222	$ 11,984,753
Dividends	18,593,217	13,934,183
Net realized gain/(loss) on sale of investments	79,474,812	(38,937,592)
Net change in fair value of investments	138,418,897	346,070,709
Less: investment expenses	(7,879,102)	(7,325,064)
Total investment activity	240,859,046	325,726,989
Contributions received	2,000,000	-
Total investment activity and other support	242,859,046	325,726,989
Grants approved and expenses:		
Transformation grants	17,531,100	11,913,550
Impact grants	2,490,000	3,840,000
Communities grants	14,121,476	103,596,090
Journalism Initiative grants	25,010,788	15,331,772
National Fund grants	11,020,423	5,682,105
Arts	7,446,500	-
Other grants	1,678,780	1,329,571
Grant forfeitures and other	(3,446,481)	(4,639,979)
Change in grant payable discount	3,573,681	(5,955,337)
Direct charitable activities	7,698,138	3,297,735
General and administrative expenses	13,338,644	11,799,005
Federal excise and other taxes, net	3,176,272	1,637,449
Total grants and expenses	103,639,321	147,831,961
Increase in unrestricted net assets from operating activities	139,219,725	177,895,028
Pension and postretirement changes other than net periodic pension and postretirement costs	114,334	14,126
Increase in unrestricted net assets	139,105,391	177,880,902
Changes in temporarily restricted net assets:		
Change in value of beneficial interest in remainder trusts	10,420,410	18,524,883
Total increase in net assets	149,525,801	196,405,785
Net assets at beginning of year	1,907,187,067	1,710,781,282
Net assets at end of year	$ 2,056,712,868	$ 1,907,187,067

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Cash Flows

	Year Ended December 31	
	2010	**2009**
Operating activities		
Change in net assets	**$ 149,525,801**	**$ 196,405,785**
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized (gain)/loss on sale of investments	**(79,474,812)**	**38,937,592**
Net change in fair value of investments	**(138,418,897)**	**(346,070,709)**
Change in value of beneficial interest in remainder trusts	**(10,420,410)**	**(18,524,883)**
Changes in operating assets and liabilities:		
Interest, dividends and other investment receivables	**558,597**	**538,604**
Disbursements for program-related investments	**(826,000)**	**(833,334)**
Valuation allowance – program-related investments	**826,000**	**1,125,000**
Grants payable	**(17,019,204)**	**29,996,513**
Deferred taxes	**1,035,227**	**320,441**
Pension and postretirement liability	**245,364**	**(2,467,593)**
Other liabilities	**3,522,536**	**(1,497,200)**
Net cash used in operating activities	**(90,445,798)**	**(102,069,784)**
Investing activities		
Proceeds from sale of investments	**471,240,517**	**546,006,871**
Purchases of investments	**(359,095,534)**	**(430,952,570)**
Net cash provided by investing activities	**112,144,983**	**115,054,301**
Net change in cash and cash equivalents	**21,699,185**	**12,984,517**
Cash and cash equivalents at beginning of year	**54,516,152**	**41,531,635**
Cash and cash equivalents at end of year	**$ 76,215,337**	**$ 54,516,152**
Supplemental data		
Federal and state taxes paid	**$ 1,553,000**	**$ 2,939,000**

See accompanying notes.

1. The Organization

The John S. and James L. Knight Foundation (the foundation), a nonprofit corporation, promotes excellence in journalism worldwide and invests in the vitality of 26 U.S. communities.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents are composed of various operating accounts and highly liquid investments with original maturities of 90 days or less.

Investments

The Foundation's investments are stated at fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 or discussion of fair value measurements.

Fair Value of Certain Financial Instruments

The carrying amounts of cash and cash equivalents, interest, dividends and other investments receivables/(payable), and other liabilities approximate fair value due to the short maturity of these financial instruments.

Property, Plant and Equipment

The foundation records property, plant and equipment as an expense in the year purchased. Property, plant and equipment purchased for 2010 and 2009 was approximately $313,000 and $127,000, respectively, of which approximately $293,000 and $118,000, respectively, is included in "General and administrative expenses" with the remainder being included in "investment expense" in the Statements of Activities.

Program-Related Investments (PRIs)

In accordance with Section 4944 of the Internal Revenue Code (the code), the foundation is permitted to make investments that are related to its philanthropic programs. These investments are anticipated to have a return lower than fair value. In the year of the investment, the foundation receives a credit toward its distribution requirement. These investments are treated as grants in the year they are distributed. To the extent the investment is recovered by the foundation, the recovery is recognized as a negative distribution in the year it is received. Recoveries are reflected in "Grant forfeitures and other" in the Statements of Activities. There are no recoveries in either 2010 or 2009. Any costs associated with originating these investments

2. Significant Accounting Policies (continued)

Program-Related Investments (PRIs)(continued)

is expensed in the year incurred. Management regularly reviews the collectability of these investments and determines any valuation allowance based on several factors including the borrower/investee's underlying business conditions and risks and performance of the investment. The foundation will discontinue the accrual of interest if interest payments are over 90 days past due.

"Program-related investments" in the Statements of Financial Position consist of an amortizing loan with a principal amount of $2,500,000 and five convertible promissory notes representing a maximum potential investment of $1,030,000 and total outstanding principal of $826,000. The yield on all these investments is at rates below market.

The amortizing loan is a 13 year loan that began in 2007, bearing interest at 1% per annum. The loan terms provide for interest payments only during the first 10 years and principal amortization in years 11 through 13. As of December 31, 2010, all interest payments have been received on schedule. The foundation intends to hold this loan to maturity. The foundation has recognized a valuation allowance of $1,125,000 against this loan and as a result they are reflected on the Statement of Financial Position at $1,375,000.

The notes have a five year term and do not bear interest. The notes are convertible to equity at a premium to the company valuation established by a third-party investor as part of a qualifying future round of investment. The premium declines over the term of the note. The foundation has fully reserved the value of these notes and as a result they have a zero value on the Statement of Financial Position.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of investment activity and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Taxes

The foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments. The deferred federal excise tax in the accompanying financial statements represents tax provided on the net unrealized appreciation of investments.

2. Significant Accounting Policies (continued)

Subsequent Events

The foundation has evaluated subsequent events through May 25, 2011 noting no impact on the foundation's financial statements.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Net Asset Accounting

The foundation reports information regarding its financial position and activities according to the following two classes of net assets:

- Unrestricted net assets are not subject to donor-imposed stipulations or the restrictions have expired.

- Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the foundation or that expire by the passage of time. As of December 31, 2010 and 2009, the temporarily restricted net assets consists solely of the Foundation's beneficial interest remainder trusts which are discussed further in Note 9.

The foundation has no permanent restriction on its net assets imposed by its founders.

Recent Accounting Pronouncements

In January 2010, FASB issued Accounting Standards Update No. 2010-6, Fair Value Measurements and Disclosures – Improving Disclosures About Fair Value Measurements, which requires new disclosures and reasons for transfers between Level 1 and Level 2 measurements under the fair value hierarchy. This amendment also clarifies that disclosures about inputs and valuation techniques are required for both Level 2 and Level 3 measurements. With the exception of the following sentences, the amendment is effective and not yet adopted for periods beginning on or after December 15, 2009. The amendment further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances and settlements instead of netting these changes. This portion of the amendment is effective for periods beginning on or after December 15, 2010 and has not yet been adopted.

3. Investments

The investment goal of the foundation is to invest its assets in a manner that will achieve, over the long term, a total rate of return sufficient to replace the assets utilized for grants and expenses and to recoup any value lost due to inflation and to increase the spending power of the portfolio in a manner consistent with the risk and asset allocation parameters established by the investment committee.

To achieve this goal, some investment risk must be taken. To minimize such risk, the foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. Key decisions in this regard are made by the foundation's investment committee, which has oversight responsibility for the foundation's investment program. The committee identifies appropriate asset categories for investments, determines the allocation of assets to each category and approves the investment strategies employed. The foundation has engaged Cambridge Associates LLC (Cambridge), an independent consulting firm, to execute the investment program, including the engagement of investment managers, legal advisers, and strategic allocations to index funds and limited partnerships. All financial assets are held in custody for the foundation in proprietary accounts by BNY Mellon, a major commercial bank, except those assets that have been invested in limited partnerships, hedge funds or in certain products with multiple investors, such as index funds, all of which have separate custodial arrangements appropriate to their legal structure.

Approximately 37 percent and 41 percent of the foundation's total investments at December 31, 2010 and 2009, respectively, are invested in institutional mutual funds, publicly traded securities that are listed on national exchanges, treasury and agency bonds of the U.S. government, bonds of sovereign foreign governments and investment and non-investment grade corporate bonds for which active trading markets exist. Such assets are valued at quoted closing prices at year end in accordance with GAAP. As of December 31, 2010 and 2009, respectively, these assets include an equity interest in a publicly traded investment management company valued at $74.4 million and $63.8 million or 3.6 percent and 3.1 percent of the foundation's total investments. As of December 31, 2010 this interest consisted of approximately 1.45 million publicly traded shares and 968,000 shares which vest over the next two years. The publicly traded shares are valued at the quoted closing price at year end and the unvested shares are valued using a lattice model that takes into account assumptions for volatility and time value of money. Management of the investment company has a right of first refusal on any stock sales as well as certain other contractual rights associated with any sale of stock. Realized gains and losses and increases and decreases in fair value on such investments are reflected in the Statements of Activities.

Approximately 27 percent and 26 percent of the foundation's total investments at December 31, 2010 and 2009, respectively, were invested in hedge funds and derivative instruments. The hedge funds utilize a variety of investment strategies which can be broadly categorized as absolute return and long/short equities strategies. The derivative instruments consisted of a "portable alpha" product. These investments are not publicly listed or traded, and are not liquid investments. Investments in hedge funds are generally subject to a "lock up" period of between

3. Investments (continued)

12 and 36 months. During that period funds may not be withdrawn from the fund. The redemption terms of hedge funds may vary, but in general terms after the lock up period, redemption request may be made by the foundation on a pre-set basis, usually quarterly, as specified in each hedge fund's operating agreement. As of year end 2010 and 2009 no additional restriction on redemptions were implemented by hedge funds within the foundation's portfolio. Each fund's investment manager calculates the fair value of investments on a monthly basis using the valuation guidelines stipulated in the respective investment agreement, in accordance with fair value methods accepted under GAAP (see discussion of ASC 820 below). Realized gains and losses and increases and decreases in fair value on the investments in hedge funds and derivative instruments are reflected in the Statements of Activities.

Approximately 31 percent and 30 percent of the foundation's total investments at December 31, 2010 and 2009, respectively, were invested with numerous partnerships, in which the foundation is a limited partner. The partnerships specialize in making venture capital, buyout, distressed debt, and equity-based real estate investments. Such investments, typically investments in private equity or debt securities of companies or properties that are not publicly listed or traded, are not liquid investments. Investments in private partnerships generally have terms of approximately ten years plus several years of optional extensions. Following the investment period, the general partner sells assets of the partnership over the partnership's remaining term and distributes funds to the partners as mandated in the partnership agreements. The foundation cannot, generally, redeem its interest in a partnership prior to the termination date of the partnership. The value of such investments is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable company trade data, stipulated in the respective limited partnership agreements and in accordance with fair value methods accepted under GAAP (see discussion of ASC 820 below). Realized gains and losses and increases and decreases in fair value on the investments in limited partnerships are reflected in the Statements of Activities. All limited partnerships are audited annually by independent certified public accounting firms. As of December 31, 2010, pursuant to its limited partnership agreements, the foundation is committed to contributing approximately $211,860,000 in additional capital over the next 10 years to various partnerships. Unpaid commitments at December 31, 2009, were approximately $232,227,000.

3. Investments (continued)

A detail of fair value and cost by investment class follows:

	December 31, 2010		December 31, 2009	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 76,215,337	$ 76,215,337	$ 54,516,152	$ 54,516,152
Interest, dividends and other investment receivables/(payable)	24,441,214	24,433,601	14,285,297	14,304,212
Receivable related to derivative instrument	3,702,299	–	10,770,806	–
U.S. government and agency obligations	119,491,266	105,725,435	125,479,037	117,132,201
Government–sponsored enterprises obligations	10,003,280	9,363,958	23,491,864	9,970,185
International bonds and other obligations	45,179,233	45,061,084	66,196,575	63,410,669
Corporate bonds and other obligations	64,020,225	62,403,515	96,687,423	96,867,652
Equity securities	608,548,884	521,677,310	558,321,310	573,609,774
Hedge fund investments	524,764,092	321,719,396	462,732,533	266,644,008
Alternative equity investments	563,219,450	663,017,297	529,521,165	647,167,404
Real estate investments	98,144,775	122,728,085	87,285,888	115,101,068
Total	$2,137,730,055	$ 1,952,345,018	$ 2,029,288,050	$ 1,958,723,325

Highly liquid investments with original maturities of three months or less are reported as cash equivalents.

As required by ASC 820, Fair Value Measurements, investments are measured and reported at fair value in one of the following categories based on inputs:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which are included in Level 1 include listed equity securities, commingled funds traded in active markets with daily pricing and cash and cash Equivalents such as cash management accounts custodied and traded by BNY Mellon. As required by ASC 820, the foundation, does not adjust the quoted price for these investments.

Level 2 – Pricing inputs are observable for the investment, either directly or indirectly, as of reporting date but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. The types of investments included in this category are all other commingled funds, publicly-traded securities with restrictions on disposition and fixed income securities.

i. Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The foundation uses the Net Asset Value determined by the investment manager as fair market value except where certain conditions exist. Those conditions include; changes to key personnel, material amendments to key terms, material pending litigations, imposition of gates, and redemption fees. Investments in hedge funds, alternative equity and real estate investments are included in this category.

3. Investments (continued)

The following table summarizes the levels in the ASC 820 fair value hierarchy into which the foundation's investments fall as of December 31, 2010 and 2009:

		Fair Value Measurement at December 31, 2010		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Cash and cash equivalents	$ 76,215,337	$ 26,803,137	$ 49,412,200	$ –
Interest, dividends and other investment receivables	24,441,214	N/A	N/A	N/A
Receivable/(payable) related to derivative instrument	3,702,299	–	–	3,702,299
U.S. government and agency obligations	119,491,266	–	119,491,266	–
Government-sponsored enterprises obligations	10,003,280	–	10,003,280	–
International bonds and other obligations	45,179,233	–	45,179,233	–
Corporate bonds and other obligations	64,020,225	–	64,020,225	–
Equity securities	608,548,884	440,305,602	168,243,282	–
Hedge fund investments	524,764,092	–	–	524,764,092
Alternative equity investments	563,219,450	–	–	563,219,450
Real estate investments	98,144,775	–	–	98,144,775
Total investments	$ 2,137,730,055	$ 467,108,739	$ 456,349,486	$ 1,189,830,616

N/A – Not applicable

3. Investments (continued)

Description		Fair Value Measurement at December 31, 2009 – Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 54,516,152	$ 10,026,670	$ 44,489,482	$ –
Interest, dividends and other investment receivables	14,285,297	N/A	N/A	N/A
Fair value of derivative instrument	10,770,806	–	–	10,770,806
U.S. government and agency obligations	125,479,037	–	125,479,037	–
Government-sponsored enterprises obligations	23,491,864	–	23,491,864	–
International bonds and other obligations	66,196,575	–	66,196,575	–
Corporate bonds and other obligations	96,687,423	–	96,687,423	–
Equity securities	558,321,310	453,429,764	104,891,546	–
Hedge fund investments	462,732,533	–	–	462,732,533
Alternative equity investments	529,521,165	–	–	529,521,165
Real estate investments	87,285,888	–	–	87,285,888
Total investments	$ 2,029,288,050	$ 463,456,434	$ 461,235,927	$ 1,090,310,392

N/A – Not applicable

3. Investments (continued)

The changes in investments classified as Level 3 are as follows for the year ended December 31, 2010 and 2009:

Level 3 Reconciliation

	Hedge Funds	Alternative Equity	RE Investments	Other	Total
Beginning balance January 1, 2010	$ 462,732,533	$ 529,521,165	$ 87,285,888	$10,770,806	$1,090,310,392
Purchases, issuances, and settlements	20,693,752	(36,158,482)	1,082,285	–	(14,382,445)
Total gains (losses) (realized/unrealized), net	41,337,807	69,856,767	9,776,602	(7,068,507)	113,902,669
Ending Balance December 31, 2010	524,764,092	563,219,450	98,144,775	3,702,299	1,189,830,616
The amount of total net gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 41,591,507	$ 69,894,589	$ 9,776,602	$ (7,068,507)	$ 114,194,191

Gains and losses (realized and unrealized) are included in 'Change in Unrestricted Net Assets' in the Statement of Activity for the year ended December 31, 2010 and 2009.

3. Investments (continued)

Level 3 Reconciliation

	Hedge Funds	Alternative Equity	RE Investments	Other	Total
Beginning Balance January 1, 2009	$ 401,870,922	$ 448,947,802	$ 112,528,394	$ 5,089,880	$ 968,436,998
Purchases, issuances, and settlements	(37,907,349)	32,529,017	13,304,929	–	7,926,597
Total gains (losses) (realized/unrealized), net	98,768,960	48,044,346	(38,547,435)	5,680,926	113,946,797
Ending Balance December 31, 2009	$ 462,732,533	$ 529,521,165	$ 87,285,888	$ 10,770,806	$ 1,090,310,392
The amount of total net gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 79,484,540	$ 37,966,240	$ (38,694,953)	$ 5,680,926	$ 84,436,753

Gains and losses (realized and unrealized) are included in 'Change in Unrestricted Net Assets' in the Statement of Activity for the year ended December 31, 2010 and 2009.

4. Derivative Financial Instruments

Some investment managers retained by the foundation have been authorized to use certain derivative financial instruments in a manner set forth by the foundation's written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, derivative financial instruments may be used for the following purposes: (1) currency forward contracts and options may be used to hedge non-dollar exposure in foreign investments; (2) covered call options may be sold to enhance yield on major equity positions; (3) futures contracts may be used to equitize excess cash positions, rebalance asset categories within the portfolio, adjust risk exposures within the portfolio, or to rapidly increase or decrease exposure to specific investment positions in anticipation of subsequent cash trades; and (4) futures contracts and options may be used by hedge fund managers to hedge or leverage positions in portfolios in their respective funds. Authorization to use these derivative financial instruments currently is restricted to 31 hedge fund managers, who manage investments totaling approximately $524,764,092.

4. Derivative Financial Instruments (continued)

Cambridge is also authorized to use derivatives to execute certain investment strategies. Derivative financial instruments are recorded at fair value in the Statements of Financial Position with changes in fair value reflected in the Statements of Activities.

During 2010 and 2009 the foundation invested in a "portable alpha" product which is designed to provide a return in excess of a certain benchmark. The investment manager invests the principal in a basket of securities that replicates the benchmark, and then leverages the principal investment and invests in fixed income strategies. The foundation's equity investment is benchmarked to the Standard & Poor's 500 Index and is valued at approximately $29,007,501 and $26,277,808 at December 31, 2010 and December 31, 2009, respectively. The foundation's fixed income investment is benchmarked to the Barclays Capital U.S. 5+ year Treasury Bond Index and is valued at approximately $17,089,033 and $18,384,056 at December 31, 2010 and December 31, 2009, respectively. A receivable of approximately $3,702,000 and $10,771,000 at December 31, 2010 and December 31, 2009, respectively, reflecting the fair value of the leveraged investments was reported in "Receivable related to derivative instrument" on the Statements of Financial Position, and the change was included in "Net change in fair value of investments" in the Statements of Activities.

In Cambridge's opinion, the use of derivative financial instruments in its investment program is appropriate and customary for the investment strategies employed. The foundation's management concurs with this opinion. Using those instruments reduces certain investment risks and generally adds value to the portfolio. The instruments themselves, however, do involve some investment and counterparty risk not fully reflected in the foundation's financial statements. Cambridge does not anticipate that losses, if any, from such instruments would materially affect the financial position of the foundation and the foundation's management concurs.

5. Charitable Distributions

Charitable distributions include grants, direct charitable activities (DCAs) and program related investments (PRIs). All charitable distributions are made to promote the charitable purpose of the foundation and are "qualifying distributions" as defined by the IRS. The foundation made charitable distributions of $104,920,549 and $105,887,097 in 2010 and 2009, respectively.

The foundation records grants in full as expenses when approved. Grants payable at December 31, 2010 and 2009 represent the present value of multiyear grants using a 3.25 percent discount rate based on the U.S. prime rate, in each year. The foundation made grant payments of $97,029,232 and $101,959,485 in 2010 and 2009, respectively.

5. Charitable Distributions (continued)

As of December 31, 2010, the foundation had future grant commitments, which are scheduled for payment in future years as follows:

2011	$ 62,774,986
2012	41,646,765
2013	21,616,698
2014	16,765,949
2015	11,897,392
2016-17	18,284,231
	172,986,021
Discounted to present value	(13,665,663)
Grants payable	$ 159,320,358

The foundation conducts certain activities, such as holding conferences which build the field and promote charitable issues and conducting contests to deal with charitable topics, which promote its charitable purpose. These activities are DCAs. The foundation made DCA payments of $7,065,316 and $3,094,278 in 2010 and 2009, respectively.

A PRI is defined as an investment (i) whose primary purpose is to further the exempt objectives of the foundation, (ii) where the production of income or appreciation in property is not a significant purpose and (iii) which is not used to lobby or support lobbying. The foundation made PRI payments of $826,000 and $833,334 in 2010 and 2009, respectively.

6. Federal Excise Taxes

The foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the code and, with the exception of unrelated business income from debt-financed, passive investments, is not subject to federal or state income tax. However, the foundation is classified as a private foundation and is subject to a federal excise tax of 2 percent (or 1 percent under certain circumstances) on net investment income and net realized gains, as defined by the code. The foundation expects to qualify for the 1 percent tax rate in 2010 and was subject to the 1 percent tax rate in 2009.

The Foundation files tax returns in the U.S. federal jurisdiction. The Foundation is generally only subject to U.S. federal tax examinations by tax authorities for all years since 2007. The foundation's management analyzed its tax positions and determined that no additional income tax adjustment related to the ASC 740 is necessary for the fiscal years ended December 31, 2010 and December 31, 2009.

6. Federal Excise Taxes (continued)

Total excise and other taxes paid by the foundation for the years ended December 31, 2010 and 2009 amounted to approximately $1,553,000 and $2,939,000, respectively. The foundation recognized $1,035,000 in deferred tax liability during 2010, and $1,086,000 in deferred tax assets during 2009. Of the 2009 asset, $803,000 was applied against the 2009 estimated tax liability and $283,000 is expected to be received as a tax refund. No valuation allowance is applied against either amount.

7. Employee Pension Plan and Other Postretirement Benefit Plans

The foundation sponsors a pension plan with defined benefit and cash balance features for its eligible employees. The pension benefits for all employees hired prior to January 1, 2000, will be the greater of the benefits as determined under the defined benefit feature of the pension plan or the cash balance feature of the pension plan. The pension benefits for all employees hired on or subsequent to January 1, 2000, will be determined under the cash balance feature of the pension plan. The foundation also sponsors postretirement medical and life insurance benefit plans.

The following table sets forth the pension and other postretirement benefits plans' funded status and amounts recognized in the foundation's Statements of Activities and Financial Position:

	Pension Plan Year Ended December 31		Other Postretirement Benefit Plan Year Ended December 31	
	2010	**2009**	**2010**	**2009**
Funded status				
Fair value of plan assets	$ 12,244,327	$11,782,417	$ 1,400,965	$ 1,120,613
Benefit obligation	(10,909,445)	(10,308,855)	(2,280,440)	(1,893,406)
Funded status of the plan	$ 1,334,882	$ 1,473,562	$ (879,475)	$ (772,793)
Prior service cost	$ 16,254	$ 18,610	$ –	$ –
Accumulated gain (loss)	(3,496,580)	(3,492,344)	(18,002)	89,740
Pension and postretirement changes other than net periodic pension and postretirement costs	(3,480,326)	(3,473,734)	(18,002)	89,740
Cumulative employer contribution in excess (deficiency) of net periodic benefit costs	4,815,208	4,947,296	(861,473)	(862,533)
Accrued benefit asset (liability) recognized in the Statements of Financial Position	$ 1,334,882	$ 1,473,562	$ (879,475)	$ (772,793)

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

	Pension Plan Year Ended December 31		Other Postretirement Benefit Plan Year Ended December 31	
	2010	2009	2010	2009
Components of net periodic benefit cost				
Service cost	$ 460,996	$ 441,199	$ 205,409	$ 162,699
Interest cost	527,936	562,756	110,150	99,456
Expected return on plan assets	(962,312)	(959,595)	(102,656)	(90,026)
Amortization of prior service cost	(2,356)	(2,356)	–	–
Recognized actuarial loss (gain)	107,824	18,307	(1,899)	(11,788)
Net periodic benefit cost	$ 132,088	$ 60,311	$ 211,004	$ 160,341
Actual return on plan assets	$ 1,081,412	$ 1,592,760	$ 151,204	$ 177,291
Employer contributions	–	2,500,000	212,061	202,371
Employee contributions	–	–	27,795	23,022
Benefits paid	619,502	1,073,353	110,708	98,250
Actuarial assumptions				
Discount rate	5.04%	5.66%	5.50%	6.00%
Expected return on plan assets	8.00	8.00	8.00	8.00
Rate of compensation increase	4.50	4.50	4.50	4.50
Health care cost trend rate assumptions				
Initial trend rate	N/A	N/A	9.00%	9.30%
Ultimate trend rate	N/A	N/A	4.50	4.50
Year ultimate trend is reached	N/A	N/A	2028	2028

The expected long-term rate of return on plan assets for determining net periodic pension cost is chosen by the foundation from a best estimate range determined by the actuary by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plan.

The calculations related to other postretirement benefit plans do not anticipate any savings from the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

Expected benefit payments are as follows:

	Pension Plan	Other Postretirement Benefit Plan
2011	$ 637,840	$ 80,349
2012	816,080	92,044
2013	796,134	93,654
2014	835,229	103,079
2015	1,508,348	111,595
2016-2020	4,448,386	795,109

During 2011, the foundation is not required to make any contributions to the pension plan. The foundation will be required to make a contribution of $168,053 to the other post-retirement benefit plan. The foundation may choose to make additional contributions to either plan during 2011.

The investment goal for plan assets is to provide sufficient liquidity to meet payout requirements while maintaining safety of principal through prudent diversification. During 2010 asset allocation targets for the pension plan and other postretirement benefit plan were domestic equities, 30 percent; international equities, 25 percent; emerging market equities, 5 percent; fixed income, 30 percent; and commodities 10 percent.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

A detail of the fair value of plan assets by investment class follows:

	Pension Plan				Other Postretirement Benefit Plan			
	December 31				December 31			
	2010	%	2009	%	2010	%	2009	%
Cash and cash equivalents	$ 645,631	5	$ 1,362,047	12	$ 167,553	12	$ 95,388	8
Interest, dividends and other investment receivables	157	0	19,751	0	39	0	38	0
U.S. government and agency obligations	705,836	6	1,919,595	16	–	–	–	–
Corporate bonds and other obligations	2,738,085	22	1,330,860	11	226,747	16	219,882	20
Equity securities	7,599,738	62	7,150,164	61	1,006,626	72	805,305	72
Commodities	554,880	5	–	–	–	–	–	–
Total	$12,244,327		$11,782,417		$1,400,965		$1,120,613	

In addition, the foundation sponsors a defined contribution plan for its eligible employees for which it has no fixed liabilities. Effective January 1, 2002, the foundation's defined contribution plan was amended to add an employer matching contribution component. During 2010 and 2009, the foundation made contributions to the defined contribution plan of approximately $196,000 and $182,000, respectively.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

The following table summarizes the levels in the ASC 820 fair value hierarchy into which the pension and other postretirement benefit plans assets fall as of December 31, 2010:

Pension Plan		**Level 1**	**Level 2**
Cash and cash equivalents	$ 645,631	$ 645,631	$ -
Interest, dividends and other investment receivables	157	N/A	N/A
U.S. government and agency obligations	705,836	-	705,836
Corporate bonds and other obligations	2,738,085	-	2,738,085
Equity securities	7,599,738	7,599,738	-
Commodities	554,880	554,880	-
	$ 12,244,170	$ 8,800,249	$ 3,443,921
Other Postretirement Benefit Plans			
Cash and cash equivalents	$ 167,553	$ 167,553	$ -
Interest, dividends and other investment	39	N/A	N/A
Corporate bonds and other obligations	226,747	-	226,747
Equity securities	1,006,626	1,006,626	-
	$ 1,400,926	$ 1,174,179	$ 226,747

N/A – Not applicable

8. Leases

The foundation has a lease for approximately 21,300 square feet of office space in Miami, Florida, which expires in 2020. Under the terms of the lease, the rentable square feet will increase to approximately 22,800 on August 1, 2013. Rental expense for office leases for 2010 and 2009 was approximately $828,000 and $833,000, respectively. Future minimum lease payments for the Miami office lease are as follows:

2011	$ 744,975
2012	767,324
2013	814,091
2014	872,713
2015	898,959
Thereafter	4,915,631
Total	$ 9,013,693

9. Beneficial Interest in Remainder Trusts

The foundation has a beneficial interest in charitable remainder trusts established by John S. Knight. Under the terms of the trusts, distributions are made from the trusts to designated beneficiaries for the remainder of their lives. The remainder of the assets in the trusts will be transferred to the foundation. All of the assets of the trusts are administered and held in the custody of First Merit Bank. The trusts were established in 1975 and became irrevocable in 1981.

The foundation values its interest in the trusts using the methodology described in the National Committee on Planned Giving's 2009 publication, *Valuation Standards for Charitable Planned Gifts*. This methodology is a two-step process starting with the fair market value of the assets. The first step uses a 5 percent payout rate, life expectancy based on IRS Mortality Tables and assumed investment returns to determine the value of the interest at its projected termination. The second step discounts this future value using a trailing 10 year average Consumer Price Index as of December 31, 2010, and the annual CPI as of December 31, 2009. The discount rate was prospectively changed in 2010 in order to better reflect long-term inflation trends. As of December 31, 2010 and 2009 the value of the foundation's estimated interest in the remainder trusts reported on the Statements of Financial Position was approximately $82,806,000 and $72,385,000, respectively. This compares to a current fair market value of the trust of approximately $83,948,000 and $77,979,000 in December 31, 2010 and 2009, respectively.

For the purposes of ASC 820 application, all beneficial interest in remainder trust assets are classified as Level 2 assets and are composed of $1,364,000, cash and cash equivalents, $22,065,000, government and corporate obligations, and $59,377,000, equity securities.

10. Securities Lending

The Foundation lends certain securities to generate investment income. Selected securities are loaned and securitized primarily by collateral in the form of cash or cash equivalents equal to at least 102% of the fair market value of the securities. As of December 31, 2010, the Foundation recognized "Securities pledged to creditors" for the fair market value of securities on loan of $77,725,000 and a corresponding liability of $79,819,000 was recognized for collateral received.

As of December 31, 2009, "Securities pledged to creditors" was $82,815,000 and a corresponding liability of $84,856,000 for collateral received. Collateral received by the Foundation, consisted of $69,757,000 in cash and $10,062,000 in short-term government obligations as of December 31, 2010; and $66,896,000 in cash and $17,960,000 in short-term government obligations as of December 31, 2009. Of the cash collateral received, $44,576,000 was invested in securities with maturities of 90 days or less and $23,938,000 was invested in corporate obligations as of December 31, 2010; and $27,593,000 was invested in securities with maturities of 90 days or less and $39,303,000 was invested in corporate obligations as of December 31, 2009.

At December 31, 2010, the fair market value of collateral was $79,730,000 of which $45,820,000 was included in cash and cash equivalents, $10,062,000 was included in US government and agency obligations and $23,848,000 was included in corporate obligations in the Statement of Financial Position. At December 31, 2009, the fair market value of collateral was $83,121,000, of which $27,593,000 was included in Cash and cash equivalents, $17,960,000 was included in U.S. government and agency obligations and $37,568,000 was included in Corporate bonds and other obligations in the Statement of Financial Position.

The Foundation recognized an unrealized loss of $88,800 and $1,735,000 for the years ended December 31, 2010 and December 31, 2009, respectively, in "Net change in fair value of investments" in the Statements in Activities related to changes in the value of collateral investments related to corporate obligations.

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