John S. and James L. Knight Foundation

Financial Statements
For the Years Ended December 31, 2011 and 2010
With the Independent Auditor's Report

John S. and James L. Knight Foundation

Financial Statements

Years Ended Dec. 31, 2011 and 2010

Contents

McGladrey

Independent Auditor's Report

The Board of 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, 2011 and 2010, and the related statements of activities and 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits 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 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 at December 31, 2011 and 2010, 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.

McGladrey LLP

Miami, Florida
May 21, 2012

Member of the RSM International network of independent accounting, tax and consulting firms.

John S. and James L. Knight Foundation

Statements of Financial Position

	Dec. 31 2011	Dec. 31 2010
Assets		
Investments:		
Investment assets:		
Cash and cash equivalents	**$ 38,310,147**	**$ 76,215,337**
Interest, dividends and other investments receivables	**22,915,207**	**24,441,214**
Fair value of derivative instruments	**1,856,258**	**3,702,299**
U.S. government and agency obligations	**83,829,152**	**119,491,266**
Government-sponsored enterprises obligations	**20,765,913**	**10,003,280**
International bonds and other obligations	**3,467,737**	**45,179,233**
Corporate bonds and other obligations	**88,840,883**	**64,020,225**
Equity securities	**633,961,262**	**608,548,884**
Hedge fund investments	**488,636,129**	**524,764,092**
Alternative equity investments	**545,173,901**	**563,219,450**
Real estate investments	**107,318,044**	**98,144,775**
Total investments	**2,035,074,633**	**2,137,730,055**
Securities pledged to creditors	**112,596,776**	**77,724,486**
Program-related investments, net	**1,375,000**	**1,375,000**
Other assets	**2,272,302**	**4,299,578**
Other postretirement benefits asset	**-**	**1,334,882**
Beneficial interest in remainder trusts	**41,518,045**	**82,805,824**
Total assets	**$2,192,836,756**	**$2,305,269,825**
Liabilities and net assets		
Liabilities:		
Payable under securities loan agreement	**$ 115,165,198**	**$ 79,818,619**
Grants payable	**139,253,825**	**159,320,358**
Other liabilities	**4,567,845**	**7,182,837**
Pension benefits liability	**1,696,065**	**879,475**
Deferred taxes payable	**747,710**	**1,355,668**
Total liabilities	**261,430,643**	**248,556,957**
Net assets:		
Temporarily restricted	**41,518,045**	**82,805,824**
Unrestricted	**1,889,888,068**	**1,973,907,044**
Total net assets	**1,931,406,113**	**2,056,712,868**
Total liabilities and net assets	**$2,192,836,756**	**$2,305,269,825**

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Activities

	Year Ended Dec. 31 2011	2010
Changes in unrestricted net assets:		
Investment activity:		
Interest	$ 10,748,980	$ 12,251,222
Dividends	20,161,034	18,593,217
Net realized gain on sale of investments	90,224,938	79,474,812
Net change in fair value of investments	(87,017,353)	138,418,897
Less: investment expenses	(7,971,682)	(7,879,102)
Total investment activity	26,145,917	240,859,046
Contributions received	-	2,000,000
Total investment activity and other support	26,145,917	242,859,046
Grants approved and expenses:		
Transformation grants	12,045,696	17,531,100
Impact grants	11,320,000	2,490,000
Communities grants	14,301,178	14,121,476
Journalism Initiative grants	18,558,399	25,010,788
National Fund grants	8,886,069	11,020,423
Arts	11,996,100	7,446,500
Other grants	892,520	1,678,780
Grant forfeitures and other	(2,220,339)	(3,446,481)
Change in grant payable discount	3,090,811	3,573,681
Direct charitable activities	10,294,790	7,698,138
General and administrative expenses	15,181,694	13,338,644
Federal excise and other taxes, net	4,134,609	3,176,272
Total grants and expenses	108,481,527	103,639,321
(Decrease) increase in unrestricted net assets from operating activities	(82,335,610)	139,219,725
Pension and postretirement changes other than net periodic pension and postretirement costs	1,683,365	114,334
(Decrease) increase in unrestricted net assets	(84,018,975)	139,105,391
Changes in temporarily restricted net assets:		
Change in value of beneficial interest in remainder trusts	(41,287,780)	10,420,410
Net (decrease) increase in net assets	(125,306,755)	149,525,801
Net assets at beginning of year	2,056,712,868	1,907,187,067
Net assets at end of year	$ 1,931,406,113	$ 2,056,712,868

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Cash Flows

	Year Ended Dec. 31	
	2011	**2010**
Operating activities		
Change in net assets	**$(125,306,755)**	**$ 149,525,801**
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized (gain) on sale of investments	**(90,224,938)**	**(79,474,812)**
Net change in fair value of investments	**87,017,353**	**(138,418,897)**
Change in value of beneficial interest in remainder trusts	**41,287,780**	**(10,420,410)**
Changes in operating assets and liabilities:		
Interest, dividends and other investment receivables	**11,083,531**	**558,597**
Disbursements for program-related investments	**(664,000)**	**(826,000)**
PRI Recoveries	**100,000**	**-**
Valuation allowance – program-related investments	**564,000**	**826,000**
Grants payable	**(20,066,533)**	**(17,019,204)**
Deferred taxes	**(607,958)**	**1,035,227**
Pension and postretirement liability	**2,151,473**	**245,364**
Other liabilities	**(2,614,995)**	**3,522,536**
Net cash used in operating activities	**(97,281,042)**	**(90,445,798)**
Investing activities		
Proceeds from sale of investments	**610,406,511**	**471,240,517**
Purchases of investments	**(551,030,659)**	**(359,095,534)**
Net cash provided by investing activities	**59,375,852**	**112,144,983**
Net change in cash and cash equivalents	**(37,905,190)**	**21,699,185**
Cash and cash equivalents at beginning of year	**76,215,337**	**54,516,152**
Cash and cash equivalents at end of year	**$ 38,310,147**	**$ 76,215,337**
Supplemental data		
Federal and state taxes paid	**$ 3,437,000**	**$ 1,553,000**

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.

Furniture and Equipment

The foundation records furniture and equipment as an expense in the year purchased. Furniture and equipment purchased for 2011 and 2010 was approximately $850,000 and $313,000, respectively, of which approximately $801,000 and $293,000, respectively, is included in "General and administrative expenses" with the remainder being included in "investment expense" in the Statements of Activities.

Knight Investments LLC

In 2011, the foundation established Knight Investments LLC (Knight Investments), a single member Delaware limited liability company, to assist in the execution of its mission. The results of Knight Investments' operations are consolidated with the foundation's financial statements.

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

2. Significant Accounting Policies (continued)

Program-Related Investments (PRIs)

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, increasing its distribution requirement, in the year it is received. "PRI's" consist of investments which are recorded at their net realizable value. Recoveries are reflected as a reduction in "Investment expenses" in the Statements of Activities. The foundation recovered $100,000 in 2011; there were no recoveries in 2010. Any costs associated with originating these investments are 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 eight convertible promissory notes representing a maximum potential investment of $1,877,000 and total outstanding principal of $1,390,000. 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 Dec. 31, 2011, 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. The most significant estimate involves the determination of the fair value of the investments. Estimates also affect the reported amounts of investment activity and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant Accounting Policies (continued)

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.

Subsequent Events

The foundation has evaluated subsequent events through May 21, 2012 noting no impact on the foundation's financial statements.

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, 2011 and 2010, the temporarily restricted net assets consist 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 May 2011, FASB issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which requires, among other things, new disclosures, including information about valuation techniques and unobservable inputs used in Level 3 fair value measurements. The amended guidance is effective for annual periods beginning after December 15, 2011.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements (cont'd)

In January 2010, FASB issued ASU Update No. 2010-06, Fair Value Measurements and Disclosures – Improving Disclosures About Fair Value Measurements, which requires separate presentations of purchases, sales, issuances and settlements instead of netting these changes in the reconciliation of Level 3.

The foundation has adopted this provision for the fiscal year ended December 31, 2011.

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 38 percent and 37 percent of the foundation's total investments at Dec. 31, 2011 and 2010, 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 Dec. 31, 2011 and 2010, respectively, these assets include an equity interest in a publicly traded investment management company valued at $88.4 million and

3. Investments (continued)

$74.4 million or 4.3 percent and 3.5 percent of the foundation's total investments. As of Dec. 31, 2011 this interest consisted of approximately 2.2 million publicly traded shares of which 1.1 million shares vest and could be sold over the next year. The shares are valued using a lattice model that takes into account assumptions for volatility, the closing price of publicly traded shares in the secondary market 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 of the foundation's total investments at Dec. 31, 2011 and 2010 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 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 requests 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 2011 and 2010, no additional restrictions 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 32 percent and 31 percent of the foundation's total investments at Dec. 31, 2011 and 2010, 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

3. Investments (continued)

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 Dec. 31, 2011, pursuant to its limited partnership agreements, the foundation is committed to contributing $191,194,341 in additional capital over the next 10 years to various partnerships. Unpaid commitments at Dec. 31, 2010, were approximately $211,860,000. Direct investments are held at cost and valuations are adjusted as a result of related financing events. Realized gains and losses and increases and decreases in fair value on such direct investments are reflected in the Statements of Activities.

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

	Dec. 31, 2011		Dec. 31, 2010	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Cash and cash equivalents	**$ 38,310,147**	**$ 38,310,147**	**$ 76,215,337**	**$ 76,215,337**
Interest, dividends and other investment receivables/(payable)	**22,915,207**	**22,925,292**	**24,441,214**	**24,433,601**
Fair value of derivative instruments	**1,856,258**	**-**	**3,702,299**	**-**
U.S. government and agency obligations	**83,829,152**	**79,994,460**	**119,491,266**	**105,725,435**
Government–sponsored enterprises obligations	**20,765,913**	**20,216,478**	**10,003,280**	**9,363,958**
International bonds and other obligations	**3,467,737**	**3,288,906**	**45,179,233**	**45,061,084**
Corporate bonds and other obligations	**88,840,883**	**86,552,616**	**64,020,225**	**62,403,515**
Equity securities	**633,961,262**	**596,004,572**	**608,548,884**	**521,677,310**
Hedge fund investments	**488,636,129**	**325,931,078**	**524,764,092**	**321,719,396**
Alternative equity investments	**545,173,901**	**641,489,175**	**563,219,450**	**663,017,297**
Real estate investments	**107,318,044**	**122,419,619**	**98,144,775**	**122,728,085**
Total	**$ 2,035,074,633**	**$ 1,937,132,343**	**$ 2,137,730,055**	**$ 1,952,345,018**

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 valuation 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

3. Investments (continued)

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 in less active markets or restrictions on disposition and fixed income securities.

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 of the hedge funds and limited partnerships as fair value except where certain conditions exist. Those conditions include; changes to key personnel, material amendments to key terms, material pending litigations, imposition of gates, redemption fees and material amendments to key terms. Investments in hedge funds, alternative equity and real estate investments are included in this category.

The Foundation's policy is to recognize transfers within the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer.

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 Dec. 31, 2011 and 2010:

		Fair Value Measurement at Dec. 31, 2011		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Description		(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	$ 38,310,147	$ 23,755,523	$ 14,554,624	$ –
Interest, dividends and other investment receivables	22,915,207	N/A	N/A	N/A
Fair value of derivative instruments	1,856,258	–	–	1,856,258
U.S. government and agency obligations	83,829,152	–	83,829,152	–
Government-sponsored enterprises obligations	20,765,913	–	20,765,913	–
International bonds and other obligations	3,467,737	–	3,467,737	–
Corporate bonds and other obligations	88,840,883	–	88,840,883	–
Equity securities	633,961,262	431,020,235	202,941,027	–
Hedge fund investments	488,636,129	–	–	488,636,129
Alternative equity investments	545,173,901	–	–	545,173,901
Real estate investments	107,318,044	–	–	107,318,044
Total investments	$ 2,035,074,633	$ 454,775,758	$ 414,399,336	$ 1,142,984,332

N/A – Not applicable

3. Investments (continued)

		Fair Value Measurement at Dec. 31, 2010		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(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**
Fair value of derivative instruments	**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)

The changes in investments classified as Level 3 are as follows for the years ended Dec. 31, 2011 and 2010:

Level 3 Reconciliation

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Hedge Funds	**Alternative Equity**	**Real Estate**	**Other**	**Total**
Beginning Balance, Jan. 1, 2011	**$ 524,764,092**	**$ 563,219,450**	**$ 98,144,775**	**$ 3,702,299**	**$ 1,189,830,616**
Purchases	**160,501,902**	**69,498,296**	**12,428,177**	**–**	**242,428,375**
Sales and settlements	**(187,535,703)**	**(97,150,613)**	**(14,920,140)**	**–**	**(299,606,456)**
Total gains or (losses) (realized/unrealized), net	**(9,094,162)**	**9,606,768**	**11,665,232**	**(1,846,041)**	**10,331,797**
Ending Balance, Dec. 31, 2011	**$ 488,636,129**	**$ 545,173,901**	**$ 107,318,044**	**$ 1,856,258**	**$1,142,984,332**
The amount of gains or losses for the period included in change in net assets attributable to the change in unrealized gains of losses relating to assets still held at the reporting date	**$ (9,076,712)**	**$ 10,903,926**	**$ 11,665,232**	**$(1,846,041)**	**$ 11,646,405**

Gains and losses (realized and unrealized) are included in net (decrease) increase in unrestricted net assets in the statement of activities for the year ended Dec. 31, 2011.

Level 3 Reconciliation

	Hedge Funds	Alternative Equity	Real Estate	Other	Total
Beginning Balance, Jan. 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, Dec. 31, 2010	$ 524,764,092	$ 563,219,450	$ 98,144,775	$ 3,702,299	$ 1,189,830,616
The amount of gains and losses for the period included in change in net assets attributable to the change in unrealized gains of 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 'Net (decrease) increase in Unrestricted Net Assets' in the Statement of Activities for the year ended Dec. 31, 2010.

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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-U.S. 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 30 hedge fund managers, who manage investments totaling $488,636,129.

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 2011 and 2010, the foundation invested in a "portable alpha" product which is designed to provide a return in excess of a certain benchmark and requires the use of a derivative swap agreement. 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 investment benchmarked to the Standard & Poor's 500 Index is valued at $30,926,525 and $29,007,501 at December 31, 2011 and December 31, 2010, respectively. The foundation's investment benchmarked to MSCI EAFE is valued at $22,914,714 at December 31, 2011. The total of $53,841,239 and $29,007,501 are reflected on the respective statements of financial position in "Equity securities." As of December 31, 2010, the foundation had a fixed income investment benchmarked to the Barclays Capital U.S. 5+ year Treasury Bond Index valued at $17,089,033, which is reflected on the statement of financial position in "Corporate bonds and other obligations. A receivable related to the fair value of the derivative swap of approximately $1,856,000 and $3,702,000 at December 31, 2011 and December 31, 2010, respectively, reflecting the fair value of the leveraged investments was reported in "Fair value of derivative instruments" on the Statements of Financial Position, and the change in fair value is 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 $112,604,594 and $104,920,549 in 2011 and 2010, respectively.

The foundation records grants in full as expenses when approved. Grants payable at December 31, 2011 and 2010 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 $99,473,590 and $97,029,232 in 2011 and 2010, respectively.

5. Charitable Distributions (continued)

As of December 31, 2011, the foundation had future grant commitments, which are scheduled for payment in future years as follows:

2012	$ 64,882,027
2013	30,688,938
2014	20,411,069
2015	14,841,512
2016	12,569,182
2017	6,435,949
	149,828,677
Discounted to present value	(10,574,852)
Grants payable	$ 139,253,825

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 $11,682,992 and $7,065,316 in 2011 and 2010, 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 $664,000 and $826,000 in 2011 and 2010, 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 2011 and was subject to the 1 percent tax rate in 2010.

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, Income Taxes, is necessary for the fiscal years ended Dec. 31, 2011 and Dec 31, 2010.

6. Federal Excise Taxes (continued)

Total excise and other taxes paid, net of refunds received, by the foundation for the years ended Dec. 31, 2011 and 2010 amounted to approximately $3,437,000 and $1,553,000, respectively. The foundation recognized a reduction in its deferred tax liability of $608,000 in 2011, and an increase of $1,035,000 in deferred tax liabilities during 2010. 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 Jan. 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 Jan. 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 Dec. 31		Other Postretirement Benefit Plan Year Ended Dec. 31	
	2011	**2010**	**2011**	**2010**
Funded status				
Fair value of plan assets	**$ 12,029,434**	**$12,244,327**	**$ 1,357,299**	**$ 1,400,965**
Benefit obligation	**(12,360,254)**	**(10,909,445)**	**(2,722,544)**	**(2,280,440)**
Funded status of the plan	**$ (330,820)**	**$ 1,334,882**	**$ (1,365,245)**	**$ (879,475)**
Prior service cost	**$ 13,898**	**$ 16,254**	**$ –**	**$ –**
Accumulated gain (loss)	**(4,852,393)**	**(3,496,580)**	**(343,198)**	**(18,002)**
Pension and postretirement changes other than net periodic pension and postretirement costs	**(4,838,495)**	**(3,480,326)**	**(343,198)**	**(18,002)**
Cumulative employer contribution in excess (deficiency) of net periodic benefit costs	**4,507,675**	**4,815,208**	**(1,022,047)**	**(861,473)**
Accrued benefit asset (liability) recognized in the Statements of Financial Position	**$ (330,820)**	**$ 1,334,882**	**$ (1,365,245)**	**$ (879,475)**

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

	Pension Plan Year Ended Dec. 31		Other Postretirement Benefit Plan Year Ended Dec. 31	
	2011	2010	2011	2010
Components of net periodic benefit cost				
Service cost	$ 574,619	$ 460,996	$ 246,644	$ 205,409
Interest cost	510,729	527,936	114,600	110,150
Expected return on plan assets	(957,620)	(962,312)	(113,604)	(102,656)
Amortization of prior service cost	(2,356)	(2,356)	–	–
Recognized actuarial loss (gain)	182,161	107,824	–	(1,899)
Net periodic benefit cost	$ 307,533	$ 132,088	$ 247,640	$ 211,004
Actual return on plan assets	$ 233,366	$ 1,081,412	$ (43,666)	$ 151,204
Employer contributions	–	–	87,066	212,061
Employee contributions	–	–	30,783	27,795
Benefits paid	448,259	619,502	117,849	110,708
Actuarial assumptions				
Discount rate	4.34%	5.04%	4.63%	5.50%
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	8.60%	9.00%
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
2012	$ 917,853	$ 86,809
2013	857,806	87,393
2014	925,986	93,422
2015	1,700,172	101,876
2016	938,454	113,224
2017-2020	4,663,835	785,881

During 2012, the foundation is not required to make any contributions to the pension plan. The foundation will be required to make a contribution of $86,809 to the other post-retirement benefit plan. The foundation may choose to make additional contributions to either plan during 2012.

The investment goal for plan assets is to provide sufficient liquidity to meet payout requirements while maintaining safety of principal through prudent diversification. During 2011 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			
	Dec. 31				Dec. 31			
	2011	%	2010	%	2011	%	2010	%
Cash and cash equivalents	$ 198,461	2	$ 645,631	5	$ 195,046	14	$ 167,553	12
Interest, dividends and other investment receivables	24	0	157	0	23	0	39	0
U.S. government and agency obligations	761,594	6	705,836	6	–	–	–	–
Corporate bonds and other obligations	3,302,170	27	2,738,085	22	234,860	17	226,747	16
Equity securities	7,159,225	60	7,599,738	62	927,370	69	1,006,626	72
Commodities	607,960	5	554,880	5	–	–	–	–
Total	$12,029,434		$ 12,244,327		$1,357,299		$1,400,965	

In addition, the foundation sponsors a defined contribution plan for its eligible employees for which it has no fixed liabilities. Effective Jan. 1, 2002, the foundation's defined contribution plan was amended to add an employer matching contribution component. During 2011 and 2010, the foundation made contributions to the defined contribution plan of approximately $244,000 and $196,000, respectively.

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, 2011 and December 31, 2010:

2011

Pension Plan		**Level 1**	**Level 2**
Cash and cash equivalents	$ 198,461	$ 198,461	$ -
Interest, dividends and other investment receivables	24	N/A	N/A
U.S. government and agency obligations	761,594	-	761,594
Corporate bonds and other obligations	3,302,170	-	3,302,170
Equity securities	7,159,225	7,159,225	-
Commodities	607,960	607,960	-
	$ 12,029,434	$ 7,965,646	$ 4,063,764

Other Postretirement Benefit Plans			
Cash and cash equivalents	$ 195,046	$ 195,046	$ -
Interest, dividends and other investment receivables	23	N/A	N/A
Corporate bonds and other obligations	234,860	-	234,860
Equity securities	927,370	927,370	-
	$ 1,357,299	$ 1,122,416	$ 234,860

N/A - Not applicable

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	-
	$ 12,244,327	$ 8,800,249	$ 3,443,921

Other Postretirement Benefit Plans			
Cash and cash equivalents	$ 167,553	$ 167,553	$ -
Interest, dividends and other investment receivables	39	N/A	N/A
Corporate bonds and other obligations	226,747	-	226,747
Equity securities	1,006,626	1,006,626	-
	$ 1,400,965	$ 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, Fla., 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 2011 and 2010 was approximately $772,000 and $828,000, respectively. Future minimum lease payments for the Miami office lease are as follows:

2012	$ 767,324
2013	814,091
2014	872,713
2015	898,959
2016	925,889
Thereafter	3,989,742
Total	$ 8,268,718

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 *Financial Reporting Whitepaper: Measurement of Fair Value for Certain Transactions of Not-for Profit Entities,* issued by AICPA for the year ended December 31, 2011 and The National Committee on Planned Giving's 2009 publication, *Valuation Standards for Charitable Planned Gifts* for the year ended December 31, 2010. Both methodologies are 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 an estimated investment return rate of 8% under AICPA guidance for the year ended December 31, 2011 and a trailing 10-year average Consumer Price Index of 2.3% as of December 31, 2010. As of December 31, 2011 and 2010 the value of the foundation's estimated interest in the remainder trusts reported on the Statements of Financial Position was approximately $41,518,000 and $82,806,000, respectively. This compares to a current fair market value of the trust of approximately $79,051,000 and $83,948,000 in December 31, 2011 and 2010, respectively.

9. Beneficial Interest in Remainder Trusts (cont'd)

For the purposes of applying ASC 820, all beneficial interest in remainder trust assets are classified as Level 3 for the years ended December 31, 2011 and 2010. The changes in beneficial interest in remainder trust assets classified as Level 3 are as follows for the years ended December 31, 2011 and 2010:

Level 3 Reconciliation

	Remainder trust
Beginning Balance, January 1, 2010	**$ 72,385,414**
Total gains (realized/unrealized), net	**10,420,410**
Ending Balance, December 31, 2010	**$ 82,805,824**
The amount of total gains 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.	**$ 10,420,410**
Beginning Balance, January 1, 2011	**$ 82,805,824**
Total (losses) (realized/unrealized), net	**(41,287,779)**
Ending Balance, December 31, 2011	**$ 41,518,045**
The amount of (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.	**$ (41,287,779)**

Gains and losses (realized and unrealized) are included in "Changes in temporary restricted net assets" in Statement of Activities for the years ended December 31, 2011 and 2010.

Reclassification

The Foundation has reclassified the trust assets from Level 2 to Level 3 in 2010.

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 Dec. 31, 2011, the Foundation recognized “Securities pledged to creditors” for the fair market value of securities on loan of approximately $112,597,000 and a corresponding liability of approximately $115,165,000 was recognized for collateral received. As of December 31, 2010, “Securities pledged to creditors” was approximately $77,725,000 and a corresponding liability of approximately $79,819,000 for collateral received.

Collateral received by the Foundation, consisted of $60,198,000 in cash and $54,967,000 in short-term government obligations which are considered level 2 in the fair value hierarchy as of Dec. 31, 2011; and $69,757,000 in cash and $10,062,000 in short-term government obligations, which are considered level 2 in the fair value hierarchy as of Dec. 31, 2010. Of the cash collateral received, $31,933,000 was invested in securities with maturities of 90 days or less and $27,190,000 was invested in corporate obligations which were considered level 2 in fair value hierarchy as of Dec. 31, 2011; and $44,576,000 was invested in securities with maturities of 90 days or less and $23,938,000 was invested in corporate obligations which were considered level 2 in fair value hierarchy as of Dec. 31, 2010.

At Dec. 31, 2011, the fair market value of collateral was $115,109,000 of which $33,009,000 was included in cash and cash equivalents which were considered level 1, $54,967,000 was included in US government and agency obligations and $27,133,000 was included in corporate bonds and other obligations in the Statement of Financial Position which were considered level 2 in fair value hierarchy. At Dec. 31, 2010, the fair market value of collateral was $79,730,000, of which $45,820,000 was included in cash and cash equivalents which were considered level 1, $10,062,000 was included in U.S. government and agency obligations and $23,848,000 was included in corporate bonds and other obligations which were considered in level 2 in fair value hierarchy in the Statement of Financial Position.

The Foundation recognized an unrealized loss of $56,730 and $88,800 for the years ended Dec. 31, 2011 and Dec. 31, 2010, respectively, included in “Net change in fair value of investments” in the Statements of Activities related to the changes in the value of collateral investments related to corporate obligations.