



MEADOWS FOUNDATION, INCORPORATED

Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Directors
Meadows Foundation, Incorporated:

We have audited the accompanying statements of financial position of Meadows Foundation, Incorporated (the Foundation) as of December 31, 2008 and 2007, 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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meadows Foundation, Incorporated as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 27, 2009

MEADOWS FOUNDATION, INCORPORATED

Statements of Financial Position

December 31, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 395,747	569,217
Investments (note 3)	594,336,583	899,265,050
Investments loaned under securities lending agreement (notes 3 and 4)	29,376,370	90,348,570
Collateral received under securities lending agreement (note 4)	30,100,621	93,706,223
Program-related investments, net (note 6)	31,438,067	32,971,321
Fixed assets, net (note 6)	298,986	279,586
Other assets	252,285	190,287
Total assets	<u>\$ 686,198,659</u>	<u>1,117,330,254</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 1,655,919	3,744,536
Payable under securities lending agreement (note 4)	30,100,621	93,706,223
Grants payable (notes 6 and 7)	29,777,392	31,576,472
Accrued pension and postretirement benefits (note 9)	3,649,263	2,950,595
Deferred taxes payable (note 8)	—	2,926,340
Total liabilities	<u>65,183,195</u>	<u>134,904,166</u>
Net assets – unrestricted:		
Designated for J.W. Bullion Fund	500,000	576,532
Undesignated	<u>620,515,464</u>	<u>981,849,556</u>
Total net assets	621,015,464	982,426,088
Commitments (notes 3 and 9)		
Total liabilities and net assets	<u>\$ 686,198,659</u>	<u>1,117,330,254</u>

See accompanying notes to financial statements.

MEADOWS FOUNDATION, INCORPORATED

Statements of Activities

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Investment return:		
Dividends and interest	\$ 14,779,508	16,710,200
Net realized (loss) gain	(112,117,614)	79,672,489
Net unrealized loss	(224,647,726)	(17,693,533)
Partnership income	13,968,654	27,801,564
Other	1,744,432	1,704,383
	<u>(306,272,746)</u>	<u>108,195,103</u>
Expenses:		
Program activities:		
Grants awarded	34,020,445	34,167,125
Program-related investment expenses	4,259,535	4,088,213
Other grant-related expenses	3,034,452	3,002,471
Direct conduct of charitable activities	707,959	722,617
	<u>42,022,391</u>	<u>41,980,426</u>
Supporting services:		
Management and general	2,579,194	2,353,826
Investment and related fees	12,449,754	13,252,920
Federal income and excise taxes (note 8)	(2,614,530)	1,795,767
	<u>12,414,418</u>	<u>17,402,513</u>
Total expenses	<u>54,436,809</u>	<u>59,382,939</u>
Change in net assets before postretirement changes other than net periodic benefit cost	(360,709,555)	48,812,164
Postretirement changes other than net periodic benefit cost (note 9)	<u>(701,069)</u>	—
Change in net assets	(361,410,624)	48,812,164
Unrestricted net assets, beginning of year	982,426,088	933,613,924
Unrestricted net assets, end of year	\$ <u><u>621,015,464</u></u>	<u><u>982,426,088</u></u>

See accompanying notes to financial statements.

MEADOWS FOUNDATION, INCORPORATED

Statements of Cash Flows

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (361,410,624)	48,812,164
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,090,620	996,513
Grant awarded through forgiveness of program-related loan	300,000	250,455
Net realized loss (gain)	112,818,683	(79,672,489)
Net unrealized loss	224,647,726	17,693,533
Changes in operating assets and liabilities:		
Increase in other assets	(61,998)	(105,857)
(Decrease) increase in accounts payable and accrued liabilities	(2,088,617)	426,112
(Decrease) increase in payable under securities lending agreement	(63,605,602)	14,580,513
(Decrease) increase in grants payable	(1,799,080)	554,838
Increase (decrease) in accrued pension and postretirement benefits	698,668	(84,401)
Decrease in deferred taxes payable	(2,926,340)	(339,316)
Net cash (used in) provided by operating activities	<u>(92,336,564)</u>	<u>3,112,065</u>
Cash flows from investing activities:		
Proceeds from sales of investments	590,045,265	517,855,147
Purchases of investments	(561,675,411)	(507,446,877)
Decrease (increase) in cash collateral received under securities lending agreement	63,605,602	(14,580,513)
Investment in program-related loans	(1,075,000)	(212,500)
Payments on program-related loans	1,375,349	1,448,364
Capital expenditures	(112,711)	(154,722)
Net cash provided by (used in) investing activities	<u>92,163,094</u>	<u>(3,091,101)</u>
Net (decrease) increase in cash and cash equivalents	(173,470)	20,964
Cash and cash equivalents, beginning of year	<u>569,217</u>	<u>548,253</u>
Cash and cash equivalents, end of year	<u>\$ 395,747</u>	<u>569,217</u>
Supplemental cash flow information:		
Federal income and excise taxes paid	\$ 459,863	2,088,775
Rent-free lease income	1,713,985	1,692,097

See accompanying notes to financial statements.

MEADOWS FOUNDATION, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

(1) Organization

The Meadows Foundation, Incorporated (the Foundation) is a private, nonprofit philanthropic institution established in 1948 by Algur H. and Virginia Meadows, so their personal philanthropy would continue in perpetuity, under the guidance and direction of family members and trusted advisors. The Foundation's mission is to assist the people and institutions of Texas improve the quality and circumstances of life for themselves and future generations. The Foundation's grants support work in the fields of arts and culture, civic and public affairs, education, health, and human services. The Foundation also funds the operations of several charitable entities and sponsors various projects.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts maintained by and for the benefit of the Foundation.

(b) *Cash Equivalents*

Cash and cash equivalents held by the Foundation for use in its operations consist of cash and temporary investments with original maturities of three months or less at the time of acquisition. Cash and cash equivalents used by the Foundation and the Foundation's investment managers in managing the investment portfolio are reported in investments.

(c) *Investments*

All investments are carried at fair value. Investments in equity securities, debt securities, and investments in partnerships with readily determinable fair values and the ability to liquidate periodically are carried at their quoted fair value. Other investments in partnerships, including private equity, leveraged buyout, venture capital, inflation hedging and hedge funds, that have limited marketability are stated at fair value, as estimated by the investments' general partner and reviewed by management. The fair value of real estate held as investments is estimated using private valuations of the properties held.

Gains and losses on dispositions of investments are determined on the identifiable lot basis, and include the effects of currency translation with respect to transactions and holdings of foreign securities. Unrealized gains and losses on investments are included in the statements of activities.

(d) *Program-Related Investments and Fixed Assets*

Program-related investments involving real estate are recorded at their fair value on the date of dedication. Furniture and fixtures are recorded at historical cost. The Foundation capitalizes acquisitions of computer hardware and software in excess of \$1,000 and acquisitions of all other long-lived assets in excess of \$3,000. Depreciation is computed using a straight-line method over the estimated useful lives of the assets, which range from 5 – 10 years for fixed assets and 30 years for program-related investments.

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The Foundation generally assesses the recoverability of its program-related investments in land, buildings, and fixed assets by determining whether the carrying value of those assets can be recovered over a reasonable time period through undiscounted future cash flows from use and ultimate disposition of the assets, before interest charges. To the extent the carrying value of these assets is greater than the sum of the undiscounted future cash flows, before interest charges, an impairment exists. As of December 31, 2008 and 2007, the Foundation determined there was no impairment associated with such assets.

(e) *Grants Expense/Payables*

Unconditional grants are recorded as expense during the year of approval. Grants subject to certain conditions are recorded as expense during the year in which the conditions are substantially met or the possibility that the conditions will not be met is remote, as determined by management. Grants payable within one year are recorded at their fair value at the date of authorization. Grants payable in more than one year are recorded at the present value of their future cash outflows using a risk-free rate of return.

The Foundation provides facility space to certain nonprofit organizations on a rent-free basis. The fair value of using the facility is recorded as grants awarded (expense) and grants payable when the commitment to provide space is made. As the facilities are occupied, in-kind rental revenue is recognized.

(f) *Net Assets*

Net assets of the Foundation and changes therein are classified and reported as unrestricted net assets, which represent resources available for support of Foundation operations that are not subject to donor-imposed stipulations.

(g) *Fair Value of Financial Instruments*

The fair value of equity securities, debt securities, and investments in partnerships with readily determinable fair values approximates quoted market prices. The fair value of real estate and buildings held as investments is estimated using private valuations of the properties held. Investments with limited marketability, including investments in certain partnerships, are stated at fair value as estimated by the investments' general partner and reviewed by management. Unrealized gains and losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur.

Unfunded retirement liabilities, pension liabilities, and grants payable in excess of one year approximate fair value as the recorded amounts are reflected at present value. Fair values of all other financial instruments approximate their carrying amounts due to the short maturity of these instruments.

The Foundation recognizes all derivative financial instruments as either assets or liabilities in the statements of financial position and measures those instruments at fair value with any changes in fair value recorded through the statements of activities.

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(h) *Securities Lending Activities*

The Foundation receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of securities loaned. The Foundation monitors the market value of securities loaned, with additional collateral obtained or refunded as necessary.

(i) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The most significant estimate is the valuation of the alternative investments as estimated by the investments' general partner and reviewed by management. Estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and that may be ultimately achieved at redemption.

(j) *Functional Allocation of Expenses*

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(3) *Investments*

Investments held at December 31, 2008 and 2007 were as follows:

	2008	2007
Cash and cash equivalents	\$ 151,137,949	43,455,191
Equity securities	109,041,161	529,445,461
Fixed income securities:		
Government obligations	748,436	2,027,691
Corporate obligations	32,374,285	9,341,766
Asset-backed, mortgage-backed, and other	33,385,415	60,020,706
Investments in hedge-fund partnerships	115,343,575	180,545,860
Investments in other partnerships	176,160,101	159,321,697
Real estate, buildings, and other	5,522,031	5,455,248
	\$ 623,712,953	989,613,620
Investments	\$ 594,336,583	899,265,050
Investments loaned under securities lending agreement	29,376,370	90,348,570
	\$ 623,712,953	989,613,620

Investment return, which consists of interest and dividend income, net realized gains and losses, and net unrealized gains and losses, is reported gross of related expenses.

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Of the \$33,385,415 and \$60,020,706 included in fixed income securities – asset-backed, mortgage-backed, and other, approximately \$7 million and \$31 million, in 2008 and 2007, respectively, represents units in an aggregate bond index fund. Additionally, management has evaluated these securities and believes there are no impairment issues as of December 31, 2008 and 2007.

At December 31, 2008 and 2007, the Foundation had investments in hedge-fund partnerships and other partnerships of \$291,503,676 and \$339,867,557, respectively. Total unexpended commitments related to the partnership investments were \$156,356,174 in 2008 and \$192,352,162 in 2007. The Foundation's investments in other partnerships, including private equity, leveraged buyout, and venture capital funds, are generally illiquid. Funds are committed and invested for a period ranging between 10 to 13 years, and distributions are made solely at the discretion of the general partners.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS 157 applies where other accounting pronouncements require or permit fair value measurements; it does not require any new fair value measurements under GAAP. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, the Foundation adopted SFAS 157. The adoption of the statement to the Foundation's financial assets did not have any impact on the statement of activities or financial position.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes a three-level hierarchy for disclosure of investments recorded at fair value. The classification of investments within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources. Unobservable inputs reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset, including assumptions about risk. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are publicly traded equity securities.

Level 2 – Quoted prices in nonactive markets or in active markets for similar assets or liabilities, or inputs that are observable, either directly or indirectly, as of the reporting date for substantially the full term through corroboration with observable market data. Level 2 investments include government and corporate bonds, mortgage-backed and asset-backed securities, and collateralized mortgage obligations priced by independent industry recognized vendors contracted by the Foundation's custodian.

Level 3 – Pricing inputs are unobservable for the asset and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The types of investments in Level 3 include private equity and hedge fund partnerships where the Foundation participates as a limited partner. Fair value for portfolio investments are estimated by the General Partner using valuation methodologies that consider a range of

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factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financial condition, and financing transactions subsequent to the acquisition of the investment.

The following fair value hierarchy table presents information about the Foundation's financial assets that are measured at fair value as of December 31, 2008:

	Active markets for identical investments (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2008
Investment assets:				
Cash and cash equivalents	\$ 151,137,949	—	—	151,137,949
Equity securities	109,041,161	—	—	109,041,161
Fixed income securities:				
Government obligations	—	748,436	—	748,436
Corporate obligations	—	32,374,285	—	32,374,285
Asset-backed, mortgage-backed, and other	—	33,385,415	—	33,385,415
Investments in hedge fund partnerships	—	—	115,343,575	115,343,575
Investments in other partnerships	—	—	176,160,101	176,160,101
Total	<u>\$ 260,179,110</u>	<u>66,508,136</u>	<u>291,503,676</u>	<u>618,190,922</u>

The following table reconciles the beginning and ending balances of the Foundation's investments in hedge funds and other partnerships measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2008:

	2008
Fair value of partnership investments, January 1, 2008	\$ 339,867,557
Purchases of portfolio investments	83,537,100
Distributions/redemptions of investments	(38,505,818)
Realized gain on investments	2,796,389
Unrealized loss on investments	(96,191,552)
Fair value of partnership investments, December 31, 2008	<u>\$ 291,503,676</u>

Gains and losses (realized and unrealized) on the investments valued using significant unobservable inputs are included in net realized (loss) gain and net unrealized loss, respectively, in the accompanying statements of activities. The change in unrealized loss relating to assets still held at the reporting date is \$(96,191,552).

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In accordance with the provisions of FASB Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, the Foundation has elected to defer implementation of SFAS 157 until January 1, 2009 as it relates to nonfinancial assets and nonfinancial liabilities that are not permitted or required to be measured at fair value on a recurring basis. The Foundation is evaluating the impact, if any, this statement will have on those nonfinancial assets and liabilities.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which permits entities to choose to measure financial instruments and certain other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings. The objective of this statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Foundation adopted the provisions of this statement as of January 1, 2008. There was no impact on the statements of activities or financial position from adoption.

(4) Securities Lending

The Foundation participates in securities lending transactions with its custodial bank whereby the Foundation lends certain securities in exchange for a premium. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of the loaned U.S. securities and accrued interest, if any, and 105% for non-U.S. securities. The Foundation maintains effective control of the loaned securities during the term of the agreements in that they may be redeemed prior to the agreement's maturity. Upon the maturity of the agreement, the borrower must return the same, or substantially the same, securities that were borrowed. The principle risks to the Foundation of securities lending are that the borrower may not provide additional collateral when required or return the securities when due, and that securities in the commingled collateral pool decline in value. However, the Foundation believes that its risk is low based upon its historical experience and the process for identifying borrowers by the Foundation's custodial bank. Securities loaned under the securities lending agreement totaled \$29,376,370 and \$90,348,570 as of December 31, 2008 and 2007, respectively. Cash and noncash financial securities received as collateral totaled \$30,100,621 and \$93,706,223 as of December 31, 2008 and 2007, respectively. The Foundation received approximately \$792,000 in net income related to these transactions in 2008.

Amounts received as collateral are included in assets as collateral received under securities lending agreement and as a payable under securities lending agreement in the accompanying statements of financial position as of December 31, 2008 and 2007.

(5) Derivative Financial Instruments

The Foundation's primary purpose is to provide grants and other support to nonprofit organizations that serve the people of Texas. The Foundation's assets, which include private and publicly held investments totaling \$623,712,953 and \$989,613,620 as of December 31, 2008 and 2007, respectively, are dedicated to providing funds and other resources to meet its grant-making objectives. These investments are exposed to various risks, including variations in foreign currencies and other market-driven factors. Management believes it is prudent to mitigate the effect of these risks to the extent practicable, and to maintain exposure to various segments of the securities markets in order to meet the short- and long-term needs of the Foundation.

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The Foundation also owns foreign investments, which are included in the applicable investment classifications. In connection with these foreign investments, investment managers have been granted discretionary authority to hedge against the risk of adverse foreign currency movements relative to the U.S. dollar using currency futures. The net gain (loss) recognized on such contracts for the years ended December 31, 2008 and 2007 was \$8,446,247 and \$(147,652), respectively. The unrealized loss incurred on pending foreign exchange contracts as of December 31, 2008 was \$(396,656). At December 31, 2007, there were no pending foreign exchange contracts. At December 31, 2008, pending foreign exchange contracts were:

	2008		2007	
	Contract value	Market value	Contract value	Market value
Long positions	\$ 67,970,289	68,920,225	—	—
Short positions	(67,970,289)	(69,316,881)	—	—
Total, net	\$ —	(396,656)	—	—

The Foundation's investment managers hold derivative financial instruments for the purpose of hedging the risks of certain identifiable transactions, as well as to mitigate market exposure in certain specific areas. In general, the types of risks hedged are those relating to the variability of future earnings caused by movements in foreign currency exchange rates. Market exposure and adjustment to market exposure have been achieved through the utilization of futures contracts of nondollar exposures on the S&P 500 Index, U.S. Treasury note and fixed income indices, and commodity indices. Within the Foundation's limited partnership investments, managers may create additional exposure for the Foundation through short sales of securities, and trading in futures and forward contracts, options, swaps, and other derivatives. The Foundation's exposure is limited to its partnership investments in these entities. The majority of the strategies using these types of securities are hedge fund partnerships.

FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*, does not apply to the Foundation as none of these instruments qualify as hedging strategies.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires entities with derivative instruments to provide enhanced disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The required information is intended to provide financial statement users an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), and how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Foundation is currently evaluating the impact of the enhanced disclosure requirements of SFAS 161 on its financial statements.

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(6) Program-Related Investments and Fixed Assets

In addition to awarding cash grants, the Foundation carries out its charitable purpose by providing certain benefits to nonprofit organizations in the form of program-related investments (PRI). In some cases, these benefits are in the form of loans to be repaid at below-market interest rates. In other cases, the Foundation enters into rent-free leases, which provide facilities, utilities, and other services to nonprofit organizations as tenants of the Wilson Historic District. The cost of building and renovating facilities in the Wilson Historic District is reflected below as PRI real estate. The fair value of the contributed use of this real estate is approximately \$1,713,985 for 2008 and \$1,692,000 for 2007 and is included in other investment income in the accompanying financial statements. Grants payable related to rent-free leases approximate \$3,576,634, net of a discount in the amount of \$329,959 at December 31, 2008 and \$3,285,000, net of a discount in the amount of \$386,634 at December 31, 2007. This payable is equal to the fair value of the benefits provided over the lives of the remaining leases. The leases expire January 31, 2009 through May 31, 2029.

Program-related investments and fixed assets consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Program-related investments:		
Land	\$ 17,757,236	17,757,236
Buildings	30,924,537	30,924,537
Loans, net of discount amortization	<u>1,797,387</u>	<u>2,297,671</u>
	50,479,160	50,979,444
Accumulated depreciation	<u>(19,041,093)</u>	<u>(18,008,123)</u>
Total	<u>\$ 31,438,067</u>	<u>32,971,321</u>
	<u>2008</u>	<u>2007</u>
Fixed assets:		
Furniture and fixtures	\$ 256,768	256,768
Equipment	<u>1,179,485</u>	<u>1,082,766</u>
	1,436,253	1,339,534
Accumulated depreciation	<u>(1,137,267)</u>	<u>(1,059,948)</u>
Total	<u>\$ 298,986</u>	<u>279,586</u>

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(7) Grants Payable

Grants payable include amounts that will be paid more than one year after the date of the financial statements. The fair values of grants payable as of December 31, 2008 and 2007, using a discount rate of 1% and 4%, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
Payable in one year	\$ 13,975,139	13,356,128
Payable in one to five years	13,403,068	14,631,037
Payable in more than five years	<u>4,680,000</u>	<u>6,720,000</u>
Total amount granted	32,058,207	34,707,165
Unamortized discount	<u>(2,280,815)</u>	<u>(3,130,693)</u>
Grants payable	<u>\$ 29,777,392</u>	<u>31,576,472</u>

(8) Federal Income and Excise Taxes

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501(c)(3). Accordingly, the Foundation is not subject to federal income tax, except to the extent that it has unrelated business income. The Foundation recorded an unrelated business income tax expense (benefit) of \$7,500 in 2008 and \$(31,995) in 2007 relating to unrelated business income from its investment partnerships.

The Foundation is classified as a private foundation and, as such, is subject to a federal excise tax of 2% on net investment income, unless certain conditions are met, in which case the federal excise tax can be reduced to 1%. The Foundation made provision in 2008 and 2007 at the 1% and 2% excise tax rate, respectively. Deferred excise taxes are provided for on the unrealized increase in the fair value of the Foundation's investment assets at the 2% excise tax rate.

	<u>2008</u>	<u>2007</u>
Provision	\$ 304,310	2,167,078
Deferred excise tax benefit	(2,926,340)	(339,316)
Unrelated business income tax expense (benefit)	<u>7,500</u>	<u>(31,995)</u>
Total federal income and excise taxes	<u>\$ (2,614,530)</u>	<u>1,795,767</u>
Excise tax receivable included in other assets	\$ 187,967	39,914
Deferred taxes payable	—	(2,926,340)

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In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which was effective for fiscal years beginning after December 15, 2006. This interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On December 30, 2008, the FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 13, 2008. The Foundation is a nonpublic enterprise to which FIN 48-3's deferral applies. Management is currently evaluating the impact, if any, of the adoption of FIN 48 on its financial statements.

The Foundation is also required to make certain minimum qualifying distributions of its assets in accordance with formulas provided by federal law. Amounts distributed in excess of the required minimum distribution are available for carryover for a period of five years. At December 31, 2007, distributions approximating \$6,680,103 were required by December 31, 2008 to satisfy the minimum requirements for 2007. In 2008, distributions were sufficient to cover the shortfall.

(9) **Accrued Pension and Postretirement Benefits**

The Foundation has a defined contribution pension plan covering substantially all of the Foundation's employees, excluding security guards, who have attained the age of 21 and work at least 1,000 hours in a year. Total pension contribution expense is approximately \$473,000 and \$458,000 for the years ended December 31, 2008 and 2007, respectively, which is an amount equal to 12.5% of the employee's compensation, as defined by the plan agreement.

The Foundation's employees may also elect to participate in a separate 403(b) defined contribution plan. No contributions are made by the Foundation under this plan.

The Foundation's defined benefit floor-offset plan (the Plan), which supplements the defined contribution plan, covers substantially all of the Foundation's employees who have attained the age of 21 and work at least 1,000 hours in a year. The Foundation makes annual contributions to the Plan, based on actuarial calculations, in amounts sufficient to meet the minimum funding requirements of Section 412 of the Internal Revenue Code.

Effective January 1, 2008, the Foundation amended the defined benefit plan to amend retirement income calculations of pension benefits for employees reaching and exceeding the target retirement age as specified in the plan document. The net impact from the plan amendment was an additional net cost of \$150,500 in 2008.

The Foundation also has a retiree medical plan covering all qualifying personnel of the Foundation. The Foundation's policy is to fund the postretirement benefits from general assets.

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In 2007, the Foundation amended and restated the retiree medical plan to expand the types of health care premiums that are eligible for reimbursement under the Plan and to change the maximum monthly reimbursable amounts. The net impact from the plan amendments and restatements was a net actuarial gain of \$854,839 in 2007.

The accumulated benefit obligation for the defined benefit pension plan was \$2,673,331 and \$2,202,304 at December 31, 2008 and 2007, respectively. The accumulated postretirement benefit obligation for the retiree medical plan was \$2,206,871 and \$2,197,927 at December 31, 2008 and 2007, respectively.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). SFAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans to recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the accumulated benefit obligation. On December 31, 2008, the Foundation adopted the recognition and disclosure provisions of SFAS 158. The effect of adopting SFAS 158 on the Foundation's financial position at December 31, 2008 was a decrease of \$701,069 in unrestricted net assets, which is presented in the table below. The Foundation evaluated the impact of SFAS 158 as of December 31, 2007 and determined the impact to be immaterial to the Foundation and, is therefore, not reflected in the accompanying financial statements for the year ended December 31, 2007.

	At December 31, 2008		
	Before application of SFAS 158	Incremental effect of SFAS 158	As reported at December 31, 2008
Accrued pension and postretirement benefits	\$ 2,948,194	701,069	3,649,263
Undesignated net assets	621,216,533	(701,069)	620,515,464

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Summary of the Foundation's defined benefit pension plan and retiree medical plan as of December 31, 2008 and 2007 was as follows:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Changes in projected benefit obligation:				
Projected benefit obligation,				
January 1	\$ 2,869,584	2,686,244	2,197,927	2,862,230
Service cost	101,160	95,660	97,408	83,550
Interest cost	162,845	153,624	125,741	165,832
Actuarial loss (gain)	140,289	54,436	(154,248)	(858,684)
Benefits paid	<u>(123,817)</u>	<u>(120,380)</u>	<u>(59,957)</u>	<u>(55,001)</u>
Projected benefit obligation,				
December 31	\$ <u>3,150,061</u>	<u>2,869,584</u>	<u>2,206,871</u>	<u>2,197,927</u>
Changes in plan assets:				
Fair value of plan assets, January 1	\$ 2,269,752	2,131,394	—	—
Actual return on plan assets	(726,830)	124,054	—	—
Employer contributions	288,564	134,684	59,957	55,001
Benefits paid	<u>(123,817)</u>	<u>(120,380)</u>	<u>(59,957)</u>	<u>(55,001)</u>
Fair value of plan assets,				
December 31	\$ <u>1,707,669</u>	<u>2,269,752</u>	<u>—</u>	<u>—</u>
Funded status:				
Unfunded benefit obligation	\$ (1,442,392)	(599,832)	(2,206,871)	(2,197,927)
Unrecognized transition obligation	—	—	—	105,691
Unrecognized net actuarial loss (gain)	—	684,877	—	(153,325)
Unrecognized prior service cost	<u>—</u>	<u>—</u>	<u>—</u>	<u>(790,079)</u>
Accrued benefit cost,				
December 31	\$ <u>(1,442,392)</u>	<u>85,045</u>	<u>(2,206,871)</u>	<u>(3,035,640)</u>
Changes in unrecognized transition obligation:				
Unrecognized transition obligation	\$ —	—	105,691	158,539
Amortization of transition obligation	<u>—</u>	<u>—</u>	<u>(52,848)</u>	<u>(52,848)</u>
Unrecognized transition obligation	\$ <u>—</u>	<u>—</u>	<u>52,843</u>	<u>105,691</u>

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	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Changes in unrecognized net actuarial loss (gain):				
Unrecognized net actuarial loss (gain)	\$ 684,877	637,755	(153,325)	(149,481)
Amortization of unrecognized net actuarial loss	(35,528)	(32,958)	—	—
Actuarial (gain) loss	(10,211)	54,436	(154,248)	(3,844)
Asset loss	891,478	25,644	—	—
Unrecognized net actuarial loss (gain)	\$ 1,530,616	684,877	(307,573)	(153,325)
Changes in unrecognized prior service cost (income):				
Unrecognized prior service income	\$ 150,500	—	(790,078)	(854,839)
Amortization of prior service cost	—	—	64,761	64,761
Unrecognized prior service cost (income)	\$ 150,500	—	(725,317)	(790,078)
Components of net periodic benefit cost:				
Service cost	\$ 101,160	95,660	97,408	83,550
Interest cost	162,845	153,624	125,741	165,832
Expected return on assets	(164,649)	(149,698)	—	—
Amortization of unrecognized losses	—	—	52,848	52,848
Recognized net actuarial loss	35,528	32,958	—	—
Amortization of prior service cost	—	—	(64,761)	(64,761)
Net periodic benefit cost	\$ 134,884	132,544	211,236	237,469
Amounts expected to be recognized as components of net periodic benefit cost during the next year:				
Amortization of transition obligation	\$ —	—	52,848	52,848
Amortization of prior service cost	13,400	—	(64,761)	(64,761)
Amortization of net actuarial loss	108,000	35,528	—	—
Total	\$ 121,400	35,528	(11,913)	(11,913)

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	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Weighted average assumptions as of December 31:				
Discount rate	6.20%	5.80%	6.20%	5.80%
Expected return on plan assets	7.00	7.00	—	—
Rate of compensation increase	3.00	3.00	—	—

The retiree medical plan provides a fixed maximum monthly premium reimbursement and is not subject to increases based on inflation or indexed health care cost trend rates.

Benefit payments, which reflect expected future service, are expected to be paid as follows:

	Pension benefits	Postretirement benefits
2009	\$ 160,012	71,957
2010	198,264	90,914
2011	200,946	96,914
2012	245,907	100,429
2013	256,047	112,429
2014 – 2018	1,444,305	760,145

The fair value of plan assets at December 31, 2008 and 2007 consisted of the following asset categories:

Category	2008		2007	
	Fair value	Percentage of total fair value of plan assets	Fair value	Percentage of total fair value of plan assets
Equity securities	\$ 1,098,865	64%	\$ 1,656,630	73%
Fixed income securities	608,804	36	613,122	27
Total	<u>\$ 1,707,669</u>	<u>100%</u>	<u>\$ 2,269,752</u>	<u>100%</u>