



THE BUSH FOUNDATION

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
The Bush Foundation:

We have audited the accompanying statements of financial position of The Bush Foundation (the Foundation) as of December 31, 2010 and 2009, 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 the Foundation as of December 31, 2010 and 2009, and the change in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota
July 7, 2011

THE BUSH FOUNDATION
Statements of Financial Position
December 31, 2010 and 2009
(In thousands)

Assets	2010	2009
Cash and interest-bearing deposits	\$ 296	59
Investments, at fair value (note 2)	750,302	701,927
Dividends and interest receivable	278	249
Unsettled trades receivable (note 1)	8,756	133
Federal excise and unrelated business income tax receivable	624	745
Furniture and equipment	49	67
Other assets	76	55
Total assets	\$ 760,381	703,235
Liabilities and Net Assets		
Accounts payable	\$ 477	785
Unsettled trades payable (note 1)	5,358	2,168
Accrued and other liabilities	486	379
Deferred federal excise taxes (note 3)	1,300	—
Grants payable (note 6)	25,062	38,188
Total liabilities	32,683	41,520
Unrestricted net assets	727,698	661,715
Total liabilities and net assets	\$ 760,381	703,235

See accompanying notes to financial statements.

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Statements of Activities

Years ended December 31, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Revenues, gains, and losses:		
Dividends	\$ 1,855	1,719
Interest	1,260	2,046
Realized gains (losses) on investment transactions	13,117	(20,459)
Unrealized gains (losses) in fair value of investments, net of deferred federal excise tax expense of \$1,300 in 2010 and \$0 in 2009	69,267	114,660
Other income	438	467
	<u>85,937</u>	<u>98,433</u>
Net revenues, gains, and losses		
Expenses:		
Program (note 1):		
Grants, net of cancellations (notes 1 and 6)	(9,991)	(38,802)
Program management expenses (note 4)	(5,305)	(4,642)
Investment and administrative (note 1):		
Investment expenses (note 4)	(1,762)	(1,916)
Administrative expenses (note 4)	(3,116)	(2,780)
Federal excise and unrelated business income tax benefit (expense) - current (note 3)	220	(276)
	<u>(19,954)</u>	<u>(48,416)</u>
Total expenses		
Change in unrestricted net assets	65,983	50,017
Unrestricted net assets at beginning of year	<u>661,715</u>	<u>611,698</u>
Unrestricted net assets at end of year	<u>\$ 727,698</u>	<u>661,715</u>

See accompanying notes to financial statements.

THE BUSH FOUNDATION

Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands)

	2010	2009
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 65,983	50,017
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	29	27
Realized (gains) losses on investment transactions	(13,117)	20,459
Unrealized gains in fair value of investments	(70,567)	(114,660)
Changes in assets and liabilities:		
Dividends and interest receivable	(29)	1,353
Other assets	(21)	42
Payables and accrued and other liabilities	(201)	(428)
Federal excise and unrelated business income tax receivable	121	693
Grants payable	(13,126)	10,404
Net cash used in operating activities	(30,928)	(32,093)
Cash flows from investing activities:		
Purchase of furniture and equipment	(12)	(14)
(Increase) decrease in unsettled trades receivable	(8,623)	13,628
Increase (decrease) in unsettled trades payable	3,190	(942)
Decrease in liabilities under securities lending agreement	—	(37,389)
Decrease in investment collateral with securities lending	—	35,464
Increase in deferred federal excise taxes	1,300	—
Proceeds from sale of investments	346,624	197,416
Purchase of investments	(314,322)	(191,097)
Net cash provided by investing activities	28,157	17,066
Net decrease in cash	(2,771)	(15,027)
Cash and cash equivalents at beginning of year	16,455	31,482
Cash and cash equivalents at end of year	\$ 13,684	16,455
Cash and cash equivalents:		
Cash and interest-bearing deposits	\$ 296	59
Cash equivalents in investments	13,388	16,396
	\$ 13,684	16,455
Supplemental disclosure of cash flow information:		
Cash paid during the year for taxes	\$ 202	247

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2010 and 2009

(1) Significant Accounting Policies

(a) *Organization*

The Bush Foundation (the Foundation) is an exempt private foundation that strives to be a catalyst for the courageous leadership needed for people to solve tough public problems in Minnesota, North Dakota and South Dakota. The main goals of the Foundation are to increase achievement of all students and close achievement gaps by increasing the number of effective teachers, to improve conditions for Native people by supporting their self determined strategies for nation building, and to increase the capacity of people and democratic institutions to solve tough public problems by supporting courageous leadership, engagement, and civic creativity.

(b) *Basis of Accounting*

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

(c) *Tax-Exempt Status*

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a private foundation as defined in Section 509(a) of the Code. The Foundation is subject to applicable state and federal unrelated business income tax and federal excise tax as discussed in note 3. A provision for unrelated business income tax and federal excise tax has been made and is included in the financial statements.

The Foundation's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Foundation has no uncertain tax positions resulting in an accrual of tax expense or benefit.

(d) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the year. Actual results could differ from those estimates.

(e) *Cash Equivalents*

The Foundation considers all interest-bearing deposits and short-term investments purchased with maturities of three months or less to be cash equivalents.

(f) *Investments*

Investments in securities that are traded on national or international securities exchanges are carried at fair value, based upon quoted market prices provided by external investment managers and the Foundation's custodian.

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Investments held in alternative structures including limited partnerships, hedge funds, and limited liability corporations are recorded at net asset value as a practical expedient to fair value based on estimates provided by the respective investment managers if quoted market values are not readily determinable. See additional disclosures in note 2.

Purchases and sales of investments are recorded on a trade-date basis. Interest and dividend income are recorded when earned. Realized gains and losses are recorded as the difference between historical cost and fair value when an investment is sold. Unrealized gains and losses are recorded for the change in fair value of investments.

(g) *Unsettled Trades Receivable or Payable*

The amounts receivable or payable for investments with settlements pending result from the sales or purchases of investments made prior to the end of the fiscal year, but settled after the fiscal year-end.

(h) *Fair Value of Financial Instruments*

The carrying values of dividends and interest receivable, unsettled trades receivable and payable, accounts payable, and accrued and other liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. Investments are stated at fair value. Grants payable approximate fair value by discounting multiyear grants.

(i) *Grants, Net of Cancellations*

Grants are recorded as expense when the Foundation makes an unconditional award. Payment of grants reduces the resulting liability incurred at the time of the award. Cancellations of grants occur principally when the grantees do not meet the grant terms or when terms are adjusted and are reflected as a reduction of grant expense. Cancellations were \$2,454 and \$883 in 2010 and 2009, respectively. Grants awarded, net of cancellations, were \$9,991 and \$38,802 for the years ended December 31, 2010 and 2009, respectively.

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(2) Investments

Investments at fair value consisted of the following:

	2010	2009
Cash equivalents	\$ 13,388	16,396
Corporate and U.S. debt securities	72,771	36,393
Equity securities:		
U.S. equities	47,534	50,853
International equities	26,667	16,598
Common and collective trust in international equities	26,878	16,099
Total marketable investments	187,238	136,339
Alternative investments:		
Multistrategy hedge funds	124,549	179,659
Long/short hedge funds	79,364	121,798
Fixed income hedge funds	105,145	94,947
Real assets	83,961	62,501
Equity limited partnerships	32,561	—
Private equity limited partnerships	137,484	106,683
Total alternative investments	563,064	565,588
Total	\$ 750,302	701,927

As of January 1, 2008, the Foundation adopted ASC 820, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – quoted prices in active markets for identical securities. U.S. equities and international equities traded on securities exchanges are carried at fair value based upon closing market quotations on such exchange on the date of valuation or, in the absence of sales, at values based on the closing bid price or last sale price on the previous trading day. Investments in cash equivalents include money-market securities that are valued at closing net asset value.
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.). The current fair values of corporate and U.S. government debt securities are provided by an independent pricing service, but where an active market exists, are valued using market quotations obtained from broker-dealers or quotation systems. Common and collective trusts in international equities are valued at the net asset value per share of the underlying investment.
- Level 3 – significant unobservable inputs that are not corroborated by observable market data. Alternative investments include investments in hedge funds, real assets, and equity limited partnerships and private equity limited partnerships. Alternative investments are fair valued at the

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new asset value of the underlying partnership as a practical expedient, or as a percentage share of the Foundation's ownership interest in partners' capital.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Foundation's assets as of December 31, 2010 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 13,388	—	—	13,388
Corporate and U.S. government debt securities	27,110	45,661	—	72,771
Equity securities:				
U.S. equities	47,534	—	—	47,534
International equities	26,667	—	—	26,667
Common and collective trusts in:				
International equities	—	26,878	—	26,878
Alternative investments:				
Multistrategy hedge funds	—	—	124,549	124,549
Long/short hedge fund	—	—	79,364	79,364
Fixed income hedge funds	—	—	105,145	105,145
Real assets	—	—	83,961	83,961
Equity limited partnerships	—	—	32,561	32,561
Private equity limited partnerships	—	—	137,484	137,484
	<u>114,699</u>	<u>72,539</u>	<u>563,064</u>	<u>750,302</u>
Total investments	\$ <u>114,699</u>	<u>72,539</u>	<u>563,064</u>	<u>750,302</u>

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The summary of inputs used to value the Foundation's assets as of December 31, 2009 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 16,396	—	—	16,396
Corporate and U.S. government debt securities	—	36,393	—	36,393
Equity securities:				
U.S. equities	50,853	—	—	50,853
International equities	16,598	—	—	16,598
Common and collective trusts in:				
International equities	—	16,099	—	16,099
Alternative investments:				
Multistrategy hedge funds	—	—	179,659	179,659
Long/short hedge fund	—	—	121,798	121,798
Fixed income hedge funds	—	—	94,947	94,947
Real assets	—	—	62,501	62,501
Private equity limited partnerships	—	—	106,683	106,683
Total investments	<u>\$ 83,847</u>	<u>52,492</u>	<u>565,588</u>	<u>701,927</u>

There were no significant transfers between Levels 1 and 2 for the year ended December 31, 2010.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	<u>Multistrategy hedge funds</u>	<u>Long/short hedge funds</u>	<u>Fixed income hedge funds</u>	<u>Real assets</u>	<u>Equity LP</u>	<u>Private equity LP</u>	<u>Total</u>
Beginning balance at January 1, 2009	\$ 150,934	61,710	80,238	63,042	—	75,111	431,035
Realized gains (losses)	—	(34)	—	(5,574)	—	(539)	(6,147)
Unrealized gain (losses)	28,725	26,422	14,709	(11,636)	—	18,157	76,377
Net purchases, sales, and issues	—	33,700	—	16,669	—	13,954	64,323
Ending balance at December 31, 2009	\$ 179,659	121,798	94,947	62,501	—	106,683	565,588
Realized gains (losses)	(106)	(1,629)	48	960	—	4,352	3,625
Net unrealized gains (losses)	14,788	7,266	10,150	11,875	2,561	13,232	59,872
Net purchases, sales, and issues	(69,792)	(48,071)	—	8,625	30,000	13,217	(66,021)
Ending balance at December 31, 2010	<u>\$ 124,549</u>	<u>79,364</u>	<u>105,145</u>	<u>83,961</u>	<u>32,561</u>	<u>137,484</u>	<u>563,064</u>
Net change in unrealized gains (losses) included in change in net assets for the period relating to investments held at December 31, 2010	\$ 14,894	8,895	10,102	10,915	2,561	8,880	56,247

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The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2010:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemptions frequency ranges</u>	<u>Redemption notice period</u>
Alternative investments:				
Multistrategy hedge funds (a)	\$ 124,549	—	daily – semiannually	1 – 90 days
Long/short hedge funds (b)	79,364	—	quarterly – biennially	1 – 90 days
Fixed income hedge funds (c)	105,145	—	monthly – annually	1 – 90 days
Real assets (d)	83,961	47,027	none	none
Equity limited partnership (e)	32,561	—	quarterly	60 days
Private equity limited partnerships (f)	<u>137,484</u>	<u>89,658</u>	none	none
Total	<u>\$ 563,064</u>	<u>136,685</u>		

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at December 31, 2009:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemptions frequency ranges</u>	<u>Redemption notice period</u>
Alternative investments:				
Multistrategy hedge funds (a)	\$ 179,659	—	daily – semiannually	1 – 90 days
Long/short hedge funds (b)	121,798	—	quarterly – biennially	1 – 90 days
Fixed income hedge funds (c)	94,947	—	monthly – annually	1 – 90 days
Real assets (d)	62,501	61,213	none	none
Equity limited partnership (e)	—	—		
Private equity limited partnerships (f)	<u>106,683</u>	<u>88,799</u>	none	none
Total	<u>\$ 565,588</u>	<u>150,012</u>		

- (a) This category includes direct investments in multistrategy hedge funds that invest in both fixed income and equity instruments. The managers of these funds have the flexibility to adjust their allocations between fixed income and equity investments based on their particular strategy (event-driven, relative value, directional) and view of the market. These funds have various redemption and notice of redemption requirements that generally limit the Foundation’s ability to liquidate them in a short period of time. The fair values of these investments have been estimated using the net asset value per share of the investments.

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- (b) This category includes direct investments in long/short hedge funds that invest in equity securities by taking either a long position in a company's equity securities, expecting the price will rise, or a short position, expecting the price will decline. The managers of these funds have the flexibility to change their exposure based on their view of particular securities and the overall market. Long/short hedge funds are generally less volatile than long-only equity funds and have higher manager fees. These funds have various redemption and notice of redemption requirements that generally limit the Foundation's ability to liquidate them in a short period of time. As of December 31, 2010, approximately \$9,000 of these investments are subject to investment redemption restrictions until March 31, 2011. The fair values of these investments have been estimated using the net asset value per share of the investments.
- (c) This category includes direct investments in fixed income hedge funds that invest in debt securities, including corporate debt, mortgage debt, and country debt. These funds have various redemption and notice of redemption requirements that generally limit the Foundation's ability to liquidate them in a short period of time. The fair values of these investments have been estimated using the net asset value per share of the investments.
- (d) This category includes direct investments in real asset funds, generally through limited partnerships, that invest in commercial real estate, infrastructure projects, and natural resources. The fair value of these investments has been estimated using the percentage share of the Foundation's ownership interest in partner's capital. These investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next one to ten years.
- (e) This category includes an equity limited partnership fund that holds long and short positions primarily in equity securities of companies within the S&P 500 Index. Derivative instruments, such as forward contracts, futures, options and swaps may be used to attempt to hedge existing long and short positions in order to both maximize returns and reduce risks. As of December 31, 2010 the full value of this investment is subject to a one year redemption restriction which will expire March 31, 2011. The fair value of this investment has been estimated using the percentage share of the Foundation's ownership interest in partner's capital.
- (f) This category includes private equity funds that invest in private companies. The fair value of these investments has been estimated using the percentage share of the Foundation's ownership interest in partner's capital. These investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next one to ten years.

The Foundation's alternative investments in hedge funds (categories (a), (b), and (c) above) are redeemable with the fund at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. The Foundation's alternative investments in real assets and private equity limited partnerships (categories (d) and (f) above) cannot be redeemed with the funds. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair

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value of the Foundation's interests in the funds. The Foundation's alternative investment in an equity limited partnership (category (e) above) is redeemable with the fund at fair value subject to redemption restrictions noted above.

(3) Federal Taxes and Distribution Requirements

Federal Excise Taxes – The Foundation is subject to a 2% excise tax on its taxable investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible). Tax on net investment income is reduced from 2% to 1% for any taxable year in which the Foundation's qualifying distributions meet certain requirements prescribed by Internal Revenue Code Section 4940(e). The Foundation met these requirements in 2010 and 2009. Accordingly, the 2010 and 2009 federal excise tax expense is based upon the 1% tax rate.

Deferred federal excise taxes arise from unrealized gains in the market value of investments, as well as from differences in the recognition of income from certain investments (timing differences). As of December 31, 2010, the Foundation had unrealized gains in the market value of investments and has recorded a deferred tax liability of \$1,300.

Distribution Requirements – The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, within one year after the end of each fiscal year, it must distribute 5% of the average market value of its assets as defined in the Code. The investments includable for the 5% distribution requirement are exclusive of those investments deemed to be held for charitable activities (representing 1.5% of the investments). Qualifying distributions are determined on a cash basis and include grant payments and certain other expenses incurred by the Foundation. The Foundation has complied with distribution requirements through December 31, 2010.

Unrelated Business Income Taxes – In accordance with Section 511(a)(1) of the Code, the Foundation is subject to corporate tax rates on net income earned from unrelated business activities. The Foundation's investments produce minimal amounts of unrelated business income.

(4) Program Management, Investment, and Administrative Expenses

The Foundation's operating costs have been allocated between program management, investment, and administrative expenses in the accompanying statements of activities based on direct activity and management's estimates. Program management expenses include salaries and expenses required to run the program operations as the Foundation works to achieve the strategic goals of increasing educational achievement through teacher preparation, supporting the self-determination of Native nations, and increasing capacity to solve tough public problems. Investment expenses include salaries and expenses attributable to managing the Foundation's investments. Administrative expenses include salaries and all other expenses incidental to operating the Foundation.

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(5) Pension Plan

The Foundation has a defined contribution pension plan whereby individual annuity contracts with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund are purchased for all qualified employees. In 2010 the amount of the contribution was 8% of the employee's salary and a 2:1 employer match on employee contributions up to a maximum of 4% of the employee's salary, subject to the maximum includible compensation limit per Section 401(a)(17) of the Code. In 2009 the amount of the contribution was equal to 10% of the employee's salary up to the social security income limit and then 15% of the employee's salary up to the maximum includible compensation limit per Section 401(a)(17) of the Code. The expense of the plan for 2010 and 2009 was \$353 and \$303, respectively.

(6) Grants Payable

The following table provides the activity within the unpaid grants account:

	2010	2009
Unpaid grants at beginning of year	\$ 38,188	27,784
Grants appropriated, net of cancellations	9,991	38,802
Grants paid	(23,117)	(28,564)
Refund of previous years' grants	—	166
Unpaid grants at end of year	\$ 25,062	38,188

Grants payable in more than one year are stated at their net present value using discount rates established in the year the grant was made with resulting discount rates ranging from 1.0% to 4.8%. The following is a summary of grants authorized and payable at December 31:

	2010	2009
To be paid in less than one year	\$ 10,705	15,165
To be paid in one to five years	15,629	23,212
More than five years	—	2,128
	26,334	40,505
Discount	(1,272)	(2,317)
	\$ 25,062	38,188

As of December 31, 2010 and 2009, the Foundation has approximately \$10,668 and \$11,849, respectively, of conditional grant obligations.

(7) Subsequent Events

The Foundation has evaluated subsequent events through July 7, 2011, the date on which the financial statements were available to be issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.