

S. H. COWELL FOUNDATION

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

Years Ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
S. H. Cowell Foundation
San Francisco, California

We have audited the accompanying statements of financial position of S. H. Cowell 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of S. H. Cowell Foundation as of December 31, 2010 and 2009, 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.

As explained in Note 1, the financial statements include investments in limited companies, limited liability companies, and limited partnerships whose values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers and the general partners of these limited companies, limited liability companies, and limited partnerships. These investments are valued at \$85,349,345 (64% of net assets) at December 31, 2010 and \$68,871,373 (54% of net assets) at December 31, 2009.

Lautze & Lautze

San Francisco, California
October 13, 2011

S. H. COWELL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31,

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 6,160,037	\$ 8,689,230
Excise tax receivable	-	121,675
Investments	112,463,984	109,246,009
Investments in transit	5,000,000	500,000
Notes receivable	9,433,555	9,411,388
Other assets (including property and equipment, net and prepaid expenses)	199,524	217,592
Total assets	\$ 133,257,100	\$ 128,185,894
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 106,822	\$ 96,086
Excise tax payable	15,932	-
Deferred excise tax	442,000	250,550
Total liabilities	564,754	346,636
 Commitments		
Unrestricted net assets	132,692,346	127,839,258
Total liabilities and net assets	\$ 133,257,100	\$ 128,185,894

S. H. COWELL FOUNDATION
STATEMENTS OF ACTIVITIES
Years Ended December 31,

	2010	2009
Investment income:		
Net unrealized gain on investments	\$ 9,574,648	\$ 27,478,327
Net realized gain (loss) on investments	3,284,607	(14,547,269)
Interest	427,594	1,095,867
Dividends	135,982	1,070,921
Royalties and other gains and losses related to real properties and mineral rights, net	41,295	60,834
Net investment income	13,464,126	15,158,680
Expenses:		
Personnel and office expenses	1,525,158	1,447,356
Investment advisory, management and custodial fees	426,865	439,120
Professional fees	125,622	128,850
Real property expenses	78,367	82,786
Other expenses	128,005	258,034
Total expenses	2,284,017	2,356,146
Change in net assets before federal excise tax expense and grants	11,180,109	12,802,534
Federal excise tax expense	305,580	199,900
Change in net assets before grants	10,874,529	12,602,634
Grants authorized, net	6,037,313	7,479,805
Grants cancelled	(15,872)	(43,500)
Change in net assets	4,853,088	5,166,329
Unrestricted net assets:		
Beginning of year	127,839,258	122,672,929
End of year	\$ 132,692,346	\$ 127,839,258

S. H. COWELL FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended December 31,

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 4,853,088	\$ 5,166,329
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized (gain) loss on investments	(3,284,607)	14,547,269
Net unrealized gain on investments	(9,574,648)	(27,478,327)
Discount on notes receivable	(22,167)	(117,312)
Depreciation	17,317	30,489
Deferred excise tax	191,450	250,550
(Increase) decrease in assets:		
Excise tax receivable	121,675	(50,650)
Other assets	751	(37,947)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,736	(92,428)
Excise tax payable	15,932	-
	(7,670,473)	(7,782,027)
Net cash used by operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	18,288,764	99,176,749
Purchase of investments	(13,771,464)	(97,678,447)
Partnership distributions	623,980	10,911,185
Purchase of property and equipment	-	(4,765)
	5,141,280	12,404,722
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	(2,529,193)	4,622,695
Cash and cash equivalents:		
Beginning of year	8,689,230	4,066,535
End of year	\$ 6,160,037	\$ 8,689,230

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

S. H. Cowell Foundation (the Foundation) is a nonprofit public benefit corporation established in 1956 through a bequest by Samuel H. Cowell. Guided by its mission and a vision where people across all sectors strive together to build and sustain strong communities that support low-income children and families and expand their life opportunities, the Foundation's grantmaking is rooted in a strategy that is both place-based and complementary.

The Foundation's Board of Directors and staff efforts are guided by values that infuse the Foundation's mission and vision: grounded in vigor; direct; inclusive; build on connections; supportive of grantee leadership; and founded on knowledge.

The Foundation's mission is:

"to improve the quality of life of children living in poverty in Northern and Central California by providing support that strengthens families and communities."

Basis of Accounting

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that the Foundation 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. Accordingly, the net assets of the Foundation are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the Foundation's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Classification of Net Assets (continued)

The Foundation does not presently have any net assets or activities meeting the definition of temporarily restricted or permanently restricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 most significant estimates involve the valuation of non-marketable securities.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables earn interest based on the prevailing rates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents.

Investments

Investments traded on national exchanges are recorded at fair value as determined by the exchanges' quoted prices; unrealized gains and losses are included in the statements of activities.

The Foundation also has investments in limited companies, limited liability companies, and limited partnerships (Notes 2 and 3) which are valued at their estimated fair value as reported to the Foundation by the general partners of the limited partnerships and investment managers under the supervision of the respective funds' Boards of Managers of those limited liability companies. Because these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The estimated fair values are reviewed and evaluated by the Foundation.

Certain mineral rights have been retained in property sold. Carrying values have been assigned to these interests based upon capitalization of estimated royalty income.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Foundation's Investment Committee is responsible for establishing investment criteria and overseeing the Foundation's investments.

Investments in Transit

Investments in transit represent investment contributions recorded by the Foundation that had not yet been received by the investment managers at December 31, 2010 and 2009.

Notes Receivable

Notes receivable are interest only notes and are stated at the principal amount or net present value if due beyond one accounting cycle. Interest on notes receivable is recognized over the term of the note and is calculated using the simple interest method on principal amounts outstanding. Management evaluates the collectability of notes receivable annually and at December 31, 2010 and 2009, no allowance was considered necessary.

Property and Equipment

The Foundation capitalizes acquisitions of property and equipment with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of the asset's life or the lease term. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statements of activities.

Revenue Recognition

Revenue is recognized in the period in which it is earned. The Foundation derives its revenues from the interest and dividends earned from its investments and notes receivable and from the change in fair value of its investment assets. Realized and unrealized gains (losses) and investment income (losses) derived from investment transactions are included as income in the year earned.

Grant Awards

Grants are characterized as either conditional or unconditional. Conditional grants are those that depend upon the occurrence of a specified future and uncertain event to bind the Foundation. These grants are not reflected in the financial statements until the period in which the conditions upon which they depend are substantially met, that is, when they become unconditional. Grant awards that are more than \$25,000 are recognized when the award is approved by the Board of Directors. If \$25,000 or under, the award is recognized when approved by the President of the Foundation.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant Awards (Continued)

The balances of unexpended grants are required to be returned to the Foundation. Such amounts are recognized when known, usually when final reports are submitted to the Foundation from grantees.

Income Taxes

The Foundation is a qualified organization exempt from federal and California income taxes under the provisions of §501(c)(3) of the Internal Revenue Code (IRC) and §23701d of the California Revenue and Taxation Code. The Foundation also qualifies as a private foundation under the provisions of §509(a) of the IRC, and as such, is subject to either a 1% or 2% federal excise tax on its net investment income based upon the Foundation's history of contributions paid.

Federal excise tax expense (benefit) includes taxes currently payable and those deferred because of temporary differences between the estimated future tax effects of financial statement carrying amounts and the tax bases of existing assets and liabilities.

The Foundation has adopted the accounting standard on accounting for uncertainty in income taxes, which 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 and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax-exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The Foundation's evaluation on December 31, 2010 revealed no tax positions that would have a material impact on the financial statements. The years 2007 through 2010 remain subject to examination by the Internal Revenue Service. In addition, the years 2006 through 2010 remain subject to examination by the California Franchise Tax Board. The Foundation does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Concentrations of Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments.

The Foundation maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to this concentration.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Risk (Continued)

The Foundation invests in various investments that are not covered by federal insurance. These investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the Foundation's balances and the amounts reported in the statements of financial position. To minimize its exposure to these risks, the Foundation's Investment Committee closely monitors all its investments in accordance with the Foundation's policies.

Reclassifications

Certain amounts in the comparative totals for 2009 have been reclassified to conform to the 2010 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009. The new requirement that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it will not have any impact on the Foundation's financial statements.

2. FAIR VALUE MEASUREMENTS

The Foundation's financial assets that are carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation’s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used for the years ended December 31, 2010 and 2009.

Equity Securities, Fixed Income Funds, and Mutual Funds: Equity securities and mutual funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. The Foundation’s interests in such investments are categorized as corporate stock/equity funds, money market funds, corporate bond funds, and government obligation funds. Such securities are classified within Level 2 of the valuation hierarchy.

Investments in Limited Companies, Limited Liability Companies, and Limited Partnerships: Investments in limited companies, limited liability companies, and limited partnerships are typically valued utilizing the net asset valuations provided by the companies, general partners and/or their administrators. The Foundation’s management considers subscription and redemption rights, including any restrictions on the disposition of the interest in its determination of fair value. Investments in limited companies, limited liability companies, and limited partnerships are included in Level 3 of the fair value hierarchy.

Mineral Rights: The fair value of mineral rights are based on inputs that are not observable in the market, thus the Foundation has categorized these investments as Level 3 in the fair value hierarchy.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides information as of December 31, 2010 about the Foundation's financial assets measured at fair value on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Limited companies, limited liability companies, and limited partnerships	\$ 85,349,345	\$ -	\$ -	\$ 85,349,345
Equity securities, fixed income funds, and mutual funds	26,740,639	-	26,740,639	-
Mineral rights	<u>374,000</u>	<u>-</u>	<u>-</u>	<u>374,000</u>
	<u>\$ 112,463,984</u>	<u>\$ -</u>	<u>\$ 26,740,639</u>	<u>\$ 85,723,345</u>

The following table provides information as of December 31, 2009 about the Foundation's financial assets measured at fair value on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Limited companies, limited liability companies, and limited partnerships	\$ 68,871,373	\$ -	\$ -	\$ 68,871,373
Equity securities, fixed income funds, and mutual funds	40,000,636	-	40,000,636	-
Mineral rights	<u>374,000</u>	<u>-</u>	<u>-</u>	<u>374,000</u>
	<u>\$ 109,246,009</u>	<u>\$ -</u>	<u>\$ 40,000,636</u>	<u>\$ 69,245,373</u>

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

The amount of total gains (losses) for the years ended December 31, 2010 and 2009 included in the statements of activities attributable to the change in unrealized gains relating to assets still held at the reporting date is \$9,016,052 and \$7,625,980, respectively.

The following table sets forth additional disclosures of the Foundation's investments whose fair value is estimated using net asset value per share as of December 31, 2010:

Description	Total Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited companies, limited liability companies, and limited partnerships:				
Longleaf Partners Funds	\$ 13,192,105	\$ -	Daily	None
Generation IM Fund PLC	9,832,128	-	Quarterly (a)	30 days
Acacia Conservation Fund (Offshore), Ltd.	8,563,315	-	Semi-annually	30 days
Steadfast International, Ltd.	6,944,791	-	Quarterly (b)	60 days
Brookside II Cayman Limited	5,712,873	-	Quarterly	60 days
Eton Park Overseas Fund, Ltd.	5,488,356	-	Annually (c)	65 days
Aurelius Capital International, Ltd.	5,065,704	-	Semi-annually	65 days
Protégé Partners Fund, Ltd.	4,691,582	-	Semi-annually	75 days
Fir Tree International Value Fund, Ltd.	3,975,339	-	Bi-annually (d)	60 days
RoyalCap Value Fund, Ltd.	3,575,916	-	Annually (e)	90 days
Taconic Opportunity Offshore Fund, Ltd.	3,446,586	-	Quarterly (f)	60 days
Centerbridge Credit Partners TE, L.P.	3,418,530	-	Annually (g)	90 days
Legacy Venture II, LLC	3,041,500	2,850,000	None	None
Mount Kellett Capital Partners (Cayman), L.P.	2,804,761	448,179	None	None
Fortress Credit Opportunities Fund II (B) L.P.	2,434,426	1,361,758	None	None
HCP Credit Dislocation Fund-A, L.P.	1,802,177	-	None	None
WGI Emerging Markets Fund, LLC	1,276,989	-	Monthly	30 days
Ironwood Partners SPV Ltd.	82,267	-	None	None
	<u>\$ 85,349,345</u>	<u>\$ 4,659,937</u>		

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Redemption provision includes a 1% early withdrawal penalty prior to the third anniversary of contribution.

(b) Investment includes two tiers: redemption frequency on the first tier is as of the first year anniversary of contribution and quarterly thereafter. The redemption frequency on the second tier is tri-annually as of the anniversary of contribution with 60 days notice. Up to 10% of the investment may be withdrawn annually on March 1st.

(c) Redemption frequency is annually on quarter-end of anniversary of contribution. One-third of the capital is available annually after expiration of the initial lock-up period with a three-year rolling lock thereafter.

(d) Redemption frequency is as of each two-year anniversary of contribution. 10% of the capital available on December 31st of the previous year is available with 60 days notice.

(e) Redemption frequency is annually on quarter-end of anniversary of contribution.

(f) 100% of the investment is available on the annual anniversary date of contribution, with 25% being available quarterly, thereafter. Investors may elect to redeem up to 100% of capital on any month end subject to a 5% withdrawal fee.

(g) Redemption frequency is annually on anniversary of contribution. The redemption provision includes a two-year lock on 50% of the investment with a rolling two-year lock thereafter. There is also a three-year lock on the remaining 50% with a two-year rolling lock thereafter.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

3. INVESTMENTS

Investments consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Equity securities, fixed income funds, and mutual funds:		
Loomis Sayles Core Trust	\$ 26,740,639	\$ 28,941,500
State Street Bank and Trust Company	-	11,059,136
Limited companies, limited liability companies, and limited partnerships:		
Longleaf Partners Funds	13,192,105	10,503,031
Generation IM Fund PLC	9,832,128	8,680,792
Acacia Conservation Fund (Offshore), Ltd.	8,563,315	5,192,780
Steadfast International, Ltd.	6,944,791	6,500,000
Brookside II Cayman Limited	5,712,873	5,482,123
Eton Park Overseas Fund, Ltd.	5,488,356	5,006,762
Aurelius Capital International, Ltd.	5,065,704	3,965,497
Protégé Partners Fund, Ltd.	4,691,582	4,446,661
Fir Tree International Value Fund, Ltd.	3,975,339	3,466,053
RoyalCap Value Fund, Ltd.	3,575,916	3,530,533
Taconic Opportunity Offshore Fund, Ltd.	3,446,586	3,297,317
Centerbridge Credit Partners TE, L.P.	3,418,530	2,851,000
Legacy Venture II, LLC	3,041,500	2,270,834
Mount Kellett Capital Partners (Cayman), L.P.	2,804,761	1,097,955
Fortress Credit Opportunities Fund II (B) L.P.	2,434,426	-
HCP Credit Dislocation Fund-A, L.P.	1,802,177	1,577,766
WGI Emerging Markets Fund, LLC	1,276,989	-
Ironwood Partners SPV Ltd.	82,267	486,793
Deccan Value Advisors Fund, Ltd.	-	515,476
Mineral rights	<u>374,000</u>	<u>374,000</u>
	<u>\$ 112,463,984</u>	<u>\$ 109,246,009</u>

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

3. INVESTMENTS (CONTINUED)

In 2010, the Foundation newly invested in the following non-marketable security investments, for which the Foundation had yet to be called upon for its full commitment at and through December 31, 2010:

- Legacy Venture II, LLC, which was formed to provide superior long-term investment returns and to encourage its members that all of the proceeds be given by them to their designated charities. The Foundation is committed to invest \$3,000,000 to be called upon by the limited partnership, and through December 31, 2010 had invested \$150,000.
- Fortress Credit Opportunities Fund II (B) L.P., a limited partnership, which invests in a range of distressed and undervalued credit investments primarily in North America and Western Europe. The Foundation is committed to invest \$3,500,000 to be called upon by the limited partnership, and through December 31, 2010 had invested \$2,138,242.

In 2009, the Foundation newly invested in the following non-marketable security investments, for which the Foundation had yet to be called upon for its full commitment at and through December 31, 2010:

- Mount Kellett Capital Partners (Cayman), L.P., a limited partnership, which invests through a master fund in opportunities in debt and equity of private and public companies. The Foundation is committed to invest \$3,000,000 to be called upon by the limited partnership, and through December 31, 2010 had invested \$2,551,821.

At December 31, 2010, the Foundation had been fully called upon for its commitment in the following non-marketable security investments:

- Longleaf Partners Funds, which invests primarily in foreign companies believed to be significantly undervalued.
- Generation IM Fund PLC, whose mission is to deliver superior investment performance by taking a long-term investment view and by integrating sustainability research with rigorous fundamental equity analysis.
- Acacia Conservation Fund (Offshore), Ltd., which invests opportunistically in the common stocks of growing businesses with superior economic characteristics and good management.
- Steadfast International, Ltd., which is a long-based, fundamentally based equity hedge fund with the objective of compounding 10-20% net annual returns over a market cycle. While the fund may invest globally, U.S.-based companies have historically comprised a majority of the portfolio.
- Brookside II Cayman Limited, which employs a fundamentally-based strategy to invest in public equities globally and is net long-biased, and generally employs modest leverage to enhance returns.
- Eton Park Overseas Fund, Ltd., whose investment objective is to deliver superior risk-adjusted returns with an absolute return orientation over an extended period of time.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

3. INVESTMENTS (CONTINUED)

- Aurelius Capital International, Ltd., which is a multi-strategy fund, focusing on distressed and event-driven situations with definable catalysts, including stressed and distressed credits, equity transactions, litigation, and capital structure arbitrage.
- Protégé Partners Fund, Ltd., which invests with boutique managers with a particular area of “edge” or expertise. The fund is diversified among Directional, Event-Driven, and Relative Value managers that offer superior risk and reward characteristics with low correlation to traditional capital market indices.
- Fir Tree International Value Fund, Ltd., which attempts to identify and capitalize on mispricings that result from market overreactions to corporate events. Allocations include long value equity investments, restructurings, distressed, and capital structure arbitrage.
- RoyalCap Value Fund, Ltd., which invests in companies undergoing significant change such as reorganizations and restructurings; and complexity in evaluating fundamental value.
- Taconic Opportunity Offshore Fund, Ltd., which focuses on multi-strategy funds. It is a more concentrated version of Taconic’s flagship funds, and has a relatively higher risk profile.
- Centerbridge Credit Partners TE, L.P., which targets non-control investments in distressed securities and undervalued credit investments such as leverage loans, high yield bonds, specialty financing and structured products.
- HCP Credit Dislocation Fund-A, L.P., a limited partnership, which targets investments across a broad array of opportunities in credit via external investment managers.
- WGI Emerging Markets Fund, LLC, which seeks to generate superior returns by investing on a fundamental, bottom-up basis in undervalued emerging markets equities.
- Ironwood Partners SPV Ltd., which was formed for the purpose of liquidating illiquid investments held by redeeming shareholders in Ironwood International Ltd. and Ironwood Institutional Ltd.

S. H. COWELL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

4. NOTES RECEIVABLE

Notes receivable are comprised of the following:

- A \$5,500,000 note issued in August 2001 secured by a first deed of trust relating to the sale of real property. The latest note amendment in June 2009 calls for repayment of principal due June 23, 2012 with interest payable quarterly at 5.50%.
- A \$1,000,000 program related investment loan, 50% guaranteed by another foundation, issued in January 2005. The terms call for repayment of principal due June 10, 2012 with interest payable monthly at 2.50%. The principal amount due at December 31, 2010, net of unamortized discount of \$14,833 (\$22,167 in 2009) at 0.95%, was \$985,167 (\$977,833 in 2009).
- A \$1,000,000 program related investment loan, issued in September 2005, drawn down in three stages with the final draw in February 2008. The terms call for repayment of principal due September 16, 2012 with interest to be accrued at 2.50% and repaid from the proceeds of a construction loan for the development of low income housing on the real property, which serves as security of the note. The principal amount due at December 31, 2010, net of unamortized discount of \$29,445 (\$22,167 in 2009) at 0.95%, was \$970,555 (\$977,833 in 2009).
- A \$1,000,000 unsecured recoverable grant issued in December 2006 that calls for repayment of principal due December 21, 2011 with interest payable annually at 2.50%. The principal amount due at December 31, 2010, net of unamortized discount of \$0 (\$14,833 in 2009) at 0.95%, was \$1,000,000 (\$985,167 in 2009).
- A \$1,000,000 unsecured recoverable grant issued in October 2006 that calls for repayment of principal due November 1, 2013 with interest payable annually at 2.50%. The principal amount due at December 31, 2010, net of unamortized discount of \$22,167 (\$29,446 in 2009) at 1.20%, was \$977,833 (\$970,555 in 2009).

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following at December 31:

	2010	2009
Office furniture and equipment	\$ 285,728	\$ 287,641
Leasehold improvements	42,687	42,687
	328,415	330,328
Less accumulated depreciation	(313,944)	(298,540)
	\$ 14,471	\$ 31,788

Depreciation expense for the years ended December 31, 2010 and 2009 was \$17,317 and \$30,489, respectively.

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6. FEDERAL EXCISE TAX

The Foundation is subject to federal excise taxes at a rate of 2% and 1% for the years ended December 31, 2010 and 2009, respectively. The Foundation prudently pays estimated federal excise taxes during the year at the 2% rate. Deferred excise taxes arise primarily from the difference in the tax accounting basis of investments and this temporary difference is provided at the 2% tax rate. For the years ended December 31, 2010 and 2009, the change in deferred excise taxes is due to the net market increase of investments. The deferred excise tax liability represents the tax outcome should all the investments be sold.

The components of the federal excise tax (benefit) expense are as follows:

	2010	2009
Current federal excise taxes	\$ 114,130	\$ (50,650)
Deferred federal excise taxes	191,450	250,550
	\$ 305,580	\$ 199,900

The Tax Reform Act of 1984 requires that certain minimum distributions be made in accordance with a specified formula. For the years ended December 31, 2010 and 2009, the Foundation made charitable distributions in excess of the required minimum. As of December 31, 2010, the Foundation has estimated carryforwards to meet future charitable distribution requirements which expire as follows:

2011	\$ 2,670,000
2012	2,009,000
2013	4,436,000
2014	4,133,000
2015	2,058,000
	\$ 15,306,000

7. RETIREMENT PLANS

The Foundation has a defined contribution retirement plan (the Plan) established under IRC §403(b). All employees are eligible to participate in the Plan upon three months of continuous service and make voluntary contributions by salary reductions to the Plan up to the limit allowed by law.

The Foundation also has a money purchase pension plan and contributes up to 15% of each eligible employee's annual compensation. For the years ended December 31, 2010 and 2009, the Foundation contributed \$146,972 and \$143,553, respectively, to the money purchase pension plan.

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8. GRANTS PAYABLE

Conditional grants, which have not been recorded at December 31, 2010 and 2009, amounted to \$735,000 and \$2,535,000, respectively.

The conditions associated with these grants are expected to be satisfied and paid in the years ending December 31 as follows:

2011	\$ 613,000
2012	111,000
2013	<u>11,000</u>
	<u>\$ 735,000</u>

9. RELATED PARTY TRANSACTIONS

Various members of the Board of Directors and employees of the Foundation are also board members or officers of organizations that have been awarded grants from the Foundation. For the years ended December 31, 2010 and 2009, \$102,500 was paid to four separate organizations and \$130,000 to five separate organizations, respectively, of which, a Foundation board member or employee was also a board member or officer of the grantee. The Foundation board members or employees do not receive any compensation from grantees when serving as a board member or officer of the grantee.

The Foundation has a Conflict of Interest Policy, whereby directors and employees are expected to make full disclosure whenever a prospective grantee is one with which they have a close professional or family relationship, and they are expected to abstain from making decisions relating to that grantee. All members of the Board of Directors are prohibited from benefiting from any grants awarded by the Foundation.

The Foundation also has a matching grant policy that will match \$3 for every \$1 donated by directors or employees, up to a maximum of \$25,000 for each individual. For the years ended December 31, 2010 and 2009, the Foundation made matching grants of \$136,543 and \$175,505, respectively.

10. COMMITMENTS

The Foundation has a lease agreement for office space in San Francisco, California, with monthly base rent ranging from \$12,784 to \$13,076, expiring in December 2011.

Subsequent to December 31, 2010, the Foundation entered into a new lease agreement for new office space in San Francisco, California, with a monthly base rent ranging from \$11,506 to \$14,743. This lease commences the date upon which the tenant improvements are substantially completed, which is anticipated to be December 12, 2011 and expires in December 2021.

The minimum lease commitment for the year ending December 31, 2011 is \$157,000.

For the years ended December 31, 2010 and 2009, rent expense was \$198,554 and \$153,862, respectively.

The Foundation is also committed under various agreements and contracts covering future periods, which collectively are not material to its financial position or results of its activities.

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11. SUBSEQUENT EVENTS

The Foundation has evaluated all subsequent events through October 13, 2011, the date the financial statements were available to be issued.