

THE WINTHROP ROCKEFELLER FOUNDATION

**Financial Statements
December 31, 2007 and 2006
(With Independent Auditor's Report Thereon)**

**RASCO WINTER
ABSTON MOORE
& ASSOCIATES LLP**

A Limited Liability Partnership of Professional Corporations

Independent Auditor's Report

The Board of Directors
The Winthrop Rockefeller Foundation

We have audited the accompanying statements of financial position of The Winthrop Rockefeller Foundation (the "Foundation") as of December 31, 2007 and 2006, the related statements of activities and changes in net assets and cash flows for the years ended December 31, 2007 and 2006. 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 the Foundation as of December 31, 2007 and 2006, 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.

Rasco Winter Abston Moore & Associates, LLP

May 19, 2008

THE WINTHROP ROCKEFELLER FOUNDATION

**Statements of Financial Position
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 4,373,041	3,211,891
Marketable securities	145,044,877	139,246,112
Program related investments	5,674,931	5,806,564
Accrued interest receivable	266,046	227,032
Land, building and equipment, net	100,106	129,424
Other assets	13,214	24,052
	<u>\$ 155,472,215</u>	<u>148,645,075</u>
<u>Liabilities and Net Assets</u>		
Grants payable	\$ 17,177,725	12,127,594
Accounts payable	28,156	36,715
Other liabilities	422,476	674,492
Unrestricted net assets	137,843,858	135,806,274
	<u>\$ 155,472,215</u>	<u>148,645,075</u>

See accompanying notes to financial statements.

THE WINTHROP ROCKEFELLER FOUNDATION

**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Revenues and gains:		
Contributions	\$ 267,000	200,250
Investment return including gains	15,345,865	15,538,670
Other	12,081	10,904
Total revenues and gains	<u>15,624,946</u>	<u>15,749,824</u>
Expenses:		
Program services:		
Grants	10,908,640	9,259,433
Program administration	531,404	399,725
Total program services	<u>11,440,044</u>	<u>9,659,158</u>
Supporting activities:		
Investment management expense	793,815	777,653
Federal excise tax	254,021	190,085
General administration	1,099,482	1,939,492
Total supporting activities	<u>2,147,318</u>	<u>2,907,230</u>
Total expenses	<u>13,587,362</u>	<u>12,566,388</u>
Change in unrestricted net assets	2,037,584	3,183,436
Unrestricted net assets, beginning of year	<u>135,806,274</u>	<u>132,622,838</u>
Unrestricted net assets, end of year	<u>\$ 137,843,858</u>	<u>135,806,274</u>

See accompanying notes to financial statements.

THE WINTHROP ROCKEFELLER FOUNDATION

**Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006**

	2007	2006
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 2,037,584	3,183,436
Adjustments to reconcile change in unrestricted net assets to net cash used by operating activities:		
Depreciation	29,318	27,721
Net realized and unrealized gains on marketable securities	(11,826,254)	(12,430,509)
Changes in operating assets and liabilities:		
Accrued interest receivable	(39,014)	2,442
Prepaid taxes	-	72,554
Other assets	10,838	734
Grants payable	5,050,131	5,229,545
Accounts payable	(8,559)	24,417
Other liabilities	(252,016)	483,556
Net cash used by operating activities	(4,997,972)	(3,406,104)
Cash flows from investing activities:		
Purchase of fixed assets	-	(60,584)
Purchases of marketable securities	(64,466,524)	(62,100,718)
Proceeds from sale of marketable securities and principal paydowns	70,494,013	65,367,987
Purchases of program related investments	-	(625,000)
Proceeds from program related investments	131,633	144,191
Net cash provided by investing activities	6,159,122	2,725,876
Net change in cash and cash equivalents	1,161,150	(680,228)
Cash and cash equivalents:		
Beginning of year	3,211,891	3,892,119
End of year	\$ 4,373,041	3,211,891

See accompanying notes to financial statements.

THE WINTHROP ROCKEFELLER FOUNDATION

Notes to Financial Statements December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies

Organization: The Winthrop Rockefeller Foundation (the “Foundation”), is a private, not-for-profit foundation dedicated to the economic and social well-being of Arkansans. The Foundation is a recipient of an endowment from the Estate of Winthrop Rockefeller.

The Foundation’s vision is Arkansas as a state where economic, racial, and social justice is universally valued and practiced. By using its resources to support and strengthen organizations that build and sustain strong communities, the Foundation carries out its missions of education, economic development, and economic, racial, and social justice.

The following is a summary of the significant accounting policies used in preparation of the accompanying financial statements. Such policies are in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Marketable Securities: Investments in marketable securities are stated at estimated fair values as established by quoted prices. Changes in fair values are included in unrealized gains (losses) and are recorded in the period they occur. Gains or losses on sales of investments are recognized on the transaction trade dates and included in investment return in the statement of activities. The Foundation accounts for declines in the fair value of investment securities to an amount below their cost, which continues for more than twelve consecutive months as a permanent decline and reflects such declines as realized losses.

Program Related Investments: Investments in entities whose purpose is to assist in relieving poverty, creating jobs, or revitalizing the economy are classified as program related investments in the statement of financial position. The Foundation typically provides debt or equity capital to further the entities’ purposes, and such items are carried at cost unless events indicate a permanent decline in value at which time the investment is reduced to recognize such decline.

Land, Building and Equipment: Land, building and equipment are recorded at cost, net of accumulated depreciation. The Foundation capitalizes additions of land, building and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 20 years.

Allocation of Administration Expenses: The administrative staff of the Foundation spends its time working on various charitable programs and supporting activities. The staff's salaries, other compensation-related expenses, and certain other expenses are charged directly to the various functional classifications on the basis of time spent and expenses incurred in support of these functions.

Income Taxes: The Foundation is a non-profit organization which is exempt from income taxes pursuant to Internal Revenue Code Section 501(c)(3). However, the Foundation's net investment income is subject to excise taxes.

Grants: Grants made by the Foundation are recorded when the grants are approved by the Foundation's Board of Directors. All grantees are required to be tax-exempt organizations at the time the funds are advanced. Any grants which have not been funded as of the balance sheet date are recorded in grants payable.

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 and such differences could be significant. The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

(2) **Marketable Securities**

Marketable securities at estimated fair value consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Equity securities	\$ 62,006,941	59,810,357
Domestic mutual funds	20,680,049	21,371,553
International mutual funds	14,895,236	14,767,579
Domestic debt mutual funds	47,462,651	43,296,623
	<u>\$ 145,044,877</u>	<u>139,246,112</u>

Investment return consisted of the following for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 3,519,611	3,108,161
Net realized and unrealized gain on marketable securities	<u>11,826,254</u>	<u>12,430,509</u>
	<u>\$ 15,345,865</u>	<u>15,538,670</u>

During the year ended December 31, 2006, the Foundation reduced the carrying value of certain investments by \$1,122,649 due to a permanent decline in value.

(3) **Program Related Investments**

At December 31, 2007 and 2006, the program related investment balance includes funds invested in entities whose primary activities include promoting entrepreneurship and strengthening local economies in Arkansas. These entities and the related investment amounts are as follows:

- a. Southern Development Bancorporation (“Southern”) – Southern is a bank holding company established for the purpose of conducting rural economic development activities in Arkansas.

	<u>2007</u>	<u>2006</u>
Voting common stock	\$ 700,000	700,000
Nonvoting common stock	<u>3,705,000</u>	<u>3,705,000</u>
	<u>\$ 4,405,000</u>	<u>4,405,000</u>

- b. Shorebank Corporation (“Shorebank”) – Shorebank is a bank holding company headquartered in Chicago, Illinois, which provided assistance necessary for the formation of Southern. As of December 31, 2006, the Foundation held a note receivable in the amount of \$8,000 from Shorebank bearing interest at two thirds of the prime rate, as defined, for the redemption of 1.6 shares of stock at \$5,000 per share. The note receivable matured on July 1, 2007. The Foundation has no dividend or voting rights with respect to this note receivable.

Promissory notes	\$ <u>-</u>	<u>8,000</u>
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- c. Southern Financial Partners (“SFP”) – SFP is a nonprofit entity established for the purpose of economic development in rural, disadvantaged areas of Arkansas.

Note receivable with interest at 2%, payable in quarterly principal and interest payments of \$33,895, with all unpaid principal and accrued interest due December 1, 2011.

\$	<u>519,931</u>	<u>643,564</u>
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- d. Fund for Arkansas’ Future (“Fund”) – The Fund is a venture capital group established for the purpose of developing Arkansas entrepreneurship.

Investment in Fund

\$	<u>250,000</u>	<u>250,000</u>
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- e. Diamond State Ventures II (“Diamond”) – Diamond is a venture capital fund established to make equity and subordinated debt investments in early and expansion stage business in Arkansas and very selectively in surrounding states.

Investment in Fund

\$	<u>500,000</u>	<u>500,000</u>
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Total program related investments

\$	<u><u>5,674,931</u></u>	<u><u>5,806,564</u></u>
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(4) Land, Building and Equipment

Land, building and equipment consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Land	\$ 6,000	6,000
Building and leasehold improvements	208,816	208,816
Office equipment and furnishings	314,322	314,322
Computer software and hardware	54,474	54,474
	<u>583,612</u>	<u>583,612</u>
Less accumulated depreciation and amortization	<u>483,506</u>	<u>454,188</u>
	<u><u>\$ 100,106</u></u>	<u><u>129,424</u></u>

Depreciation expense for the years ended December 31, 2007 and 2006 was \$29,318 and \$27,721, respectively.

The Foundation building, an Italianate house built in 1883, is listed in the National Register of Historic Places and is located in the MacArthur Park Historic District. Within the building, the Foundation maintains antique fine furnishings, the majority of which were donated by the Estate of Winthrop Rockefeller. The estimated fair value of the Foundation's antique fine furnishings was approximately \$300,000 at December 31, 2007 and 2006. The value of the antiques is not reflected in the statements of financial position.

(5) Grants Payable

Grants payable are due to be paid for years subsequent to December 31, 2007 as follows:

2008	\$ 6,903,041
2009	3,729,974
2010	2,995,265
2011	2,615,579
2012	933,866
	<u>\$ 17,177,725</u>

(6) Capital Grants

Since inception, the Foundation has received \$25,050,000 as of December 31, 2007 and 2006 in capital grants ("grants") from the Trust Under the Will of Winthrop Rockefeller (the "Trust"), and it is agreed for such grants that neither the grant nor any income from it may be used for purposes other than those described in section 170(c)(2)(B) of the Internal Revenue Code. In the event that any portion of the grant or the income from it is used for purposes other than those described in section 170(c)(2)(B), the Foundation will refund to the Trust any portion of the grant or the income from it which has been used for purposes other than those described in section 170(c)(2)(B). Further, on request from the Trust, the full amount of the grant which has not already been used for purposes described in section 170(c)(2)(B), the Foundation will pay over to the Trust any additional amount which may be necessary to effect a correction under section 4945 of the Internal Revenue Code, provided the Trust notifies the Foundation of the necessity to effect a correction. In addition, the Trust may withhold further payments to the Foundation. Management does not anticipate being required to return any funds received as the full amount of capital grants received to date has been used for purposes described in section 170(c)(2)(B).

(7) **Related Party Transactions**

Certain members of the Foundation's Board of Directors serve on the boards of or are employed by various grantees. The Foundation awarded grants of \$335,800 and \$3,250,000 during the years ended December 31, 2007 and 2006, respectively, to grantees which had relationships with the Foundation's Board of Directors.

The Foundation received operating support grants from the Trust of \$267,000 and \$200,250 in 2007 and 2006, respectively. Operating support grants were expended for operations in the year received.

(8) **Employee Benefit Plans**

Under the Winthrop Rockefeller Foundation Retirement Plan (the "Plan"), all employees are eligible to participate in the Plan and can contribute up to the maximum percentage of compensation allowed by the Internal Revenue Code with the Foundation matching 100% of the first 6% of compensation contributed by each participant. Additionally, the Foundation contributes 5% of each participant's compensation to the Plan. Such contributions are invested in variable life tax-sheltered annuities. The amount contributed to the Plan by the Foundation totaled \$61,576 and \$67,416 for the years ended December 31, 2007 and 2006, respectively.

(9) **Distribution Requirement**

The Internal Revenue Code of 1986, as amended, provides for penalties, which may be imposed upon a private foundation, such as the Foundation, if it fails to make qualifying distributions equal to its minimum investment return reduced by excise taxes within the year of receipt and the succeeding taxable year. Minimum investment return is equal to 5% of the aggregate fair market value of all of the Foundation's assets not directly used in carrying out the Foundation's exempt purpose. The penalties are 15% of the undistributed minimum investment return and 100% of such minimum investment return if it is not distributed by the earlier of the date of mailing a notice of deficiency with respect to the 15% penalty or the date on which the 15% penalty is assessed. The Foundation anticipates making the required distributions in the time frame necessary to avoid penalties.

As of December 31, 2007, the Foundation has made qualifying distributions in excess of the required distributable amount, resulting in an excess distribution carryover of \$97,634, expiring in 2009.

(10) **Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of those instruments.

Marketable Securities: The fair values of marketable securities are estimated based on quoted market prices or market prices of similar investments.

Grants Payable: The fair value of the Foundation's grants payable is estimated to approximate the carrying value of these instruments due to their nature.

The estimated fair values of the Foundation's financial instruments as of December 31, 2007 and 2006 are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Assets:				
Cash and cash equivalents	\$ 4,373,041	4,373,041	3,211,891	3,211,891
Marketable securities	145,044,877	145,044,877	139,246,112	139,246,112
Liabilities:				
Grants payable	17,177,725	17,177,725	12,127,594	12,127,594