

Report of Independent Auditors

To The Board of Trustees of The Ford Foundation:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the Ford Foundation at September 30, 2009 and 2008, 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. These financial statements are the responsibility of the Ford Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York
December 11, 2009

THE FORD FOUNDATION

STATEMENTS OF FINANCIAL POSITION
(in thousands)

	As of September 30,	
	<u>2009</u>	<u>2008</u>
ASSETS		
Investments, at fair value	\$ 9,797,732	\$ 10,756,535
Accrued interest and dividends receivable	27,864	31,962
Pending securities, net	<u>213,445</u>	<u>81,757</u>
	10,039,041	10,870,254
Cash	2,815	1,646
Federal excise tax receivable	100	3,900
Other receivables and assets	15,223	13,490
Program-related investments, net of allowances for possible losses of \$23,700 (\$23,671 at September 30, 2008)	145,062	125,967
Fixed assets, net of accumulated depreciation of \$93,811 (\$91,338 at September 30, 2008)	<u>32,619</u>	<u>29,871</u>
Total assets	<u>\$ 10,234,860</u>	<u>\$ 11,045,128</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Unpaid grants	\$ 243,968	\$ 261,013
Payables and other liabilities	60,500	79,812
Deferred federal excise tax liability	<u>1,194</u>	<u></u>
Total liabilities	<u>305,662</u>	<u>340,825</u>
Contingencies, commitments and guarantees		
Unrestricted net assets		
Appropriated	31,533	44,746
Unappropriated	<u>9,897,665</u>	<u>10,659,557</u>
Total unrestricted net assets	<u>9,929,198</u>	<u>10,704,303</u>
Total liabilities and unrestricted net assets	<u>\$ 10,234,860</u>	<u>\$ 11,045,128</u>

(See notes to financial statements)

THE FORD FOUNDATION

STATEMENTS OF ACTIVITIES

(in thousands)

	For the year ended September 30,	
	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
INCOME		
Dividends	\$ 110,436	\$ 182,300
Interest	175,659	154,367
Realized (depreciation) appreciation on investments, net	(553,092)	480,529
Unrealized appreciation (depreciation) on investments, net	116,569	(2,740,016)
Expenses incurred in the production of income	<u>(29,979)</u>	<u>(37,489)</u>
Total income	<u>(180,407)</u>	<u>(1,960,309)</u>
EXPENDITURES		
Program activities:		
Grants approved	457,050	539,632
Provision for possible losses on program-related investments	5,337	1,788
Direct conduct of charitable activities	3,827	5,631
Program management	<u>59,366</u>	<u>63,785</u>
	525,580	610,836
General management	37,431	34,571
Provision (benefit) for federal excise tax		
Current	2,200	17,700
Deferred	1,194	(53,663)
Depreciation	<u>5,817</u>	<u>5,749</u>
Total expenditures	<u>572,222</u>	<u>615,193</u>
Change in unrestricted net assets from operating activities	(752,629)	(2,575,502)
NON-OPERATING ACTIVITIES		
Pension-related and post-retirement changes other than net periodic pension costs	<u>(22,476)</u>	<u>3,890</u>
Change in unrestricted net assets	(775,105)	(2,571,612)
Unrestricted net assets at beginning of year	<u>10,704,303</u>	<u>13,275,915</u>
Unrestricted net assets at end of year	<u>\$ 9,929,198</u>	<u>\$ 10,704,303</u>

(See notes to financial statements)

THE FORD FOUNDATION

STATEMENTS OF CASH FLOWS
(in thousands)

	For the year ended September 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	\$ (775,105)	\$ (2,571,612)
Adjustments to reconcile change in unrestricted net assets to net cash used by operating activities:		
Realized depreciation (appreciation) on investments, net	553,092	(480,529)
Unrealized (appreciation) depreciation on investments, net	(116,569)	2,740,016
Depreciation	5,817	5,749
Pension-related and post-retirement changes other than net periodic pension costs	22,476	(3,890)
Provision for possible losses on program-related investments	5,337	1,788
Deferred provision (benefit) for federal excise taxes	1,194	(53,663)
Decrease (increase) in current federal excise tax receivable	3,800	(1,295)
Increase in other receivables and assets	(6,145)	(2,210)
Loans disbursed for program-related investments	(31,922)	(23,348)
Repayments of program-related investments	7,490	14,078
Grant approvals	457,050	539,632
Grant payments	(474,095)	(526,464)
(Decrease) increase in payables and other liabilities	<u>(37,376)</u>	<u>4,927</u>
Net cash used by operations	<u>(384,956)</u>	<u>(356,821)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	7,838,588	9,269,028
Purchase of investments	(7,443,898)	(8,904,696)
Purchase of fixed assets	<u>(8,565)</u>	<u>(6,912)</u>
Net cash provided by investing activities	<u>386,125</u>	<u>357,420</u>
Net increase in cash	1,169	599
Cash at beginning of year	<u>1,646</u>	<u>1,047</u>
Cash at end of year	<u>\$ 2,815</u>	<u>\$ 1,646</u>

(See notes to financial statements)

THE FORD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ford Foundation (the Foundation) are prepared on the accrual basis, which is in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are set forth below:

Investments

Equity investments are generally valued based upon the final sales price as quoted on major exchanges. Fixed income securities are generally valued based upon quoted market prices from brokers and dealers, which represent fair value. Short-term investments generally represent securities with maturity of 1 year or less and are valued at amortized cost, which approximates fair value. Limited marketability investments, representing amounts in venture and private equity partnerships and other alternative asset investment vehicles, are valued at the quoted market price for securities for which market quotations are readily available or an estimate of value (fair value) as determined in good faith by the general partner. Significant changes affecting the values of these limited marketability investments that occur between the time net asset values are last communicated by the general partner and the close of the Foundation's fiscal year are reflected in the fair value recorded in the financial statements.

The Foundation believes that the carrying amount of its limited marketability investments is a reasonable estimate of fair value as of September 30, 2009. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements based on the Foundation's proportionate share in the net assets for these investments.

Transactions are recorded on a trade date basis. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisition (identified lot basis) to proceeds at the time of disposal, or market values at the last day of the fiscal year, respectively, and include the effects of currency translation with respect to transactions and holdings of foreign securities. Dividends and interest are recognized when earned.

Effective October 1, 2008, the Foundation adopted Accounting Standards Codification, ASC Topic 820, Fair Value Measurements and Disclosures, ASC 820. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also established a 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and refer to the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation considers observable data to be market data which is readily available and reliable and provided by independent sources. The categorization of a financial instrument within the hierarchy is therefore based upon the pricing transparency of the

instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets are classified as Level 1 and include active listed equities, and certain short-term fixed income investments. The Foundation does not adjust the quoted price for such instruments, even in situations where the Foundation holds a large position and a sale of all its holdings could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active under the accounting definition, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources are classified as Level 2. These include certain US government and sovereign obligations, government agency obligations and investment grade corporate bonds.

Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. All of the Foundation's limited marketability investments are classified as Level 3. These investments are primarily made under agreements to participate in limited partnerships and are generally subject to certain withdrawal restrictions. Values for these partnerships, which may include investments in both nonmarketable and market-traded securities, are provided by the general partner and may be based on recent transactions, cash flow forecasts, appraisals and other factors. Market values may be discounted for concentration of ownership.

Cash

Consists of cash on hand and operating bank deposits.

Program-Related Investments

The Foundation invests in projects that advance philanthropic purposes. These program-related investments are mainly loans outstanding for up to 10 years bearing interest at 1%. These loans are treated as qualifying distributions for tax reporting purposes. Loans are monitored to determine net realizable value based on an evaluation of recoverability that utilizes experience and may reflect periodic adjustments to terms as deemed appropriate.

Fixed Assets

Land, buildings, furniture, equipment and leasehold improvements owned by the Foundation are recorded at cost. Depreciation is charged using the straight-line method based on estimated useful lives of the particular assets generally estimated as follows: buildings, principally 50 years, furniture and equipment 3 to 15 years, and leasehold improvements over the lesser of the term of the lease or the life of the asset.

Expenditures and Appropriations

Grant expenditures are considered incurred at the time of approval. Uncommitted appropriations that have been approved by the Board of Trustees are included in appropriated unrestricted net assets.

Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, the Foundation is subject to a federal excise tax because it is a private foundation in accordance with IRS regulations.

Risks and Uncertainties

The Foundation uses estimates in preparing the financial statements which require management to make estimates and assumptions. These affect the reported amounts of assets and liabilities at the date of the Statements of Financial Position and the reported amounts of income and expenditures during the reporting period. Actual results may differ from these estimates. The most significant estimates and assumptions relate to valuation of limited marketability investments, allowances for possible losses on program-related investments and employee benefit plans.

Measure of Operations

The Foundation includes in its measure of operations (operating income over expenditures) all income that is an integral part of its programs and supporting activities. Non-

operating activities include the cumulative gains and prior service costs and credits which arose during the period, but are not recognized as separate components of net periodic pension cost pursuant to ASC Topic 715, Compensation-Retirement Benefits, (ASC 715).

Accounting for Derivative Instruments and Hedging Activities

The Foundation records all derivative instruments and hedging activities at fair value. The fair value adjustment is recorded directly to the invested asset and recognized as an unrealized gain or loss in the Statements of Activities.

NOTE 2 - INVESTMENTS

Investments held consisted of the following at September 30:

	2009		2008	
	<u>Fair Value</u> (in thousands)	<u>Cost</u>	<u>Fair Value</u> (in thousands)	<u>Cost</u>
Equities	\$ 3,760,945	\$2,872,321	\$ 5,495,316	\$ 4,732,584
Fixed Income	2,501,972	2,452,450	2,118,249	2,174,378
Short-Term	275,244	275,196	184,328	184,289
Limited Marketability	<u>3,259,571</u>	<u>4,138,050</u>	<u>2,958,642</u>	<u>2,722,140</u>
Investments, at fair value	9,797,732	9,738,017	10,756,535	10,813,391
Accrued Interest and Dividends Receivable	27,864	27,864	31,962	31,962
Investment Related:				
Receivables	359,756	359,756	209,654	209,654
Payables	<u>(146,311)</u>	<u>(146,311)</u>	<u>(127,897)</u>	<u>(127,897)</u>
	<u>\$10,039,041</u>	<u>\$9,979,326</u>	<u>\$10,870,254</u>	<u>\$10,927,110</u>

The classification of investments by level within the valuation hierarchy as of September 30,

2009 is as follows (in thousands):

	<u>Quoted Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total as of September 30, 2009</u>
Equities	\$3,735,976	\$13,877	\$11,092	\$3,760,945
Fixed Income	32,212	2,469,760		2,501,972
Short -Term	241,309			241,309
Limited Marketability				
Private Equity			1,424,036	1,424,036
Alternatives			<u>1,835,535</u>	<u>1,835,535</u>
Total Limited Marketability			3,259,571	3,259,571
Accrued Income and Net Payables and Receivables	<u>-</u>	<u>275,244</u>	<u>-</u>	<u>275,244</u>
	<u>\$4,009,497</u>	<u>\$2,758,881</u>	<u>\$3,270,663</u>	<u>\$10,039,041</u>

The following table summarizes the Ford Foundation's Level 3 reconciliation per ASC 820 as of September 30, 2009.

Fair Value Measurements Using Level 3 Inputs:

	<u>Equities</u>	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Alternatives</u>	<u>Total</u>
Balance as of 10/01/08	\$10,924	\$1,650	\$1,632,746	\$1,325,897	\$2,971,217
Purchases and Other Acquisitions	328	23	235,500	399,799	635,650
Sales and Other Dispositions		(1,282)	(184,957)	(48,901)	(235,140)
Net Realized Gain/Loss		(466)	14,665	(270)	13,929
Net Unrealized Gain/Loss	<u>(160)</u>	<u>75</u>	<u>(273,918)</u>	<u>159,010</u>	<u>(114,993)</u>
Balance as of 9/30/09	<u>\$11,092</u>	<u>\$ -</u>	<u>\$1,424,036</u>	<u>\$1,835,535</u>	<u>\$3,270,663</u>

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying statement of activities and changes in net assets. Net unrealized losses are related to those financial instruments held by the Foundation at September 30, 2009.

The Foundation purchases and sells forward currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to minimize the exposure of certain of its investments to adverse fluctuations in currency markets. As of September 30, 2009 and 2008, the Foundation had foreign currency contracts with notional amounts totaling \$8.8 million and \$187.8 million, respectively. Such contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in the value of forward currency contracts are recognized as unrealized gains or losses until such contracts are closed.

NOTE 3 - FIXED ASSETS

At September 30, fixed assets are comprised of:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Land	\$ 4,435	\$ 4,435
Buildings, net of accumulated depreciation of \$28,510 in 2009 and \$27,244 in 2008	14,481	12,928
Furniture, Equipment and Leasehold Improvements, net of accumulated depreciation of \$65,301 in 2009 and \$64,094 in 2008	<u>13,703</u>	<u>12,508</u>
	<u>\$32,619</u>	<u>\$29,871</u>

NOTE 4 - PROVISION FOR FEDERAL EXCISE TAX

The Internal Revenue Code imposes an excise tax on private foundations equal to 2 percent of net investment income, which is defined as interest, dividends and net realized gains less expenses incurred in the production of income. The tax is reduced to 1 percent for foundations that meet certain distribution requirements.

The current provision for federal excise tax is based on a 1 percent rate in fiscal year 2009 and a 2 percent in fiscal year 2008 on net investment income. The deferred provision on cumulative net unrealized gains in both fiscal year 2009 and 2008 is based on a 2 percent rate. In fiscal year 2009, the Foundation incurred cumulative net unrealized gains that resulted in a deferred tax of \$1.2 million. In fiscal year 2008, the Foundation incurred cumulative net unrealized losses, which depleted the cumulative net unrealized gains and resulted in a deferred tax benefit of \$53.7 million.

The amount of excise taxes paid were \$2.3 million and \$21.6 million in fiscal years 2009 and 2008, respectively.

NOTE 5 - RETIREMENT PLANS

The Foundation's defined benefit pension plans and the defined contribution plans cover substantially all New York appointed employees. Staff who are locally appointed by overseas offices are covered by other retirement arrangements. Pension benefits generally depend upon age, length of service and salary level. The Foundation also provides retirees with at least five years of service and who are at least age 55 with other postretirement benefits which include medical, dental and life insurance. New employees hired on or after June 1, 2009 will be eligible for postretirement medical and dental benefits when they retire with at least 10 years of service and who are at least age 65. The defined benefit pension plans are funded annually in accordance with the minimum funding requirements of the Employee Retirement Income Security Act. The other postretirement benefits are partially funded in advance through a Voluntary Employees' Beneficiary Association (VEBA).

ASC 715 requires unrecognized amounts (e.g., net actuarial gains or losses and prior service cost or credits) to be recognized as non-operating activities and that those amounts be adjusted as they are subsequently recognized as components of net periodic pension cost.

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	(in thousands at September 30)			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Benefit obligation	\$ 24,327	\$ 20,515	\$ 64,193	\$ 42,347
Fair value of plan assets	<u>32,772</u>	<u>27,007</u>	<u>40,000</u>	<u>-</u>
Funded (unfunded) status and amounts recognized in the statements of financial position	<u>\$ 8,445</u>	<u>\$ 6,492</u>	<u>\$(24,193)</u>	<u>\$(42,347)</u>
Accumulated benefit obligation	\$ 24,282	\$ 20,260	N/A	N/A
Amounts recognized in non-operating activities consist of:				
Prior service cost (credit)	\$ (216)	\$ (385)	\$ -	\$ -
Net loss (gain)	<u>7,912</u>	<u>3,669</u>	<u>18,064</u>	<u>(3,966)</u>
Total amount recognized	<u>\$ 7,696</u>	<u>\$ 3,284</u>	<u>\$ 18,064</u>	<u>\$(3,966)</u>
Net periodic benefit cost recognized	\$ 1,134	\$ 22	\$ 6,449	\$ 4,595
Employer contribution	7,500	2,800	40,000	-
Benefits paid	1,061	2,593	2,667	2,449
Other changes in plan assets and benefit obligations recognized in non-operating activities:				
Net loss (gain)	\$ 4,727	\$ 3,416	\$ 17,091	\$ (7,423)
Amortization of (loss) gain	(484)	(9)	-	-
Amortization of prior service cost	117	126	-	-
Recognition of actuarial gain due to special events	-	-	973	-
Recognition of PSC due to FAS88 event	<u>52</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total recognized in non-operating activities	<u>\$ 4,412</u>	<u>\$ 3,533</u>	<u>\$ 18,064</u>	<u>\$(7,423)</u>
Total recognized in net periodic benefit cost and non-operating activities	<u>\$ 5,546</u>	<u>\$ 3,555</u>	<u>\$ 24,513</u>	<u>\$(2,828)</u>
Amounts in non-operating activities expected to be recognized in net periodic pension cost in fiscal 2010:				
Actual loss	\$ 623	\$ 133	-	-
Prior service credit	<u>(105)</u>	<u>(126)</u>	<u>-</u>	<u>-</u>
	<u>\$ 518</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ -</u>
Weighted average assumptions (used to determine benefit obligations and net periodic costs):				
Discount rate (benefit obligation)	5.50%	7.45%	5.50%	7.45%
Discount rate (net periodic costs)	7.45%	6.30%	7.45%	6.30%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

For measurement purposes, a healthcare cost trend rate of 6% and 7% was used to measure the other postretirement benefit obligation at September 30, 2009 and 2008, respectively. The healthcare cost trend rate is assumed to be 5% in fiscal year 2010 and thereafter. A 1% point change in assumed health care cost trend rates would have the following effects:

	<u>1%</u> <u>increase</u>	<u>1%</u> <u>decrease</u>
Effect on total of service and interest cost components	\$ 717,000	\$ 713,000
Effect on other postretirement benefit obligation	5,894,000	6,306,000

The expense recorded by the Foundation related to contributions to the defined contribution plan aggregated \$5.9 million in each of the years ended September 30, 2009 and 2008.

The combined weighted-average asset allocation for the Foundation's defined benefit pension plans at September 30 is as follows:

	<u>Pension Benefits</u>	
	<u>2009</u>	<u>2008</u>
TIAA-CREF Group Annuity Contract	23.7%	31.2%
CREF Stock Variable Annuity	40.0	50.1
CREF Inflation-Linked Bond Variable Annuity	8.8	10.3
CREF Money Market	22.9	-
TIAA Real Estate Variable Annuity	<u>4.6</u>	<u>8.4</u>
	<u>100.0%</u>	<u>100.0%</u>

The investment strategy is to manage investment risk through prudent asset allocation that will produce a rate of return commensurate with the plans' obligations. The Foundation expects to continue the investment target allocations as noted above in fiscal year 2010. The Foundation's overall expected long-term rate of return on plan assets is based upon historical long-term returns of the investment performance adjusted to reflect

expectations of future long-term returns by asset class. The Foundation does not expect to have a contribution requirement to the pension plans in fiscal year 2010.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
	(in thousands at September 30)	
2010	\$1,963	\$2,672
2011	1,968	2,827
2012	2,024	3,000
2013	2,183	3,168
2014	2,327	3,387
2015 – 2019	12,673	19,616

NOTE 6 - CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Foundation is involved in several legal actions. The Foundation believes it has defenses for all such claims, believes the claims are substantially without merit, and is vigorously defending the actions. In the opinion of management, the final disposition of these matters will not have a material effect on the Foundation's financial position.

As part of its program-related investment activities, the Foundation is committed to provide \$21.7 million of loans to not-for-profit organizations once certain conditions are met. Further, as part of its investment management activity, the Foundation is committed to additional funding of \$1.2 billion in private equity and other investment commitments.