

THE KOHLBERG FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

DYLEWSKY, GOLDBERG & BRENNER, LLC
CERTIFIED PUBLIC ACCOUNTANTS

THE KOHLBERG FOUNDATION, INC.

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Dylewsky, Goldberg & Brenner, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Kohlberg Foundation, Inc.

We have audited the accompanying statements of assets, liabilities, and net assets - tax basis of The Kohlberg Foundation, Inc. as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and other change in net assets - tax basis, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting The Kohlberg Foundation, Inc. uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The Kohlberg Foundation, Inc. as of December 31, 2010 and 2009, and its revenues, expenses, and other change in net assets and its cash flows for the years then ended on the basis of accounting described in Note 1.

Dylewsky, Goldberg & Brenner, LLC

Dylewsky, Goldberg & Brenner, LLC

September 28, 2011

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - TAX BASIS
DECEMBER 31, 2010 AND 2009
(Thousands of Dollars)

ASSETS

	2010	2009
Equity investments, at quoted market value	\$ 45,407	\$ 21,280
Limited partnerships/limited liability companies/other investment vehicles	155,495	178,160
Cash and cash equivalents (including funds held by investment custodians)	30,007	45,490
Fixed income investments	75,621	28,382
Other assets	8,323	33,832
Total Assets	\$ 314,853	\$ 307,144

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 3
Total Liabilities	-	3
Unrestricted Net Assets	314,853	307,141
Total Liabilities and Net Assets	\$ 314,853	\$ 307,144

See accompanying notes to financial statements.

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGE IN NET ASSETS - TAX BASIS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(Thousands of Dollars)

	<u>2010</u>	<u>2009</u>
Contributions Received	\$ 4,502	\$ 4,503
Revenue and Gains		
Dividends/interest/other	175	223
Income and appreciation on fixed income portfolio	2,400	445
Income and appreciation of equity portfolio	5,578	6,179
Income and appreciation of limited partnerships/ limited liability companies/other investment vehicles	12,171	32,281
Other income (loss)	<u>45</u>	<u>(14)</u>
Total Revenue and Gains	<u>20,369</u>	<u>39,114</u>
Grants and Other Expenses		
Grants authorized	15,504	13,443
Administrative expenses	1,579	1,436
Excise taxes	<u>75</u>	<u>150</u>
Total Grants and Expenses	<u>17,158</u>	<u>15,029</u>
<u>INCREASE IN NET ASSETS</u>	7,713	28,588
Unrestricted Net Assets - beginning of year	<u>307,141</u>	<u>278,553</u>
Unrestricted Net Assets - end of year	<u>\$ 314,853</u>	<u>\$ 307,141</u>

See accompanying notes to financial statements.

THE KOHLBERG FOUNDATION, INC.
STATEMENTS OF CASH FLOWS - TAX BASIS
DECEMBER 31, 2010 AND 2009
(Thousands of Dollars)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 4,502	\$ 4,503
Investment income	175	223
Cash grants paid	(15,159)	(13,444)
Cash paid for administrative expenses	(1,557)	(1,421)
Federal excise tax paid	<u>(75)</u>	<u>(150)</u>
Net Cash Used by Operating Activities	<u>(12,114)</u>	<u>(10,289)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Proceeds from sale of investments	154,803	76,115
Purchase of investments and other assets	<u>(158,172)</u>	<u>(61,595)</u>
Net Cash Provided (Used) by Investment Activities	<u>(3,369)</u>	<u>14,520</u>
<u>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</u>	(15,483)	4,231
Cash and cash equivalents - beginning of year	<u>45,490</u>	<u>41,259</u>
Cash and cash equivalents - end of year	<u>\$ 30,007</u>	<u>\$ 45,490</u>

See accompanying notes to financial statements.

THE KOHLBERG FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(THOUSANDS OF DOLLARS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

The Kohlberg Foundation, Inc. (the “Foundation”) is a private family foundation. The Foundation’s primary focus is to provide support for health and medical research, education, and the environment.

Accounting Basis

The Foundation’s policy is to prepare its financial statements on the tax basis of accounting, which is similar to modified cash basis. Consequently, certain revenue is recognized when received rather than earned and certain expenses and grants recognized when cash is disbursed rather than when the obligation is incurred. The Foundation’s financial statements are prepared in accordance with Financial Accounting Standards Board (“FASB”) guidance on reporting information regarding its financial position and activities for not-for-profit organizations. Under that guidance, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Further, contributions are recognized as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The Foundation has no temporarily or permanently restricted net assets.

Investments

The Foundation follows FASB guidance on fair value, which, among other things, defines fair value, establishes a hierarchal framework for measuring fair value, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is organized into three levels based upon the assumptions (referred to as “inputs”) used in pricing the asset or liability, as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, with fair value being determined through the use of models or other valuation methodologies.

Level 3: Inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs do not exist. Level 3 inputs require significant management judgment and estimation. Factors considered include the purchase cost, prices of recent private placements of the same issuer, liquidity of the investment, changes in financial condition of the issuer, and valuations of similar companies.

THE KOHLBERG FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(THOUSANDS OF DOLLARS)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Investments (continued)

The Foundation values all of its investments using Level 1 and Level 3 inputs. Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the Statements of Revenues, Expenses, and Other Change in Net Assets - Tax Basis. Equities and fixed income securities listed or traded on a securities exchange are valued at the last sale price on the primary exchange where the security is traded. Money market accounts are valued as determined by the bank or money market manager.

Marketable securities held by a custodian, either in the Foundation's name or held for the Foundation's account in a street name, are valued by the custodian using a valuation methodology similar to above. Marketable securities held by mutual funds, pooled investment funds, and hedge funds are valued by the fund manager using a valuation methodology similar to the above. Alternative investments including private equity interests and hedge funds are valued using the most recent valuation available by the respective external fund manager. The Foundation reports investment income and gains and losses as increases and decreases in unrestricted net assets in the Statements of Revenues, Expenses, and Other Change in Net Assets - Tax Basis unless a donor or law temporarily or permanently restricts their use.

The Foundation reviews and evaluates the values provided by the general partner or fund manager and assesses the valuation methods and assumptions used in determining the fair value of the investments. The asset allocation of the Foundation's portfolio is intended to provide exposure to a diverse set of markets. These markets are subject to various risks such as interest rate, market, sovereign, and credit. The Foundation anticipates that the value of its investments may, from time to time, fluctuate as a result of these risks and anticipates that the structured diversification will mitigate market risks. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Foundation regularly assesses these estimates and, while actual results may differ from these estimates, management believes that material changes will not occur in the near term.

The accounting policy concerning investment valuations relies on data from fund managers that cannot be substantiated by third parties, and it is considered to have the largest potential for significant financial impact. Valuations for investments, principally alternative investments, are subjective and require judgment regarding significant matters such as the comparability of similar investments, liquidity, interest rates, and the determination of external events adequate to quantify changes in value. Changes in assumptions could have a significant effect on the fair value of these instruments.

THE KOHLBERG FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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(THOUSANDS OF DOLLARS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in Income Taxes

The Foundation evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2010, the Foundation does not believe that it has taken any positions that would require recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year. The Foundation is no longer subject to audits by the applicable taxing authorities for the periods prior to 2007.

Cash Equivalents

For purposes of the Statements of Cash Flows Tax Basis, the Foundation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

NOTE 2 INVESTMENTS

The following tables present the Foundation's fair value hierarchy for those assets measured at fair value as of December 31, 2010 and 2009. At December 31, 2010 and 2009, Level 3 assets comprised approximately 56% and 78% of the Foundation's total investment portfolio fair value, respectively.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial Assets 2010:			
Equity investments	\$ 45,407	\$ 45,407	\$ -
Fixed income investments	75,621	75,621	-
Hedge funds/limited partnership interest	<u>155,495</u>	-	<u>155,495</u>
Total Investments	\$ <u>276,523</u>	\$ <u>121,028</u>	\$ <u>155,495</u>
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial Assets 2009:			
Equity investments	\$ 21,280	\$ 21,280	\$ -
Fixed income investments	28,382	28,382	-
Hedge funds/limited partnership interest	<u>178,160</u>	-	<u>178,160</u>
Total Investments	\$ <u>227,822</u>	\$ <u>49,662</u>	\$ <u>178,160</u>

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NOTE 2 INVESTMENTS (continued)

The following is a reconciliation of the beginning and ending balances for not readily marketable securities, all valued using Level 3 inputs, during the periods ending December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Financial Assets:		
Beginning Balance	\$ 178,160	\$ 219,676
Interest and dividends	407	1,336
Net unrealized gains (losses)	21,321	32,832
Net realized gains (losses)	(8,238)	(2,537)
Purchases	46,923	13,095
Sales	(80,196)	(74,061)
Management fees and other	(1,380)	(3,015)
Transfers in and/or out of Level 3	<u>(1,502)</u>	<u>(9,166)</u>
Ending Balance	<u>\$ 155,495</u>	<u>\$ 178,160</u>

Quoted market values are used to value investments other than index funds, which are carried based on fair values provided by fund managers. Limited partnership/limited liability companies/Other investment vehicles use market values established by their managers, where quoted market values are not available. The investment's tax basis has been used for certain investments where market values were not available. Realized gains or losses are determined by comparison of cost, determined on a first-in, first-out basis, to proceeds from sales. Investment transactions are recorded in the accounts on the trade date. The cost of investment securities represents the amount paid for securities purchased, adjusted for accretion of discount or amortization of premium on bonds purchased. Investment income related to each investment vehicle is included within the income and appreciation on that investment in the Statements of Revenues, Expenses, and Other Change in Net Assets - Tax Basis.

Total interest and dividend income for the years ended December 31, 2010 and 2009 was \$3,169 and \$2,723, respectively. Total investment gains (losses) for the years ended December 31, 2010 and 2009 were \$(2,804) and \$719, respectively. Investment fee expenses, which are included with investment returns, were \$555 in 2010 and \$246 in 2009.

The primary emphasis of the investment policy is to safeguard and preserve the principal of the endowment after inflation. Accordingly, the investment process seeks to achieve a total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution in accordance with the spending policy (currently 5.5%), while growing the funds. Therefore, the Foundation's goal is for its endowment assets, over time, to produce a long-term real rate of return, after inflation and net of fees, of approximately 6-7% annually. Actual returns in any given year may vary. Investment risk

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NOTE 2 INVESTMENTS (continued)

is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. In light of current market conditions, the Foundation will be reassessing its investment and spending policies.

NOTE 3 CHARITABLE LEAD TRUST

In 1996, a member of the Kohlberg family established a charitable lead trust. Under the terms of the trust agreement, the trust shall make annuity payments to the Foundation annually for a period of twenty years, commencing in 1996. After the trust term ends, the Foundation has no remainder interest in the assets of the trust.

NOTE 4 TAXES

The Foundation is exempt from federal income taxes and qualifies as a private foundation under Section 501(c)(3) of the Internal Revenue Code. The Foundation is subject to a federal excise tax of two percent of net investment income as defined by the Internal Revenue Code. If the average payout ratio of the past five years plus one percent of net investment income in the current year, as defined, is less than the current year's charitable distributions, federal excise tax is payable at one percent of net investment income, as defined. The Foundation paid federal excise tax of one percent in each of the years ended December 31, 2010 and 2009. The Foundation is also subject to the unrelated business income tax ("UBIT") on certain income from pass through investments. There was no UBIT tax due for either year. Taxes paid in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Excise tax	\$ 75	\$ 150

NOTE 5 GRANT COMMITMENTS

The Foundation has authorized but unpaid grants outstanding as of December 31, 2010 as follows:

2011	\$ 7,071
2012	7,008
Thereafter	_____
Total	\$ <u>14,079</u>

Payments on authorized but unpaid grants may be accelerated upon mutual agreement between the Foundation and the grantees.

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NOTE 6 RETIREMENT PLANS

The Foundation participates in two defined contribution retirement plans. The plans cover all employees. The salary deferral plan allows employees to defer a portion of their salary into the plan. The plan contains a matching contribution provision where the Foundation may match the participants' contributions up to two percent of compensation. The money purchase plan requires the Foundation to contribute eight percent of annual eligible compensation, as defined, and is integrated with social security. Total pension expense, under both plans, for the years ended December 31, 2010 and 2009 were \$60 and \$58, respectively.

NOTE 7 CONCENTRATIONS OF CREDIT RISKS

The Foundation maintains its cash in bank deposit accounts at high-credit, quality financial institutions. Efforts are made to keep balances within federally insured limits; however, due to timing differences the balances, at times, may exceed federally insured limits. Additionally, the Foundation maintains money market accounts at major investment firms.

NOTE 8 ADMINISTRATIVE COSTS

A related entity charged the Foundation a management fee on the assets under investment and for additional administrative costs in the year ended December 31, 2009. The fee for amounts under investment for the year ended December 31, 2009 was \$140. There were no fees charged in 2010.

NOTE 9 SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through September 28, 2011, the date that the financial statements were available to be issued.